

notes to the financial statements

notes to the financial statements

Note 1: General Information

The Hawke's Bay Regional Council (the Council) is a regional local authority governed by the Local Government Act 2002. The Council was formed on 1 November 1989.

The financial statements presented are those of the Council and the consolidated financial statements are those of the Council and its 91.67% owned subsidiary, Port of Napier Limited (the Port), together referred to as the Group.

The financial statements and consolidated financial statements have been prepared in accordance with Sections 98 and 111 of the Local Government Act 2002. The Council approved these statements for issue on 26 September 2007.

Note 2: Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand for public benefit entities adopting New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and applicable New Zealand Financial Reporting Standards.

This is the first set of financial statements prepared using NZ IFRS. Comparatives for the year ended 20 June 2006, including the balance sheet at 1 July 2005, have been restated to NZ IFRS. Reconciliations of equity for the opening balance at 1 July 2005 and equity and net surplus / (deficit) for the year ended 30 June 2006 under NZ IFRS to the balances reported in the 30 June 2006 financial statements are detailed in Note 30.

The statements have been prepared under the historic cost convention, as modified by the revaluation of land and buildings, infrastructure assets, hydrological equipment, investment property, forestry assets and financial instruments.

The Group's functional currency is New Zealand dollars (NZD) and the statements have been presented in thousands of NZD exclusive of New Zealand Goods and Services Tax (GST).

Trade accounts payable and receivable are stated at GST inclusive amounts.

2.2 Consolidation

The Council's subsidiary has a financial year ending on 30 September. In order to consolidate the subsidiary, a reporting package with a financial year ending on 31 March is produced so as to avoid peak seasonal work periods. The subsidiary is accounted for using the purchase method, which involves adding together corresponding assets, liabilities, revenues and expenses on a line-by-line basis. All significant inter-entity transactions are eliminated and significant transactions occurring during the period 1 April to 30 June are adjusted for.

2.3 Inventories

Inventories are stated at the lower of cost (using the weighted average cost method) and net realisable value.

2.4 Trade Receivables

Trade receivables are recognised initially at fair value and subsequently remeasured each balance sheet date at amortised cost using the effective interest method less provision for impairment.

notes to the financial statements

2.5 Plant, Property and Equipment

(2.5.1) Operational Assets

Council land and buildings are shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by independent, professionally qualified valuers.

Hydrological equipment is shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by suitably experienced Council employees, on the basis of depreciated replacement cost. Independent, professionally qualified valuers review all such valuations.

All other operational assets (including Port assets for consolidated financial statements) are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The costs of asset constructed by the Group include the cost of all materials used in construction, direct labour on the project and an appropriate amount of directly attributed costs. Costs cease to be capitalised as soon as the asset is ready for productive use.

(2.5.2) Infrastructure Assets

Infrastructure assets are tangible assets that are necessary to fulfil the Council's obligations in respect of the Soil Conservation and Rivers Control Act 1941 and the Drainage Act 1908. Such assets usually show some or all of the following characteristics:

- They are part of a system or network that could not provide the required level of service if one component was removed.
- They enable the Council to fulfil its obligations to the region's communities in respect of flood control and drainage legislation.
- They are specialised in nature and do not have alternative uses.
- They are subject to constraints on removal.

Infrastructure assets are shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by suitably experienced Council employees, on the basis of depreciated replacement cost. Independent, professionally qualified valuers review all such valuations.

(2.5.3) Subsequent Costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council or Group and the cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(2.5.4) Revaluation Adjustments

Increases in carrying amounts arising from revalued assets are credited to revaluation reserves in equity. Decreases that offset previous increases of the same asset category are charged against revaluation reserves in equity. All other decreases are charged to the income statement.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

(2.5.5) Other Adjustments

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in revaluation reserves are transferred to the accumulated balance in equity.

notes to the financial statements

2.6 Investment Property

Investment property is residential and commercial land and buildings held to earn rental income and for capital appreciation. Such property is initially recognised at cost. At each balance sheet date investment property is measured at fair value, representing open market value determined annually by independent, professionally qualified valuers. A gain or loss in value is recorded in the income statement for the period in which it arises.

Under the Hawke's Bay Endowment Land Empowering Act 2002, rental income from endowment land in Hawke's Bay can only be used for the improvement, protection, management or use of Napier Harbour or the Regional Council's coastal marine area as defined in section 2 (1) of the Resource Management Act 1991. Unspent funds are held in the Coastal Marine Area Reserve Fund.

2.7 Forestry Crops

Forestry crops are measured at their fair value less estimated point-of-sale costs each balance sheet date by independent, professionally qualified valuers. Fair value is determined by the present value of expected net cash flows discounted by the current market-determined pre-tax rate. A gain or loss in value is recorded in the income statement for the period in which it arises.

2.8 Financial Assets

Financial assets are designated at initial recognition into one of the four following categories set out below depending on the purpose for which the financial asset was acquired. At each balance sheet date, all financial asset designations are re-evaluated.

(2.8.1) Financial Assets at Fair Value through Profit or Loss

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term or are so designated by management. The category includes derivatives and has two sub-categories: financial assets held for trading, and those designated at fair value through the profit and loss at inception. Assets held in this category are classified as current assets if they are either held for trading, or are expected to be realised within 12 months of balance sheet date.

Financial assets in this category, including derivatives, are initially recognised at fair value and are measured at each balance sheet date at fair value. Realised and unrealised gains or losses in value are recorded in the income statement for the period in which they arise.

(2.8.2) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in non-current assets except when maturities are shorter than 12 months from balance sheet date.

Financial assets in this category are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or use. At each balance sheet date these financial assets are measured at amortised cost using the effective interest method. Realised and unrealised gains or losses in value are recorded in the income statement for the period in which they arise.

(2.8.3) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management have a positive intention and ability to hold to maturity.

Financial assets in this category are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or use. At each balance sheet date these financial assets are measured at amortised cost using the effective interest method. Realised and unrealised gains or losses in value are recorded in the income statement for the period in which they arise.

notes to the financial statements

(2.8.4) Available-for-Sale Assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories. They are included in non-current assets unless there is an intention to dispose of the investment within 12 months of balance sheet date.

Available-for-sale financial assets are carried at fair value using a quoted price if an active market exists or using discounted valuation techniques if no active market exists. Any gain or loss in value is recognised directly in equity through the statement of changes in equity for the period in which it arises.

When an available-for-sale financial asset is sold, the accumulated fair value adjustments are included in the income statement.

At each balance sheet date, an assessment is made whether there is any objective evidence that a financial asset or group of financial assets is impaired. If objective evidence of impairment exists for available-for-sale financial assets, then any cumulative loss is transferred from equity to the income statement. Such a transfer is not reversible.

2.9 Intangible Assets

Intangible assets comprise acquired computer software licences. All intangible assets with finite lives are carried at the historical cost incurred to acquire and bring into use the specific software less accumulated amortisation.

2.10 Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.11 Depreciation and Amortisation

Land and hard dredging are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. Assets's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Major depreciation and amortisation periods are as follows:

<i>Asset Category</i>	<i>Years</i>
Buildings	10 - 100
Site Improvements	10 - 40
Wharves & Jetties	10 - 80
Vehicles	3 - 10
Plant & Equipment	3 - 25
Computer Equipment	4 - 10
Computer Software & Licences	3 - 5
Infrastructure Assets	25 - 70
Soft Dredging	6 - 8

No depreciation is provided for stop banks, berm edge protection, sea or river groynes, drainage works or unsealed roads. These assets are not considered to deteriorate over time and, therefore, will provide a constant level of service unless subjected to a significant flood event.

2.12 Cash and Cash Equivalents

Cash and cash equivalents include cash in 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 balance sheet.

notes to the financial statements

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense when incurred except to the extent that they are capitalised. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalised as a part of the cost of that asset.

2.14 Income Tax

Income tax expense charged to the income statement includes both current and deferred tax and is calculated after allowing for non-assessable income and non-deductible costs.

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for where the initial recognition of assets and liabilities does not affect either accounting or taxable profit. The amount of deferred tax provided is based on tax rates enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.15 Employee Benefits

Short-term employee benefits including salaries and wages, annual leave and contributions to superannuation schemes are recognised when they accrue to employees and are measured at undiscounted cost.

The liability for accumulating sick leave is stated as the cost of sick leave that is expected to be used.

Long-term employee benefits including long service leave and retirement gratuities are recognised at the present value of the Group's obligation at balance sheet date.

2.16 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events, and
- it is more likely than not that an outflow of resources will be required to settle the obligation, and
- the amount has been reliably estimated.

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

Provisions are not recognised for future operating losses.

2.17 Revenue Recognition

Revenue comprises the fair value for the sale of goods and services, net of GST, rebates and discounts and after elimination of sales within the Group. Revenue is recognised as follows:

- Sales of goods are recognised when a product is sold to a customer. The recorded revenue is the gross amount of the sales.
- Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service provided.
- Interest income is recognised on a time proportion basis using the effective interest method.

notes to the financial statements

- Dividend income is recognised when the right to receive payment is established.
- Government grants are recognised as income when eligibility has been established by the grantor agency.
- Rates are recognised as income in the accounting period in which they are set and assessed.

2.18 Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the income statement as finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases in which a significant proportion of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.19 Financial Risk Management

The Group's activities expose it to a variety of financial risks including:

- Market risk, including currency risk, fair value interest rate risk and price risk;
- Credit risk;
- Liquidity risk; and
- Cash flow interest-rate risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures.

The Group enters into foreign currency forward exchange contracts to hedge foreign currency transactions, when purchasing major property, plant and equipment and when payment is denominated in foreign currency.

Interest rate swaps are entered into to manage interest rate risk exposure.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that services are provided to customers with an appropriate credit history.

Collateral or other security is not required for financial instruments subject to credit risk.

2.20 Accounting for Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at the fair value at each balance sheet date.

Where the Group determines that it will hedge a transaction the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as the its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(2.20.1) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. The Group accounts for hedges of foreign currency risk of a firm commitment as cash flow hedges.

notes to the financial statements

(2.20.2) Derivatives that Do Not Qualify for Hedge Accounting

Certain derivatives instruments do not qualify for hedge accounting and changes in the fair value of these instruments are recognised immediately in the income statement.

Any changes in the fair value of interest rate swaps due to changes in interest rates are recognised in the income statement in the period in which they occur.

2.21 Foreign Currencies

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance sheet date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these are included in the income statement.

2.22 Basis of Allocation of Council's Indirect Costs

Clearly identifiable costs are directly charged against each activity. Indirect costs are allocated to cost centres in the first instance under a variety of methods including:

- Floor area occupied
- Number of full time equivalent employees
- Assessed use of various services provided.

These costs are then charged to projects on a labour standard costing basis. The allocation unit is each working hour charged by employees at a pre-determined rate. Variances arising from this method will be allocated on the same basis as for costs of a fixed nature referred to above. Project costs are then summarised for each activity and group of activities.

notes to the financial statements

Note 3: Activity Revenue and Expenditure

Note	Regional Council			Group	
	Actual	Budget	Actual	Actual	Actual
	06/07	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000	\$000
Revenue					
Groups of activity					
Environmental management	3,612	2,292	2,437	3,588	2,419
Land drainage and river control	1,679	920	1,212	1,679	1,212
Biosecurity	5,414	6,331	6,551	5,414	6,551
Hazard management	101	113	94	101	94
Land transport	0	26	10	0	10
Economic, cultural & social wellbeing	0	0	0	0	0
Community representation	0	0	0	0	0
Total groups of activity revenue	10,806	9,682	10,304	10,782	10,286
Other activity					
Port of Napier Ltd operations				40,716	38,128
Total activity revenue	10,806	9,682	10,304	51,498	48,414
Expenditure					
Groups of activity					
Environmental management	9,456	8,866	8,613	9,432	8,592
Land drainage and river control	5,746	5,605	4,669	5,746	4,669
Biosecurity	8,346	9,350	9,411	8,346	9,411
Hazard management	1,097	1,209	1,058	1,097	1,058
Land transport	1,096	1,158	849	1,096	849
Economic, cultural & social wellbeing	839	1,059	1,066	839	1,066
Community representation	957	989	972	957	972
Total groups of activity expenditure	27,537	28,236	26,638	27,513	26,617
Less internal expenditure	(142)	(146)	(132)	(142)	(132)
Total groups of activity expenditure	27,395	28,090	26,506	27,371	26,485
Other activities					
Regional income collection	622	642	608	622	608
Port of Napier Ltd operations				31,039	28,136
Total other activities expenditure	622	642	608	31,661	28,744
Less finance costs	(505)	(497)	(189)	(1,475)	(1,046)
Total activity expenditure	27,512	28,235	26,925	57,557	54,183

notes to the financial statements

Note 4: Rates Revenue

Note	Regional Council			Group	
	Actual	Budget	Actual	Actual	Actual
	06/07	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000	\$000
General funding rates					
Uniform annual general charge	2,216	2,174	1,981	2,216	1,981
General rate on land value	1,101	1,101	1,004	1,101	1,004
Total general funding rates	3,317	3,275	2,985	3,317	2,985
Targeted rates	6,517	6,472	5,940	6,517	5,940
Total rates revenue	4(a) 9,834	9,747	8,925	9,834	8,925

Note 4(a)

Under Council's rates remission policy for multiple ownership land, 39 rates remissions were approved, totalling \$27,341 (2005/06 26 remissions totalling \$4,291)

Note 5: Other Revenue

Note	Regional Council			Group	
	Actual	Budget	Actual	Actual	Actual
	06/07	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000	\$000
Other revenue					
Dividend income	4,892	4,014	4,643	0	0
Rental income from investment property	2,145	2,221	2,087	2,174	2,102
Interest income	3,146	2,566	2,628	3,295	2,746
Grants	313	478	358	313	358
Gain on disposal of assets - net	306	0	(375)	317	(919)
Subvention payments	27	0	213	0	0
Miscellaneous income	0	0	0	0	440
Total other revenue	10,829	9,279	9,554	6,099	4,727

Note 5(a)

Under the Hawke's Bay Endowment Land Empowering Act 2002, income from leasehold endowment land can only be used for the improvement, protection, management or use of Napier Harbour or the Regional Council's coastal marine area as defined in section 2(1) of the Resource Management Act 1991. Unspent income is held in the Coastal Marine Area Reserve Fund.

Note 6: Fair Value Gains and Losses

Note	Regional Council			Group	
	Actual	Budget	Actual	Actual	Actual
	06/07	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000	\$000
Fair value gains					
Investment property gains	11 6,961	6,826	20,309	7,605	20,309
Forestry asset gains	14 176	0	1,080	176	1,080
Derivative instrument gains	16 0	0	0	51	0
Total fair value gains	7,137	6,826	21,389	7,832	21,389
Fair value losses					
Forestry asset losses	14 1,063	0	0	1,063	0
Derivative instrument losses	16 0	0	0	(42)	42
Asset impairment losses	9 1,157	0	76	1,157	76
Total fair value losses	2,220	0	76	2,178	118

Note:

Fair value gains and losses on trading assets (listed above) recorded in the Income Statement. In addition, when operating asset revaluation decrements are greater than the corresponding surplus in the Fair Value Reserve, the excess decrements are also recorded in the Income Statement as an asset impairment. The \$1,157,000 asset impairment write-down for 2006/07 relates to Council's Napier office accommodation building.

notes to the financial statements

Note 7: Revenue and Expense Disclosures

Note	Regional Council			Group	
	Actual	Budget	Actual	Actual	Actual
	06/07	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000	\$000
General disclosures					
	1,456	1,500	1,238	6,635	6,164
	98	38	109	646	753
	7,893	7,588	7,537	18,138	17,761
	0	0	0	0	0
	17	18	43	329	357
7(a)	664	662	623	1,190	1,094
	0	0	0	0	0
	29	39	39	29	39
	0	0	0	0	0
	0	0	0	0	0
7(b)	0	0	19	0	19
	693	701	681	1,219	1,152
Fees paid to Council's auditors					
	73	81	74	73	74
	10	0	0	10	0
	0	0	34	0	34
	8	0	0	8	0
Fees paid to Port's auditors					
	0	0	0	72	64
Total fees paid to auditors	91	81	108	170	172

Note 7(a)

Key management comprises Councillors and the Chief Executive for Council and Directors and Chief Executive for the Port.

Note 7(b)

Borrowing costs were not capitalised on the Sawfly remediation works project this year (2005/06; \$19,000 at 7.43%).

Note 8: Income Tax Expense

Note	Regional Council		Group	
	Actual	Actual	Actual	Actual
	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000
Income tax expense				
	0	0	3,368	3,584
22	0	0	244	(173)
Total income tax expense	0	0	3,612	3,411

The tax on the group's surplus before tax differs from the theoretical amount that would arise using the current corporate rate as follows:

Surplus before tax	8,369	22,982	14,053	28,108
Tax at domestic rate of 33%	2,762	7,584	4,638	9,276
Plus / (Less) tax effect of:				
Income not subject to tax	(10,330)	(14,260)	(10,330)	(14,260)
Expenses not deductible for tax purposes	9,900	8,820	9,226	8,252
Imputation credits	(2,410)	(2,281)	0	0
Prior period adjustment	0	0	0	6
Tax losses not recognised	78	137	78	137
Tax charge	0	0	3,612	3,411

The Council and Group have unrecognised income tax losses of \$652,503 (2005/2006 \$416,645) with a tax effect of \$215,326 (2005/2006 137,493) that are available to carry forward, subject to compliance with the Income Tax Act.

notes to the financial statements

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notes to the financial statements

Note 9: Property, Plant and Equipment

	Land	Buildings	Plant	Vehicles	Hydrology Equipment	Technical Equipment	Computer Equipment	Other Equipment & Furniture	Capital Work in Progress	Total
Note	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
COUNCIL										
At 1 July 2005										
Cost or valuation	2,267	959	2,227	1,177	1,350	721	2,050	793	5,962	17,506
Accumulated depreciation	0	0	(1,134)	(547)	(749)	(435)	(1,653)	(611)	0	(5,129)
Net book amount	2,267	959	1,093	630	601	286	397	182	5,962	12,377
Year ended 30 June 2006										
Opening net book amount	2,267	959	1,093	630	601	286	397	182	5,962	12,377
Revaluation surplus / (deficit)	(237)	0	0	0	0	0	0	0	0	(237)
Additions	1,449	8,663	519	151	53	111	357	165	(5,842)	5,626
Disposals	0	0	(66)	(12)	0	0	0	(2)	(120)	(200)
Depreciation charges	0	(210)	(205)	(130)	(87)	(65)	(170)	(51)	0	(918)
	3,479	9,412	1,341	639	567	332	584	294	0	16,648
At 30 June 2006										
Cost or valuation	3,479	9,622	2,325	1,220	1,403	832	2,436	890	0	22,207
Accumulated depreciation	0	(210)	(984)	(581)	(836)	(500)	(1,852)	(596)	0	(5,559)
Net book amount	3,479	9,412	1,341	639	567	332	584	294	0	16,648
Year ended 30 June 2007										
Opening net book amount	3,479	9,412	1,341	639	567	332	584	294	0	16,648
Revaluation surplus / (deficit)	787	19	0	0	222	0	0	0	0	1,028
Impairment charges	0	(1,157)	0	0	0	0	0	0	0	(1,157)
Additions	0	(208)	306	241	34	228	71	55	0	727
Disposals	(165)	(177)	(42)	(51)	0	0	0	0	0	(435)
Depreciation charges	0	(387)	(234)	(133)	(84)	(72)	(169)	(55)	0	(1,134)
	4,101	7,502	1,371	696	739	488	486	294	0	15,677
At 30 June 2007										
Cost or valuation	9(a) 4,101	7,502	2,464	1,274	739	1,061	2,507	943	0	20,591
Accumulated depreciation	0	0	(1,093)	(578)	0	(573)	(2,021)	(649)	0	(4,914)
Net book amount	4,101	7,502	1,371	696	739	488	486	294	0	15,677

Note 9(a)

Council land and buildings were valued at 30 June 2007 to fair value on the basis of market value by independent valuer, Telfer Young (Hawke's Bay) Limited. The total fair value of property, plant and equipment valued by Telfer Young (Hawke's Bay) Ltd was \$10,577,100.

Land used for forestry in the Lake Tutira Country Park and Tangoio Soil Conservation Reserve was valued at 30 June 2006 by Morice & Associates, independent valuers. The total fair value of this land was \$1,065,000.

While ownership of the Tangoio Soil Conservation Reserve is not vested in the Council, full managerial and financial control was transferred to Council in 1989 under section 16 of the Soil conservation and Rivers Control Act 1941.

Hydrological equipment was valued at 30 June 2007 on the basis of depreciated replacement value. This valuation was carried out by David Payne, an experienced hydrologist with independent consulting engineers, Opus International Consultants Limited.

notes to the financial statements

Note 9: Property, Plant and Equipment Continued

	Land	Site Improve- ments	Cargo & Admin. Buildings	Other Buildings	Tugs	Dredging	Wharves & Jetties	Vehicles, Plant & Equipment	Cranes	Capital Work in Progress	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
PORT											
At 1 April 2005											
Cost or valuation	28,434	17,793	11,596	3,487	10,655	6,283	16,212	24,233	7,940	1,884	128,517
Accumulated depreciation	0	(5,417)	(934)	(788)	(681)	(3,174)	(3,425)	(15,129)	0	0	(29,548)
Net book amount	<u>28,434</u>	<u>12,376</u>	<u>10,662</u>	<u>2,699</u>	<u>9,974</u>	<u>3,109</u>	<u>12,787</u>	<u>9,104</u>	<u>7,940</u>	<u>1,884</u>	<u>98,969</u>
Year ended 31 March 2006											
Opening net book amount	28,434	12,376	10,662	2,699	9,974	3,109	12,787	9,104	7,940	1,884	98,969
Revaluation surplus / (deficit)	0	0	0	0	0	0	0	0	0	0	0
Additions	0	950	3	34	0	0	0	2,024	0	1,642	4,653
Disposals	0	0	0	0	0	0	0	(632)	0	0	(632)
Depreciation charges	0	(999)	(747)	(127)	(297)	(313)	(219)	(1,448)	(885)	0	(5,035)
	<u>28,434</u>	<u>12,327</u>	<u>9,918</u>	<u>2,606</u>	<u>9,677</u>	<u>2,796</u>	<u>12,568</u>	<u>9,048</u>	<u>7,055</u>	<u>3,526</u>	<u>97,955</u>
At 31 March 2006											
Cost or valuation	28,434	18,743	10,665	3,522	9,974	6,283	16,212	19,228	7,940	3,526	124,527
Accumulated depreciation	0	(6,416)	(747)	(916)	(297)	(3,487)	(3,644)	(10,180)	(885)	0	(26,572)
Net book amount	<u>28,434</u>	<u>12,327</u>	<u>9,918</u>	<u>2,606</u>	<u>9,677</u>	<u>2,796</u>	<u>12,568</u>	<u>9,048</u>	<u>7,055</u>	<u>3,526</u>	<u>97,955</u>
Year ended 31 March 2007											
Opening net book amount	28,434	12,327	9,918	2,606	9,677	2,796	12,568	9,048	7,055	3,526	97,955
Revaluation surplus / (deficit)	0	0	0	0	0	0	0	0	0	0	0
Additions	0	1,109	1,061	10	0	976	56	2,383	4,962	0	10,557
Disposals	0	0	0	0	0	0	0	(9)	0	(890)	(899)
Depreciation charges	0	(1,001)	(764)	(127)	(297)	(373)	(221)	(1,467)	(1,027)	0	(5,277)
	<u>28,434</u>	<u>12,435</u>	<u>10,215</u>	<u>2,489</u>	<u>9,380</u>	<u>3,399</u>	<u>12,403</u>	<u>9,955</u>	<u>10,990</u>	<u>2,636</u>	<u>102,336</u>
At 31 March 2007											
Cost or valuation	9(b) 28,434	19,852	11,726	3,532	9,974	7,259	16,269	21,065	12,903	2,636	133,650
Accumulated depreciation	0	(7,417)	(1,511)	(1,043)	(595)	(3,860)	(3,866)	(11,110)	(1,912)	0	(31,314)
Net book amount	<u>28,434</u>	<u>12,435</u>	<u>10,215</u>	<u>2,489</u>	<u>9,379</u>	<u>3,399</u>	<u>12,403</u>	<u>9,955</u>	<u>10,991</u>	<u>2,636</u>	<u>102,336</u>
GROUP TOTALS											
At 30 June 2006											
Cost or valuation	146,734										
Accumulated depreciation	(32,131)										
Net book amount	<u>114,603</u>										
At 30 June 2007											
Cost or valuation	154,241										
Accumulated depreciation	(36,228)										
Net book amount	<u>118,013</u>										

Note 9(b)

Port Land and Cargo & Administrative Buildings were valued at 30 September 2005 to fair value on the basis of market value by independent valuer, Frank Spencer of Logan Stone Limited. The total fair value of property, plant and equipment valued by Frank Spencer was \$39,096,000.

Port Tugs were valued at 30 September 2005 to fair value on the basis of market value by independent valuer Craig S Scoullar of Asset Valuations Ltd. The total fair value of plant valued by Craig S Scoullar was \$9,974,500.

notes to the financial statements

Note 10: Infrastructure Assets (Parent & Group)

Note	Infrastructure Land	Stopbanks	Detention Dams	Drainage Networks	Pump Stations	Culverts & Floodgates	Bank & Edge Protection	River & Sea Groynes	Drainage Telemetry	Sawfly Works	Aquifer Recharge	Tutira Reserve	Capital Work in Progress	Total	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
At 1 July 2005															
	Cost or valuation	4,616	38,012	1,283	22,022	3,491	5,354	12,287	1,065	154	0	427	1,113	382	90,206
10(a)	Accumulated depreciation	0	0	0	0	0	0	0	0	0	(70)	0	0	0	(70)
	Net book amount	4,616	38,012	1,283	22,022	3,491	5,354	12,287	1,065	154	0	357	1,113	382	90,136
Year ended 30 June 2006															
	Opening net book amount	4,616	38,012	1,283	22,022	3,491	5,354	12,287	1,065	154	0	357	1,113	382	90,136
	Revaluation surplus (refer Note 18)	0	289	0	0	(6)	57	(24)	41	0	0	22	0	0	379
	Additions	217	0	0	0	146	117	301	0	0	0	22	5,754	0	6,557
	Disposals	0	0	0	0	0	0	0	0	0	0	0	(890)	0	(890)
	Depreciation charges	0	0	(18)	0	(129)	(143)	0	0	(17)	0	(11)	(2)	0	(320)
		4,833	38,301	1,265	22,022	3,502	5,385	12,564	1,106	137	0	368	1,133	5,246	95,862
At 30 June 2006															
	Cost or valuation	4,833	38,301	1,283	22,022	3,629	5,529	12,564	1,106	154	0	449	1,135	5,246	96,251
	Accumulated depreciation	0	0	(18)	0	(127)	(144)	0	0	(17)	0	(81)	(2)	0	(389)
	Net book amount	4,833	38,301	1,265	22,022	3,502	5,385	12,564	1,106	137	0	368	1,133	5,246	95,862
Year ended 30 June 2007															
	Opening net book amount	4,833	38,301	1,265	22,022	3,502	5,385	12,564	1,106	137	0	368	1,133	5,246	95,862
	Revaluation surplus (refer Note 18)	23	0	0	(4)	14	0	0	0	(1)	0	(22)	0	0	10
	Additions	32	398	0	0	42	455	681	25	0	8,441	0	4	5,345	15,423
	Disposals	0	0	0	0	0	0	0	0	0	0	0	0	(10,227)	(10,227)
	Depreciation charges	0	0	(18)	0	(129)	(145)	0	0	(17)	0	(11)	(2)	0	(322)
		4,888	38,699	1,247	22,018	3,429	5,695	13,245	1,131	119	8,441	335	1,135	364	100,746
At 30 June 2007															
	Cost or valuation	4,888	38,699	1,283	22,018	3,685	5,983	13,245	1,131	154	8,441	427	1,139	364	101,457
	Accumulated depreciation	0	0	(36)	0	(256)	(288)	0	0	(35)	0	(92)	(4)	0	(711)
	Net book amount	4,888	38,699	1,247	22,018	3,429	5,695	13,245	1,131	119	8,441	335	1,135	364	100,746

Note 10(a)

Infrastructure assets were valued by suitably experienced Council employees at 30 June 2005 on the basis of depreciated replacement value. This valuation was reviewed by Gary Williams, an independent consultant engineer.

Infrastructure land was valued at 30 June 2005 to fair value on the basis of market value by independent valuers, Moice & Associates Ltd. The total fair value of property valued by Moice & Associates Ltd was \$4,617,400.

notes to the financial statements

Note 11: Investment Property

	Note	Regional Council		Group	
		Actual 06/07 \$000	Actual 05/06 \$000	Actual 06/07 \$000	Actual 05/06 \$000
At beginning of year		102,630	88,270	109,180	94,920
Additions		405	0	1,635	0
Fair value gains (included in income statement)	11(a)	6,961	20,309	6,961	20,309
Disposals		(4,678)	(5,949)	(4,678)	(6,049)
NZ IFRS transition adjustments		0	0	644	0
Movement during the year		2,688	14,360	4,562	14,260
At end of year		105,318	102,630	113,742	109,180
Investment property includes:					
Endowment leasehold land	11(b)	93,600	92,930	100,794	99,455
Other leasehold land		11,300	9,700	12,017	9,700
Investment property		418	0	931	25
		105,318	102,630	113,742	109,180

Note 11(a)

Wellington leasehold land was valued at 30 June 2007 to fair value on the basis of market value by independent valuer, Martin J Veale of Telfer Young (Wellington) Ltd. The total fair value of the thirteen properties valued by Martin J Veale was \$11,300,000.

Napier leasehold endowment land was valued at 30 June 2007 to fair value on the basis of market value by independent valuer, Trevor W Kitchen of Telfer Young (Hawke's Bay) Ltd. The total fair value of property valued by Trevor W Kitchen was \$93,600,000.

Investment property in Napier was valued at 30 June 2007 to fair value on the basis of market value by independent valuer, W H Peterson of Telfer Young (Hawke's Bay) Ltd. The total fair value of property valued by W H Peterson was \$418,000.

At 30 September 2005 the Port's interest in investment properties was valued at \$6,393,000, resulting in a net increase of \$525,000. This value was recorded based on a valuation undertaken by Frank Spencer, a registered valuer with Logan Stone Ltd, using the fair value basis under the highest and best use scenario. Frank Spencer is a member of the New Zealand Institute of Valuers.

Note 11(b)

Under the Hawke's Bay Endowment Land Empowering Act 2002, residential leasehold endowment land can only be sold, using a specified valuation methodology, to the current lessee, or to a person nominated by that lessee.

Note 12: Intangible Assets

	Council Actual \$000	Group Actual \$000
At 1 July 2005		
Cost or valuation	658	3,725
Accumulated amortisation	(177)	(1,249)
Net book amount	481	2,476
Year ended 30 June 2006		
Opening net book amount	481	2,476
Additions	317	445
Disposals	(1)	(1)
Amortisation charges	(109)	(644)
	688	2,276
At 30 June 2006		
Cost or valuation	943	4,044
Accumulated amortisation	(255)	(1,768)
Net book amount	688	2,276
Year ended 30 June 2007		
Opening net book amount	688	2,276
Additions	70	201
Disposals	0	0
Amortisation charges	(98)	(548)
	660	1,929
At 30 June 2007		
Cost or valuation	1,014	3,911
Accumulated amortisation	(354)	(1,982)
Net book amount	660	1,929

notes to the financial statements

Note 13: Financial Assets

	Note	Regional Council		Group	
		Actual	Actual	Actual	Actual
		06/07	05/06	06/07	05/06
		\$000	\$000	\$000	\$000
Financial assets					
Available for sale financial assets	13(a)	122,528	119,959	22,813	20,244
Held to maturity financial assets	13(b)	452	603	452	603
Total	13(c)	122,980	120,562	23,265	20,847
Less current portion		(11,378)	(8,851)	(11,378)	(8,851)
Non-current portion		111,602	111,711	11,887	11,996
13(a) Available-for-sale financial assets					
At beginning of year		119,959	87,332	20,244	(12,383)
Additions		4,299	6,963	4,299	6,963
Revaluation surpluses / (deficits)		(907)	25,931	(907)	25,931
Disposals		(823)	(267)	(823)	(267)
At end of year		122,528	119,959	22,813	20,244
Less current portion		(11,055)	(8,701)	(11,055)	(8,701)
Non - Current portion		111,473	111,258	11,758	11,543
Available-for-sale financial assets include:					
Shares in Port of Napier Ltd		99,715	99,715	0	0
Publicly listed shares		932	1,321	932	1,321
Government stock		3,242	4,437	3,242	4,437
Bank deposits with terms greater than 365 days		7,584	6,088	7,584	6,088
Bank deposits with terms greater than 91 days but less than equal to 365 days		11,055	8,398	11,055	8,398
		122,528	119,959	22,813	20,244

Council's shareholding in the Port of Napier Ltd was valued to fair value on 31 March 2006 by the Corporate Finance Division of Deloitte. There has been no change to underlying cash flows on which the valuation was based in the intervening period.

The effective interest rate on government stock was 7.58% (2005/06 6.71%).

This stock has an average maturity of 7 years (2005/06 6 years).

The effective interest rate on bank deposits with terms greater than 365 days was 8.20% (2005/06 6.81%).

These deposits have an average maturity of 456 days (2005/06 455 days).

The effective interest rate on bank deposits with terms greater than 91 days but less than 365 days was 8.06% (2005/06 7.18%). These deposits have an average maturity of 213 days (2005/06 215 days).

13(b) Held-to maturity financial assets

At beginning of year		603	438	603	438
Additions		0	215	0	215
Maturities		(151)	(50)	(151)	(50)
At end of year		452	603	452	603
Less current portion		(323)	(150)	(323)	(150)
Non - Current portion		129	453	129	453
Held-to maturity financial assets include:					
Local authority stock	13(d)	280	388	280	388
Community loans	13(e)	172	215	172	215
		452	603	452	603

Note 13(c)

There were no impairment provisions on investment financial assets in 2006/07 or 2005/06.

Note 13(d)

Local authority and other stock classified as held-to-maturity form a sinking fund held for the purpose of repaying loans raised by the former Harbour Board that are now the liability of Council.

The effective interest rate on local authority stock was 9.1% (2005/06 9.10%). This stock has an average maturity of 276 days (2005/06 641 days).

Note 13(e):

The Council has lent to the Hastings District Council a total of \$215,000 to assist the District Council to establish a reticulated wastewater treatment scheme in Waipatiki. The loan is interest free and repayable in five equal amounts of \$43,000 per year commencing on 1 June 2007 with final repayment due on 1 June 2011.

notes to the financial statements

Note 14: Forestry Assets

	Note	Regional Council		Group	
		Actual	Actual	Actual	Actual
		06/07	05/06	06/07	05/06
		\$000	\$000	\$000	\$000
At beginning of year	14(a)	2,959	2,729	2,959	2,729
Additions		150	12	150	12
Fair value gains (included in income statement)		176	1,080	176	1,080
Fair value (losses) (included in income statement)		(1,063)	0	(1,063)	0
Disposals		(1,075)	(862)	(1,075)	(862)
Movement during the year		(1,812)	230	(1,812)	230
At end of year	14(b)	1,147	2,959	1,147	2,959
Forestry assets include:					
Tangoio Soil Conservation Reserve Forestry Crop	14(c)	560	2,557	560	2,557
Lake Tutira Country Park Forestry Crop		585	400	585	400
Joint Venture Forestry Rights	14(d)	2	2	2	2
		1,147	2,959	1,147	2,959

Note 14(a)

Council's forestry assets comprise a total of 444 hectares of pinus radiata forestry crops situated in the Lake Tutira Country Park (125 ha) and the Tangoio Soil Conservation Reserve (319 ha). During the period 80 hectares of forest were logged with a value of \$2,062,000 (2005/06 50 ha \$862,000).

Note 14(b)

Council's forestry assets were valued to \$1,145,000 at 30 June 2007 (2005/06 \$2,957,000) by M H Morice, a registered valuer, of Morice & Associates Ltd. The valuation assumed a discount rate of 9.0%.

Note 14(c)

In 1989, full managerial and financial control of the Tangoio Soil Conservation Reserve was transferred from central government to the Council under Section 16 of the Soil Conservation and Rivers Control Act 1941. However, the matter of who has rights to the logging income remains to be clarified. Council includes the value of the Reserve's forestry crop as it considers that its control of the Reserve entitles it to the income flow from the crop.

Note 14(d)

Council has entered into eleven joint ventures under the Forestry Rights Agreement Act 1983 under which Council provided grants to farmers to plant and maintain to maturity soil conservation forestry crops on marginal land. In return, Council has a right to a percentage of the profits on harvest. A nominal value of \$10 per hectare planted has been ascribed to these rights.

Note 14(e)

Council is exposed to financial risks arising from changes in timber prices. As a long-term forestry investor, Council does not expect timber prices to decline significantly during the foreseeable future and therefore has not taken any measures to manage the risks of a decline in timber prices. Council reviews its outlook for timber prices regularly in considering the need for active financial risk management.

notes to the financial statements

Note 15: Trade and Other Receivables

	Note	Regional Council		Group	
		Actual	Actual	Actual	Actual
		06/07	05/06	06/07	05/06
		\$000	\$000	\$000	\$000
Trade receivables	15(a)	2,237	3,484	8,402	9,320
Less: provision for impairment of receivables	15(b)	(332)	(185)	(332)	(185)
Trade receivables - net		1,905	3,299	8,070	9,135
Prepayments		84	131	395	456
Accrued income		1,928	1,363	1,928	1,363
Work-in-progress		160	18	160	18
Trade & other receivables	15(c)	4,077	4,811	10,553	10,972

Note 15(a)

Trade receivables are non-interest bearing and are generally on 30 day terms.

Note 15(b)

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

At beginning of year	185	156	185	156
Additional provisions made during the year	191	39	191	39
Receivables written off during the year	(44)	(10)	(44)	(10)
	147	29	147	29
At end of year	332	185	332	185

Note 15(c)

The carrying amount of trade and other receivables approximates their fair value.

Note 16: Derivative Financial Instruments

	Note	Regional Council		Group	
		Actual	Actual	Actual	Actual
		06/07	05/06	06/07	05/06
		\$000	\$000	\$000	\$000
Assets					
Interest rate swaps at fair value	16(a)	0	0	181	127
Forward exchange contracts at fair value		0	0	(20)	427
Total		0	0	161	554
Less Non-current portion:					
Interest rate swaps at fair value		0	0	0	0
Forward exchange contracts at fair value		0	0	0	0
		0	0	0	0
Current portion		0	0	161	554

Note 16(a)

The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2007 were \$9,000,000 (2005/06 \$11,000,000).

At 31 March 2007, the fixed interest rates vary from 7.50% to 7.75% (2005/06 5.60% to 7.25%).

notes to the financial statements

Note 17: Cash and Cash Equivalents

	Note	Regional Council		Group	
		Actual	Actual	Actual	Actual
		06/07	05/06	06/07	05/06
		\$000	\$000	\$000	\$000
Cash at bank and in hand	17(a)	2,637	2,328	2,903	2,329
Short-term bank deposits	17(b)	24,877	20,968	24,877	20,968
		<u>27,514</u>	<u>23,296</u>	<u>27,780</u>	<u>23,297</u>

Note 17(a)

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Note 17(b)

Short term deposits are made for varying periods up to 91 days depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

The effective interest rate on short-term bank deposits was 7.61% (2005/06 7.43%). These deposits have an average maturity of 52 days (2005/06 45 days).

Note 17(c) Reconciliation of Cash

Cash, cash equivalents and bank overdrafts included the following for the purposes of the Cash Flow Statement

Bank overdrafts	0	0	(3,171)	(2,920)
Cash and cash equivalents	27,514	23,296	27,780	23,297
	<u>27,514</u>	<u>23,296</u>	<u>24,609</u>	<u>20,377</u>

Note 17(d) Reconciliation of Surplus after Tax to Net Cash Flows from Operations

Net Surplus on Operations	8,369	22,982	10,441	24,697
Minority Interest			(580)	(530)
			<u>9,861</u>	<u>24,167</u>

Add (Less) Non-Cash Items:

Fair value gains	(7,137)	(21,389)	(7,832)	(21,389)
Fair value losses	2,220	76	2,220	76
Depreciation	1,554	1,347	7,159	6,917
Forestry crop cost of goods sold	1,075	862	1,075	862
Non-current asset accrual			82	(42)
Deferred tax			207	(41)

Add (Less) Movement in Working Capital Items:

(Increase)/decrease in inventories	(41)	52	(191)	75
(Increase)/decrease in trade & other receivables	734	(1,231)	422	(1,305)
(Increase)/decrease in tax receivables	0	0	0	31
(Decrease)/increase in trade & other payables	(309)	1,007	(165)	277
(Decrease)/Increase in employee entitlement liabilities	82	25	157	25

Add (Less) Items Classified as Investing or Financing Activities:

Movement in non-current provisions	62	(65)	1,167	463
Net (Gain) / Loss on sale of non-current assets	(306)	375	(302)	920

Net Cash Inflow from Operating Activities	<u>6,303</u>	<u>4,041</u>	<u>13,860</u>	<u>11,036</u>
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notes to the financial statements

Note 18: Fair Value Reserves (Parent and Group)

	Land	Buildings	Hydrological Assets	Infrastructure Assets	Available-for- Sale Financial Assets	Investment Properties	Total
Note	\$000	\$000	\$000	\$000	\$000	\$000	\$000
COUNCIL Only							
At 1 July 2005	1,404	167	64	38,281	55,851	0	95,767
Year ended 30 June 2006							
Revaluation - gross	(237)	0	0	379	25,931	0	26,073
	(237)	0	0	379	25,931	0	26,073
At 30 June 2006	1,167	167	64	38,660	81,782	0	121,840
Year ended 30 June 2007							
Reclassification transfer	18(b) (90)	(102)	0	0	0	192	0
Revaluation - gross	787	19	222	10	(907)	63	194
	697	(83)	222	10	(907)	255	194
At 30 June 2007	1,864	84	286	38,670	80,875	255	122,034

Note 18(a):

Revaluation increments and decrements on operating and financial assets (listed above) are recorded in the Statement of Changes in Equity. However, if revaluation decrements are greater than the corresponding surpluses in the Fair Value Reserve, the excess decrements are recorded in the Note 6, Fair Value Gains and Losses through the Income Statement, as an asset impairment.

Note 18(b):

The property at 77 Raffles Street, Napier, was transferred from property, plant & equipment as at 1st October 2006 after being leased to a third party. In accordance with NZ IAS 40, Investment Property, the property was revalued at the date of transfer and any associated fair value surpluses were reclassified as Investment Properties. The fair value surplus on the property will remain in fair value reserves until the property is derecognised.

notes to the financial statements

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notes to the financial statements

Note 19: Other Reserves (Parent & Group)

	Oper- ating Re- serve (1) \$000	Net Fair Value Gains (1a) \$000	Oper- ating Contin- gency (1b) \$000	Infra- structure Asset Renewal (2) \$000	Wairoa Rivers & Streams (3) \$000	Special Scheme (4) \$000	Port Dividend Equal- isation (5) \$000	Coastal Marine Area (6) \$000	Specific Regional Projects (7) \$000
At 1 July 2005	15,357	0	0	1,185	704	1,784	1,140	0	588
Net surplus	1,593								
Revaluation surplus transfers	4,919								
Interest income / (expense)	(314)					111			45
Rental income - net	(1,557)							1,557	
Depreciation transfers	(1,333)			307					
Trading gain / (loss)	(6,532)								
Transfers / (use of) reserves	(5,793)		479	(126)	22	(166)	(66)	(1,557)	(1)
Asset purchases - net	11,761								
	2,744	0	479	181	22	(55)	(66)	0	44
At 30 June 2006	18,101	0	479	1,366	726	1,729	1,074	0	632
Net surplus	8,369								
Net fair value gains	(4,917)	4,917							
Interest income / (expense)	(500)					95			51
Rental income - net	(1,668)							1,668	
Depreciation transfer - gross	(1,542)			309					
Trading gain / (loss)	(6,792)								
Transfers / (use of) reserves	3,309		209	(21)	22	(938)	43	(1,668)	(1)
Asset purchases - net	827								
	(2,914)	4,917	209	288	22	(843)	43	0	50
At 30 June 2007	15,187	4,917	688	1,654	748	886	1,117	0	682

Nature and purpose of reserves

[1] Operating reserve & [1a] Net fair value gains & [1b] Operating contingency

A reserve established to fund the day to day cash flow requirements of Council. Net fair value gains has been established to record the fair value (non-cash) component of the operating reserve. The operating contingency has been established from favourable operating variances within operating reserves for any use determined by Council.

[2] Infrastructure asset depreciation reserve

A reserve established to fund the renewal of scheme infrastructure assets as required by the Local Government Act 2002.

[3] Wairoa rivers & streams reserve

A reserve established to fund flood mitigation and recovery work within the Wairoa District.

[4] Special flood & drainage scheme reserves

Reserves established for each scheme to account for rating balances that arise each year as a consequence of the actual income and expenditure incurred in any one year.

[5] Port dividend equalisation reserve

A reserve established to smooth out the dividend receipts from the Port so that fluctuations in Council's general funding rates are minimised.

[6] Coastal marine area reserve

A reserve established to meet the statutory requirements on the use of rental income earned on Council's endowment leasehold land.

[7] Specific regional projects reserve

A reserve established to meet the statutory requirements on the use of 50% of rental income on Council's endowment leasehold land received prior to 1st July 2003.

[8] Asset replacement reserve

A reserve established to fund the replacement of operating property, plant and equipment, which are not scheme based.

[9] Regional disaster damage reserve

A reserve established to meet the commercial insurance excess of \$600,000 on each event, the uninsured 60% of edge protection damage and the costs of managing the response and recovery for a disaster event.

notes to the financial statements

Note 19: Other Reserves (Parent & Group) Continued

Asset Replacement (8) \$000	Regional Disaster Damage (9) \$000	Scheme Disaster Damage (10) \$000	Clive River Dredging (11) \$000	Sinking Fund (12) \$000	AHB Risk (13) \$000	Office Building Upgrade (14) \$000	Tangoio Reserve Fund (15) \$000	Sale of Land Invmt (16) \$000	Sale of Land Non- Invmt (17) \$000	Rabbit Re- serve (18) \$000	Total \$000
784	3,870	1,162	339	523	111	2,220	530	18,677	0	0	48,974
											1,593
											4,919
23		91	27	(2)	9	10					0
											0
1,026											0
	71						832	5,629			0
10,533	(500)	78	50	(50)	(2)	(2,230)		(690)		19	0
(11,761)											0
(179)	(429)	169	77	(52)	7	(2,220)	832	4,939	0	19	6,512
605	3,441	1,331	416	471	118	0	1,362	23,616	0	19	55,486
											8,369
											0
51		109	37	0	9		147			1	0
											0
1,233											0
	273						1,814	4,705			0
(46)	(505)	51	50	(101)	83			(1,215)	728		0
(827)											0
411	(232)	160	87	(101)	92	0	1,961	3,490	728	1	8,369
1,016	3,209	1,491	503	370	210	0	3,323	27,106	728	20	63,855

[10] Scheme disaster damage reserve

Reserves established to meet each scheme's share of Local Authority Protection Programme (LAPP) insurance excess and other costs to restore scheme assets that are not recoverable from other sources.

[11] Clive river dredging reserve

A reserve established to meet the expenditure of dredging requirements on the Clive River.

[12] Sinking fund reserve

A reserve established to fund the repayment of loans raised by the former Hawke's Bay Harbour Board that are now liabilities of the Council.

[13] Animal health board risk reserve

A reserve established to meet future dis-establishment and prime venter risk costs of bovine Tb operations in the Hawke's Bay region.

[14] Office building upgrade reserve

A reserve established to meet the costs of the new Council administration building situated at 159 Dalton Street, Napier.

[15] Tangoio soil conservation reserve

A reserve established to separate the revenues and expenses associated with the Tangoio Soil Conservation Reserve as this reserve is managed and overseen by Council on behalf of the Crown.

[16] Sale of land investment reserve

A reserve established to hold the proceeds of endowment leasehold land sales to be reinvested as approved by Council.

[17] Sale of land non-investment reserve

A reserve established to hold transfers from the Sale of Land Investment Reserve in order to fund activities approved by Council that do not earn a commercial rate of return on funds.

[18] Rabbit reserve

A reserve established to fund costs expected to be incurred with growing rabbit populations. The reserve is limited to a maximum balance of \$100,000.

notes to the financial statements

Note 20: Borrowings

	Regional Council		Group	
	Actual 06/07 \$000	Actual 05/06 \$000	Actual 06/07 \$000	Actual 05/06 \$000
Non-current				
Bank borrowings	6,244	4,496	22,544	16,796
Finance lease obligations	12	0	12	0
	6,256	4,496	22,556	16,796
Current				
Bank overdrafts	0	0	3,171	2,920
Bank borrowings	1,191	591	1,191	591
Finance lease obligations	8	0	8	0
	1,199	591	4,370	3,511
Total borrowings	7,455	5,087	26,926	20,307

20(a): Security

Council bank loans are secured over the rating base and the assets of the Council. At year-end Sinking Fund investments held against rate payer loans amounted to \$370,277 (2005/06 \$470,759).

The Port operates a multi-option credit facility with Westpac Banking Corporation governed by a Negative Pledge Deed. The facility has been extended until 30 September 2009.

20(b) Exposure to interest rate risk

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates or maturity dates at the balance sheet date are as follows:

	Regional Council		Group	
	Actual 06/07 \$000	Actual 05/06 \$000	Actual 06/07 \$000	Actual 05/06 \$000
6 months or less	239	28	3,410	2,948
6 - 12 months	220	563	220	563
1 - 5 years	1,582	3,185	17,882	15,485
Over 5 years	5,414	1,311	5,414	1,311
	7,455	5,087	26,926	20,307

20(c) Maturity of non-current borrowings

The maturity of the Group's non-current borrowings is as follows:

	Regional Council		Group	
	Actual 06/07 \$000	Actual 05/06 \$000	Actual 06/07 \$000	Actual 05/06 \$000
Between 1 and 2 years	270	771	270	771
Between 2 and 5 years	1,149	2,414	17,449	14,714
Over 5 years	4,837	1,311	4,837	1,311
	6,256	4,496	22,556	16,796

notes to the financial statements

Note 20: Borrowings Continued

20(d) Effective interest rates

The effective interest rates at the balance sheet date were as follows:

	Regional Council		Port	
	Actual	Actual	Actual	Actual
	06/07	05/06	06/07	05/06
	%	%	%	%
Effective interest rate ranges	7.38 - 10.50	7.43 - 10.50	7.50 - 7.75	6.85 - 7.60

20(e) Fair values

The carrying amount for the fair value of non-current borrowings is as follows:

	Regional Council		Group	
	Actual	Actual	Actual	Actual
	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000
Bank borrowings	6,130	4,545	22,430	16,845
	6,130	4,545	22,430	16,845

The fair values as based on cash flows discounted using a rate based on the borrowing rate of 7.88% (2005/06 7.25%).

20(f) Undrawn facilities

The Group has the following undrawn borrowing facilities:

	Regional Council		Group	
	Actual	Actual	Actual	Actual
	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000
Bank overdraft	0	0	1,000	951
Bank borrowings	0	0	3,700	7,700
	0	0	4,700	8,651

notes to the financial statements

Note 21 Provisions for Liabilities and Charges

	Note	Regional Council		Group	
		Actual	Actual	Actual	Actual
		06/07	05/06	06/07	05/06
		\$000	\$000	\$000	\$000
Non-current					
Port rehabilitation provision	21(a)	0	0	1,552	1,028
		0	0	1,552	1,028
Current					
Port rehabilitation provision		0	0	0	0
		0	0	0	0
Total provisions		0	0	1,552	1,028

21(a) Movement in Port rehabilitation provision

	Group	
	Actual	Actual
	06/07	05/06
	\$000	\$000
At beginning of year	1,028	1,000
Plus unwind of discount	454	(383)
Additional provision	(276)	757
Used during the year	346	(346)
Movement during the year	524	28
At end of year	1,552	1,028

The Rehabilitation provision relates to the Port's commitment to contribute to the establishment of an alternative beach to the east of the Port's boundary. Expenditure on design options has been incurred and costs for the resource consent process will be incurred in 2008.

Note 22: Deferred Income Tax liabilities (Group)

	Note	Income Statement		Balance Sheet	
		Actual	Actual	Actual	Actual
		06/07	05/06	06/07	05/06
		\$000	\$000	\$000	\$000
Deferred income tax at balance sheet date for the Port relates to the following:					
Deferred tax liabilities					
Accelerated depreciation for tax purposes		184	(405)	(5,448)	(2,616)
Revaluation of foreign exchange contracts to fair value		0	(141)	(7)	(141)
Revaluation of interest rate swap to fair value		11	14	(53)	(42)
Other		49	(15)	413	398
Recognition of deemed cost for property, plant & equipment		0	374	0	(2,147)
Gross deferred income tax liabilities				(5,095)	(4,548)
Deferred income tax charge	8	244	(173)		

notes to the financial statements

Note 23: Employee Benefit Liabilities

	Regional Council		Group	
	Actual	Actual	Actual	Actual
	06/07	05/06	06/07	05/06
Note	\$000	\$000	\$000	\$000
Annual leave	451	399	1,545	1,417
Long service leave	180	182	180	182
Retirement gratuities	491	476	540	524
Sick leave	55	38	55	38
Total employee benefit liabilities	1,177	1,095	2,320	2,161
Disclosed as:				
Non-current	683	641	732	689
Current	494	454	1,588	1,472
	1,177	1,095	2,320	2,161

23(a) Movement in employee benefit liability

	Regional Council		Group	
	Actual	Actual	Actual	Actual
	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000
At beginning of year	1,095	1,068	2,161	2,268
Additional provisions	685	663	1,899	1,084
Unused amounts reversed	(9)	(37)	(9)	(37)
Used during the year	(594)	(599)	(1,731)	(1,154)
Movement during the year	82	27	159	(107)
At end of year	1,177	1,095	2,320	2,161

Note 24: Trade and Other Payables

	Regional Council		Group	
	Actual	Actual	Actual	Actual
	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000
Trade payables	2,935	3,985	4,889	5,836
Accrued expenses	1,894	1,153	2,956	2,593
	4,829	5,138	7,845	8,429

Trade payables are non-interest bearing and are generally on 30 day terms.

The carrying amount of trade and other payables approximates their fair value.

notes to the financial statements

Note 25: Related Parties Disclosures (Group)

	Actual 06/07 Note \$000	Actual 05/06 \$000
25(a) The following transactions were carried out with related parties:		
(i) Sales of services		
By parent	24	18
By subsidiary	24	21
	48	39
(ii) Purchases of services		
By parent	24	21
By subsidiary	24	18
	48	39
(iii) Subvention payments		
Received by parent	27	213
Paid by subsidiary	27	213
	54	426
(iv) Dividends (net)		
Received by parent	4,892	4,643
Paid by subsidiary	4,892	4,643
	9,784	9,286
25(b) Year-end balances arising from sales/purchases of goods and services		
Receivables from related parties		
Parent	1	7
Subsidiary	1	0
	2	7
Payables to related parties		
Parent	1	0
Subsidiary	1	7
	2	7

25(c) Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions at both normal market prices and normal commercial terms.

Outstanding balances at year end are unsecured and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables.

At year end, there is no impairment relating to amounts owed by related parties (2005/06 \$nil).

notes to the financial statements

Note 26: Commitments and Contingencies

26(a) Capital commitments

Capital expenditure contracted for at balance sheet date but not yet incurred is as follows:

Note	Regional Council		Group	
	Actual	Actual	Actual	Actual
	06/07	05/06	06/07	05/06
	\$000	\$000	\$000	\$000
Property, plant & equipment	0	1,584	2,199	4,725
Intangible assets	0	0	0	0
	0	1,584	2,199	4,725

26(b) Operating lease commitments

The Group has entered into commercial leases for certain offices, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms and conditions.

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

Not later than one year	0	2	181	253
Later than one year but not later than five years	0	0	18	89
Later than five years	0	0	0	0
	0	2	199	342

26(c) Contingencies

In respect of the Council only:

As stated in Note 14, entitlement to Tangoio Soil Conservation Reserve Funds remains undecided. Council has included this income in the Income Statement and in Equity pending clarification of this issue. If the Crown is entitled to these funds, then the sum due at 30 June 2007 is \$3,323,750 (2005/2006 \$1,362,945).

In respect of the Port only:

This year and last year the Port recorded no contingent liabilities or assets.

notes to the financial statements

Note 27: Local Government Act 2002 Disclosures

27(a) Remuneration of Chairman and Elected Members of Council

Remuneration of Elected Members of the Council includes salary, vehicle allowance, meeting and hearing fees that, during the year, was paid or payable to the Councillor by the Council or any council organisation. Remuneration levels are set each year for all local authorities by the Remuneration Authority (previously called the Higher Salaries Commission).

Current Elected Members	Appointment for 2006/2007	Length of Elected Term	Number of Council Meetings Attended 06/07
Eileen von Dadelszen	Chair	Full Year	29
Alan Dick	Deputy Chair	Full Year	33
Rex McIntyre	Chair Regional Land Transport Committee	Full Year	35
Adrienne Williams	Chair Regulatory Hearings Committee and Regional Plan Committee	Full Year	30
Kevin Rose	Chair Asset Management & Biosecurity Committee	Full Year	24
Christine Scott	Chair Environmental Management Committee	Full Year	29
Neil Kirton	Elected Member	Full Year	24
Ewan McGregor	Elected Member	Full Year	27
Alec Olsen	Elected Member	Full Year	30

	Salary 06/07 \$	Meeting Fees 06/07 \$	Hearing Fees 06/07 \$	Travel Allowance 06/07 \$	Total Remuneration 06/07 \$
Eileen von Dadelszen	100,967	Ineligible	Ineligible	5,036	106,003
Alan Dick	43,599	0	0	245	43,844
Rex McIntyre	43,599	0	0	8,112	51,711
Adrienne Williams	43,599	0	0	541	44,140
Kevin Rose	43,599	0	0	1,628	45,227
Christine Scott	43,599	0	2,516	173	46,288
Neil Kirton	39,599	0	0	225	39,824
Ewan McGregor	39,599	0	2,516	1,578	43,693
Alec Olsen	39,599	0	2,516	1,025	43,140
	437,759	0	7,548	18,563	463,870

	Salary 05/06 \$	Meeting Fees 05/06 \$	Hearing Fees 05/06 \$	Travel Allowance 05/06 \$	Total Remuneration 05/06 \$
Eileen von Dadelszen	99,446	Ineligible	Ineligible	5,066	104,512
Alan Dick	43,315	0	0	634	43,949
Rex McIntyre	43,315	0	0	7,906	51,221
Adrienne Williams	43,315	0	0	1,056	44,371
Kevin Rose	43,315	0	0	2,107	45,422
Christine Scott	43,315	0	0	516	43,831
Neil Kirton	39,314	0	0	235	39,549
Ewan McGregor	39,314	0	0	1,362	40,676
Alec Olsen	39,314	0	0	2,498	41,812
	433,963	0	0	21,380	455,343

27(b) Remuneration of Chief Executive

The Chief Executive of the Hawke's Bay Regional Council receives a salary of \$190,000 per annum (2005/06; \$164,511) and is eligible to receive up to 10% additional salary each year dependent on the satisfactory achievement of a set of performance indicators.

During the 2006/07 financial year, three individuals held the appointment of Chief Executive or Acting Chief Executive. For the year ended 30 June 2007, the value of the total remuneration package (including the value of non-financial benefits) received by these three individuals is set out below:

	Value of Benefits Received	
	Actual 06/07 \$	Actual 05/06 \$
Previous Chief Executive (1st July 2006 to 18th February 2007)	160,707	207,414
Acting Chief Executive (19th February to 20th May 2007)	44,558	0
Current Chief Executive (21st May to 30 June 2007)	23,533	0
	228,798	207,414

27(c) Severance Payments

No severance payments were made during the year to any employees of the Council. (2005/06; One payment to one employee totalling \$8,000)

notes to the financial statements

Note 28: Major Budget Variances (Parent)

The Council published prospective financial information in relation to the 2006/07 year in its 2006/16 Long Term Council Community Plan. Explanations for the major variances from the forecast figures published in the Annual Plan are set out below:

28(a) Income statement

Operating revenue is \$3.1 million or 8.7% greater than budget. The major components of this increase are set out below:

- Logging proceeds \$1.36 million better than budget,
- Income from Works Group external contracts \$612,000 better than budget,
- Dividend income from the Port of Napier Ltd being \$880,000 better than budget,
- Interest being \$580,000 more than forecast due to higher interest rates on higher total deposits.
- Offset by expenditure recharged to the Animal Health Board being \$917,000 less than budget.

Operating expenditure is \$1.5 million greater than budget. The major reason for this is \$2.2 million of fair value loss on the Napier office accommodation building (\$1.2 million) and on forestry assets (\$1.0 million) offset by \$723,000 lower than forecast expenditure on activities.

More detailed explanations groups of activity income and expenditure are provided in the Statements of Service Performance.

28(b) Statement of changes in equity

Total equity is \$50.2 million or 15.95% more than budget due largely to the budgeted opening balance being \$48.8 million less than the actual opening balance. Significant revaluations occurred at the end of the 2005/06, which were not taken into account in the budget setting process.

28(c) Balance sheet

Investment property is \$13.2 million or 14.3% greater than budget due to upward revaluations of \$20.4 million in 2005/06 and \$7.0 million in 2006/07 offset by sales of \$6.0 million in 2005/06 and \$4.7 in 2006/07. These levels of changes were not forecast in the budget.

Financial assets (current and non-current) and cash and cash equivalents, taken altogether, are \$38.7 million or 34.6% greater than budget due to the following:

- sales of leasehold land in 2005/06 and 2006/07 being \$7.7 million greater than forecast,
- un-forecast upward revaluation of Port of Napier Ltd shares of \$25.2, and
- cash flows of \$9.5 million more than forecast in 2005/06 and 2006/07

Forestry assets are \$1.4 million less than budget due to greater harvesting and downward revaluations than forecast.

28(d) Cash flow statement

Net cash inflows from operating activities are \$4.4 million or 226% more than budget due to the following:

- Receipts from customers being \$3.1 million more than forecast due mainly due to much higher logging proceeds (\$1.5 million) and income from external projects completed by Works Group (\$612,000), and
- Dividends from the Port of Napier Ltd being \$880,000 more than forecast.

Net cash outflows from investing activities are \$0.6 million or 12% less than budget due to the \$1.1 million expenditure on infrastructure assets and greater purchases of financial assets than forecast as a result of greater leasehold land sales.

28(e) Significant asset acquisitions or replacements

During the year Council largely completed its sawfly remediation works projects well ahead of schedule. Consequently, approximately \$1.1 million more than budget was spent on infrastructure asset construction in the 2006/07 financial year. Overall, the sawfly remediation project is expected to be completed under budget.

notes to the financial statements

Note 29: Financial Risk Management

Introduction

The Group's principal financial instruments comprise bank loans, government and local authority stock, shares in listed companies and the Port of Napier Ltd, cash and bank term investments. The main purposes of these financial instruments are to raise finance for the Group's operations and to generate income.

The Group also enters into derivatives, consisting principally of interest rate swaps and forward currency contracts. The purpose is to manage interest rate and currency risks arising from the Group's operations and its sources of finance.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

Other than government and local body stock and shares in listed companies, the Group does not trade in financial instruments.

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. The Group is exposed to equity and securities price risk on its investments, which are classified as available for sale and held to maturity financial assets. The Group manages price risk by diversification of its investment portfolio in accordance with limits set out in its investment policy.

The Group holds shares in companies listed on various world stock exchanges. If these exchanges at 30 June 2007 had fluctuated by plus or minus 0.5% and the value of the shareholdings had moved proportionately the effect would have been to increase or decrease the fair value through equity reserve by \$4,700 (2005/06 \$6,600).

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. From time to time the Group enters into transactions denominated in foreign currencies and uses forward and spot foreign exchange contracts to manage its exposures to currency fluctuations.

If the currencies in which the Group has contract exposures at 30 June 2007 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease profit or loss by \$100 (2005/06 \$2,100).

Interest Rate Risk

The interest rates on the Group's investments are show at Note 13 and on borrowings at Note 20.

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to change in market interest rates. Borrowing and investing at fixed rates exposes the Group to fair value interest rate risk. The Group does not hedge against this risk.

If interest rates on borrowings at 30 June 2007 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease the fair value through equity reserves by \$115,000 (2005/06 \$74,000).

If interest rates on government and local body stock at 30 June 2007 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease the fair value through equity reserves by \$17,000 (2005/06 \$22,600).

Cash Flow Interest Rate Risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes to market interest rates. Borrowing at variable interest rates exposes the group to cash flow interest rate risk.

The Group manages its cash flow interest rate risk on borrowings by using interest rate caps and floating to fixed interest rate swaps.

If interest rates on borrowings at 30 June 2007 had fluctuated by plus or minus 0.5%, the effect would have been to increase or decrease the surplus after tax by \$36,600 (2005/06 \$25,200) as a result of higher or lower interest expense on variable rate borrowings.

Credit Risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing it to incur a loss. The Group has no significant concentrations of credit risk, as it has a large number of credit customers, mainly ratepayers. Under the Local Government (Rating) Act 2002, the Council has powers to recover outstanding debts from ratepayers. The Group has a policy of assessing the credit risk of significant new customers and monitors the credit quality of existing customers.

The Group invests funds only with registered banks, government and local authority stock and its investment policy limits the amount of credit exposure to any one institution or organisation.

Investments in other local authorities are secured by charges over rates. The Group only invests in other entities with a minimum credit rating from Standard & Poors (or other credit agency of similar reputation) of A1 for short term debt (up to twelve months) or A+ for term debt (more than twelve months).

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty raising liquid funds to meet commitments as they fall due.

The Council maintains a level of cash operating balances sufficient to meet its commitments as they fall due as well as managing its borrowings in accordance with its funding and financial policies. The Port operates a multi-option credit facility with its bank as set out in Note 20.

notes to the financial statements

Note 30: Explanation of Transition to NZ IFRS

Transition to NZ IFRS

The Group financial statements for the year ended 30 June 2007 are the first financial statements that comply with NZ IFRS. The Group has applied NZ IFRS-1 in preparing these financial statements.

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

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

Exemptions from full retrospective application elected by the Group

The Group has elected to apply the following exemptions from full retrospective application:

(a) Business combination exemption

The Group has applied the business combination exemption in NZ IFRS-1. It has not restated business combinations that took place prior to the 1 July 2005 transition date.

(b) Fair value as deemed cost exemption

The Port has elected to measure land, cargo & administration buildings, tugs and cranes at fair value as at 1 July 2005 and use that fair value as the deemed cost at that date.

(c) Designation of financial assets exemption

Council has designated various securities as financial assets available for sale at the date of transition to NZ IFRS.

The Group is required to make the following mandatory exception from retrospective application:

(a) Estimates exception

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

Cash flows statement

The cash flow statement for the year ended 30 June 2006 presents the increase and decrease of short term deposits with maturities of 92 to 365 days on a gross rather than a net basis and excludes these deposits from the total of cash and cash equivalents. This change and reclassification of some short term deposits to financial assets has impacted on the cash flow statement for the comparative year as follows:

- Purchase of financial assets has increased from \$9,000 to \$7,178,000, and
- The amount of cash and cash equivalents has decreased from \$33,459,000 to \$23,296,000.

There have been no other significant adjustments to the cash flow statement for the year ended 30 June 2006 on transition to NZ IFRS.

Reconciliations of equity and surplus

The following three tables and notes show the changes in equity resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2005 and 30 June 2006 as well as to the surplus for the comparative year ended 30 June 2006.

notes to the financial statements

Note 30(a): Reconciliation of Equity at 1 July 2005

Note	COUNCIL			GROUP				
	Previous NZ GAAP \$000	Effect of Transition to NZ IFRS \$000	NZ IFRS \$000	Previous NZ GAAP \$000	Effect of Transition to NZ IFRS Council \$000	Port \$000	Effect of transition to NZ IFRS \$000	NZ IFRS \$000
ASSETS								
Non Current Assets								
	12,376		12,376	108,413		2,933	2,933	111,346
Property, plant & equipment								
Infrastructure assets	90,136		90,136	90,136			0	90,136
Investment property	87,620	650	88,270	93,618	650	652	1,302	94,920
Intangible assets	481		481	2,476			0	2,476
Financial assets	79,593	603	80,196	5,095	603		603	5,698
Forestry assets	3,348	(619)	2,729	3,348	(619)		(619)	2,729
Total Non Current Assets	273,554	634	274,188	303,086	634	3,585	4,219	307,305
Current Assets								
	148		148	818			0	818
Inventories								
Trade & other receivables	3,579		3,579	9,664			0	9,664
Derivative financial instruments	0		0	0		169	169	169
Financial assets	7,574		7,574	7,574			0	7,574
Cash and cash equivalents	27,757		27,757	27,758			0	27,758
Current tax receivable	0		0	31			0	31
Total Current Assets	39,058	0	39,058	45,845	0	169	169	46,014
TOTAL ASSETS	312,612	634	313,246	348,931	634	3,754	4,388	353,319
EQUITY								
	97,982	64,450	162,432	123,935	61,364	35,862	97,226	221,161
Accumulated balance								
Fair value reserves	159,614	(64,450)	95,164	137,240	(61,462)	(35,862)	(97,324)	39,916
Other reserves	48,974		48,974	48,974			0	48,974
Cumulative translation adjustments	0	607	607	0	607	1,178	1,785	1,785
Parent's interest	306,570	607	307,177	310,149	509	1,178	1,687	311,836
Minority interest	0		0	7,098	98		98	7,196
Total Equity	306,570	607	307,177	317,247	607	1,178	1,785	319,032
LIABILITIES								
Non Current Liabilities								
	777		777	15,277			0	15,277
Borrowings								
Provisions for other liabilities & charges	0		0	1,000			0	1,000
Deferred tax liabilities	0		0	2,377		2,576	2,576	4,953
Employee benefit liabilities	581	27	608	659	27		27	686
Total Non Current Liabilities	1,358	27	1,385	19,313	27	2,576	2,603	21,916
Current Liabilities								
	0		0	2,651			0	2,651
Bank overdraft								
Trade & other payables	4,132		4,132	8,145			0	8,145
Borrowings	92		92	92			0	92
Employee benefit liabilities	460		460	1,483			0	1,483
Total Current Liabilities	4,684	0	4,684	12,371	0	0	0	12,371
TOTAL LIABILITIES	6,042	27	6,069	31,684	27	2,576	2,603	34,287
TOTAL EQUITY & LIABILITIES	312,612	634	313,246	348,931	634	3,754	4,388	353,319

Note *:

The opening balance of infrastructure assets has been reduced by \$385,000 to correct an overstatement of the Tutira Country Park Reserve value at 30 June 2005.

Note 30(b): Reconciliation of Profit and Loss for 2005/2006

Note	COUNCIL			GROUP				
	Previous NZ GAAP \$000	Effect of Transition to NZ IFRS \$000	NZ IFRS \$000	Previous NZ GAAP \$000	Effect of Transition to NZ IFRS Council \$000	Port \$000	Effect of transition to NZ IFRS \$000	NZ IFRS \$000
Revenue								
	10,304		10,304	48,414			0	48,414
Revenue from activities								
Rates revenue	8,925		8,925	8,925			0	8,925
Other revenue	9,554		9,554	4,727			0	4,727
Fair value gains	0	21,389	21,389	0	21,389		21,389	21,389
Total operating revenue	28,783	21,389	50,172	62,066	21,389	0	21,389	83,455
Expenditure								
	(26,054)	(871)	(26,925)	(53,058)	(871)	(254)	(1,125)	(54,183)
Expenditure on activities								
Fair value losses	(76)		(76)	(76)		(42)	(42)	(118)
Finance costs	(189)		(189)	(1,046)			0	(1,046)
Total operating expenditure	(26,319)	(871)	(27,190)	(54,180)	(871)	(296)	(1,167)	(55,347)
Surplus before income tax	2,464	20,518	22,982	7,886	20,518	(296)	20,222	28,108
Income tax expense	0		0	(3,509)		98	98	(3,411)
Surplus after income tax	2,464	0	0	4,377	0	98	20,320	24,697
Minority interest share in Port surplus	0		0	(546)	16		16	(530)
Surplus for the year	2,464	20,518	22,982	3,831	20,534	(198)	20,336	24,167

notes to the financial statements

Note 30(c): Reconciliation of Equity at 1 July 2006

Note	COUNCIL			GROUP					
	Previous NZ GAAP \$000	Effect of Transition to NZ IFRS \$000	NZ IFRS \$000	Previous NZ GAAP \$000	Effect of Transition to NZ IFRS Council \$000	Port \$000	Effect of transition to NZ IFRS \$000	NZ IFRS \$000	
ASSETS									
Non Current Assets									
Property, plant & equipment	A	16,648	16,648	117,699		(3,096)	(3,096)	114,603	
Infrastructure assets	*	95,862	95,862	95,862			0	95,862	
Investment property	B	101,980	650	102,630	108,373	650	157	109,180	
Intangible assets		688	688	2,276			0	2,276	
Financial assets	C	110,394	1,317	111,711	10,679	1,317	1,317	11,996	
Forestry assets		2,959	2,959	2,959			0	2,959	
Total Non Current Assets		328,531	1,967	330,498	337,848	1,967	(2,939)	(972)	336,876
Current Assets									
Inventories		96	96	743			0	743	
Trade & other receivables		4,811	4,811	10,972			0	10,972	
Derivative financial instruments	E	0	0	0		554	554	554	
Financial assets		8,851	8,851	8,851			0	8,851	
Cash and cash equivalents		23,296	23,296	23,297			0	23,297	
Total Current Assets		37,054	0	37,054	43,863	0	554	554	44,417
TOTAL ASSETS		365,585	1,967	367,552	381,711	1,967	(2,385)	(418)	381,293
EQUITY									
Accumulated balance	A,B,D,J	98,856	78,121	176,977	126,176	75,000	42,114	117,114	243,290
Fair value reserves	A,B,D,J,*	199,961	(78,121)	121,840	158,078	(74,614)	(41,828)	(116,442)	41,636
Other reserves		55,486	55,486	55,486	55,486		0	0	55,486
Cumulative translation adjustments	I	0	1,929	1,929	0	1,929	(4,917)	(2,988)	(2,988)
Parent's interest		354,303	1,929	356,232	339,740	2,315	(4,631)	(2,316)	337,424
Minority interest	I	0	0	0	7,741	(386)		(386)	7,355
Total Equity		354,303	1,929	356,232	347,481	1,929	(4,631)	(2,702)	344,779
LIABILITIES									
Non Current Liabilities									
Borrowings		4,496	4,496	16,796			0	0	16,796
Provisions for other liabilities & charges		0	0	1,028			0	0	1,028
Deferred tax liabilities	F	0	0	2,302		2,246	2,246	2,246	4,548
Employee benefit liabilities	G	603	38	641	651	38	38	38	689
Total Non Current Liabilities		5,099	38	5,137	20,777	38	2,246	2,284	23,061
Current Liabilities									
Bank overdraft		0	0	2,920			0	0	2,920
Trade & other payables		5,138	5,138	8,429			0	0	8,429
Borrowings		591	591	591			0	0	591
Current tax payable		0	0	41			0	0	41
Employee benefit liabilities		454	454	1,472			0	0	1,472
Total Current Liabilities		6,183	0	6,183	13,453	0	0	0	13,453
TOTAL LIABILITIES		11,282	38	11,320	34,230	38	2,246	2,284	36,514
TOTAL EQUITY & LIABILITIES		365,585	1,967	367,552	381,711	1,967	(2,385)	(418)	381,293

Note *:

The opening balance of infrastructure assets has been reduced by \$385,000 to correct an overstatement of the Tutira Country Park Reserve value at 30 June 2005.

notes to the financial statements

Note 30(d): Transition to NZ IFRS Reconciliation Notes

A. Deemed cost adjustment to plant, property & equipment

The Port has applied the deemed cost exemption that is available under NZ IFRS-1 to land, cargo & administration buildings, tugs and cranes. The exemption allows the Port to measure these assets at fair value and then deem that value to be cost for the transition to NZ IFRS. As a result, the revaluation surpluses attributed to these assets has been transferred to the accumulated balance and the carrying value of the assets adjusted to fair value at each balance date.

Additionally, a depreciation expense for the year ended 30 June 2006 has been charged to income for these assets.

B. Valuation of investment properties

Under previous NZ GAAP, the Group re-stated investment property to net current value at each balance date with any difference between carrying value and net current value being taken to revaluation reserves. Under NZ IAS-40, at each balance date investment property is stated at fair value, with any difference between carrying value and fair value being taken to the income statement.

As a result, investment property has been increased to fair value at each balance date and any revaluation surplus attributed to this property transferred to the accumulated balance in equity.

C. Valuation of financial assets

Under NZ IAS-39, financial assets are stated at fair value. Accordingly, Council has increased the value of government and publicly listed stock from cost to market value at each balance date.

D. Valuation of forestry assets

Under NZ IAS-41, forestry assets are stated at fair value less estimated point-of-sale costs at each balance date with any difference between carrying value and fair value being taken to the income statement.

As a result, the opening value for forestry assets has been reduced to reflect fair value at the opening balance date and any revaluation surplus attributed to these assets transferred to the accumulated balance in equity.

E. Valuation of derivative financial assets

The Port enters into interest rate swaps and forward foreign exchange rate contracts in order to manage its exposure to currency and interest rate risk. Such assets were not recognised under previous NZ GAAP. Derivative financial assets are stated at fair value at each balance date with any difference between carrying value and fair value being taken to the income statement.

F. Deferred tax

NZ IFRS requires recognition of deferred tax on a "balance sheet approach" rather than the "income statement approach" adopted by previous NZ GAAP. Accordingly, the Port has recognised deferred tax adjustments in respect of property, plant & equipment, derivative financial assets and investment property at each balance date.

G. Employee entitlements

NZ IFRS requires recognition of the cost of accumulating sick leave in terms of the cost of sick leave that is expected to be used in excess of the annual entitlement. This liability was not addressed by previous NZ GAAP. Accordingly, employee entitlements has been adjusted to reflect this liability at each balance date and for the comparative income year.

H. Expenditure and consequential adjustments

Council has adjusted expenditure to reflect costs of goods sold in respect of forestry assets and additional sick leave costs for the year ended 30 June 2006. The Port has adjusted expenditure to reflect depreciation expense incurred as the result of the adoption of deemed cost for its assets previously carried at valuation as well as increasing finance costs in respect of the fair value movement on interest rate swaps.

As a result of these adjustments, tax expense and minority interest have been decreased to reflect the increased expenditure.

I. Equity adjustments

The adoption of NZ IFRS has resulted in transfers between fair value reserves and the accumulated balance as set out in paragraphs A, B, D above.

The cumulative transition adjustments set out in paragraphs A through H above are recorded as a separate item in equity. The adjustments that affect the value of the Port also result in minor adjustments to the minority interest value in the Port at each year end and for the comparative income year.

J. Minority interest

The cumulative effects on the value of the Port's assets after adoption of NZ IFRS result in minor adjustments to the cumulative transition effects on accumulated balance and fair value reserves.

Note 31: Events After Balance Sheet Date (Parent & Group)

There were no significant events after balance date.