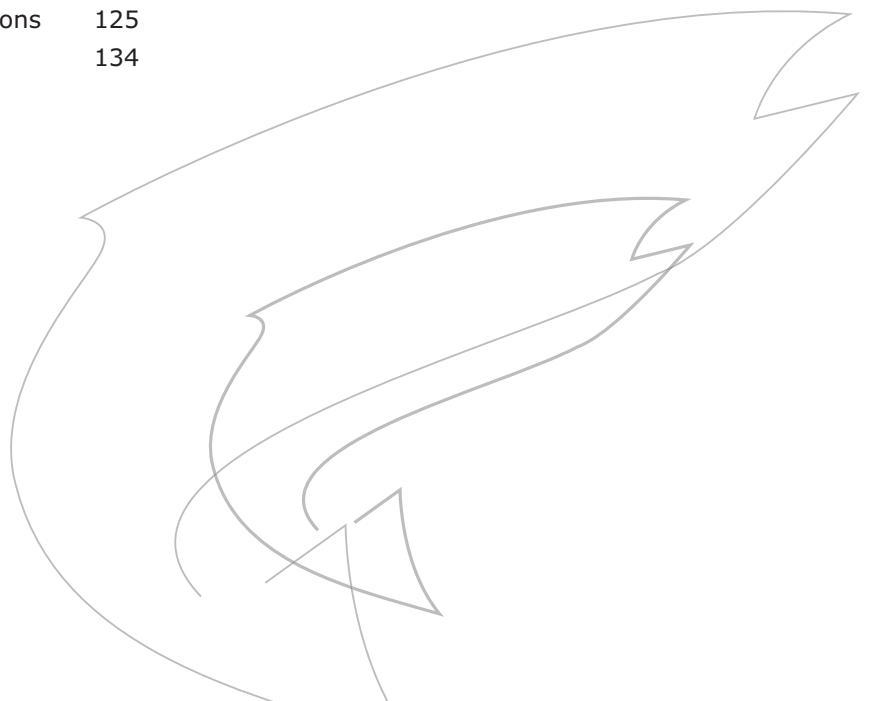




# FINANCIAL PERFORMANCE

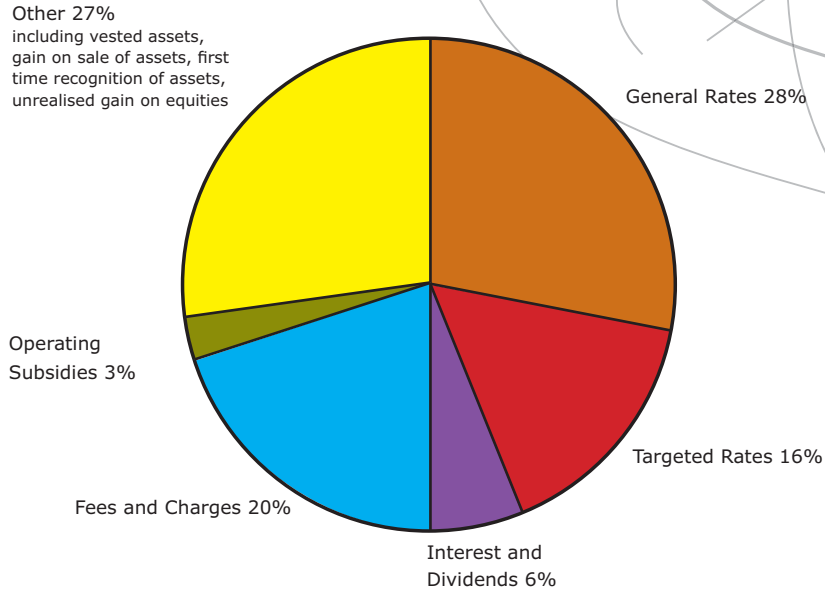
## INDEX

Our Finances at a Glance	89
International Financial Reporting Standards	90
Consolidated Statement of Financial Performance	93
Consolidated Statement of Movements in Equity	94
Consolidated Statement of Financial Position	95
Consolidated Statement of Cashflows	96
Statement of Accounting Policies	97
Notes to the Financial Statements	103
Council Controlled Organisations	125
Investment Fund	134

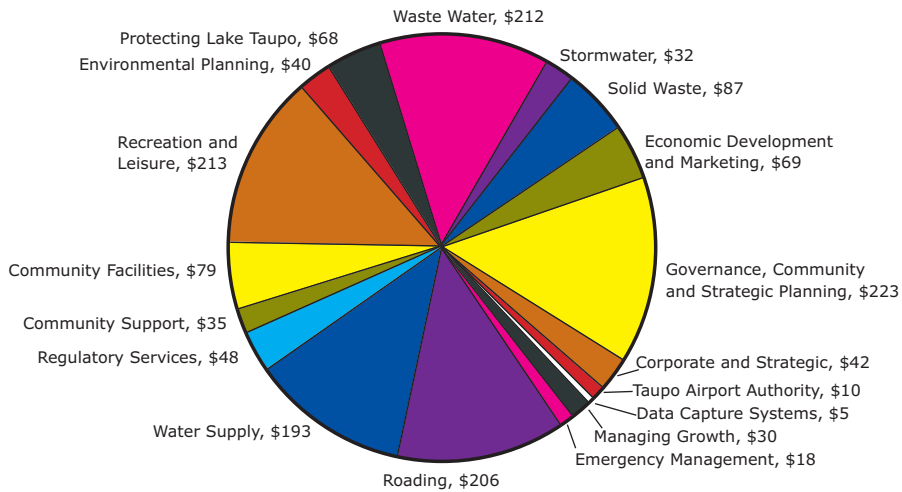


# OUR FINANCES AT A GLANCE

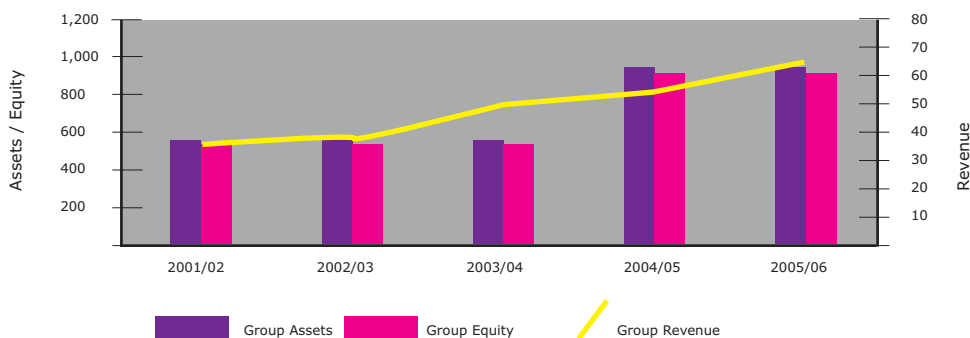
## 2005/06 FUNDING SOURCES - GROUP:



## ON AVERAGE IT COST EACH RATEPAYER \$1,608 TO OPERATE THESE SERVICES:



## REVENUE AND ASSETS/EQUITY BY YEAR (\$MILLIONS):



# INTERNATIONAL FINANCIAL REPORTING STANDARDS

## STATEMENT OF INTENT REGARDING ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

### BACKGROUND

In December 2002 New Zealand's accounting standard-setting bodies announced a significant change to financial reporting standards. For periods commencing on or after 1 January 2007, New Zealand reporting entities will be required to apply New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). NZ IFRS must be applied by every local authority in New Zealand for accounting periods beginning or after 1 January 2007. However, entities have the option to adopt the standards early, after periods beginning 1 January 2005 as appropriate. The Council will adopt NZ IFRS for external reporting purposes (Annual Report and Long Term Council Community Plan (LTCCP)) for the accounting period commencing 1 July 2006. This timing has been chosen as it aligns with the legislative requirement to produce a new LTCCP. Adoption of NZ IFRS one year early, will avoid a situation of presenting information under two different sets of accounting standards in the LTCCP document.

The purpose of this Statement of Intent is to identify the Council's planning for the transition to NZ IFRS, the likely changes to the Council's accounting policies and the financial impact of the transition (to the extent that the financial impact is known at the date these financial statements have been adopted).

Although the Council is not an Issuer for the purposes of the Financial Report Act 1993, this Statement of Intent is prepared in accordance with the requirements of FRS-41: Disclosing the Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards.

### PLANNING FOR THE TRANSITION TO NZ IFRS

To achieve the above timeframe and in order to publish its first NZ IFRS compliant financial statements for the year ended 30 June 2007, the Council and Group will be required to:

- Restate all of the 30 June 2005 closing balances in the Statement of Financial Position, prepared under NZ GAAP, to new opening balances in the Balance Sheet as at 1 July 2005 under NZ IAS 1
- Prepare NZ IFRS compliant financial information for the financial period commencing 1 July 2005 (to be used as comparative figures in the financial statements for the period commencing 1 July 2006)

To manage the transition, the council has established a work team to:

- Identify and understand the impact of adopting NZ IFRS
- Review and update, where necessary, the Council's accounting policies to ensure that they are fully compliant with NZ IFRS
- Prepare the restated opening Balance Sheet as at 1 July 2005
- Ensure that the Council and Group have systems and processes in place to produce the information required by NZ IFRS

- Liaise with other entities in a regional local authority network group to work through common issues and solutions together

## KEY DIFFERENCES IN ACCOUNTING POLICIES

Over the last few months, the work team has reviewed the NZ IFRS to identify and understand the potential impact on the Council's financial statements and accounting policies of adopting NZ IFRS.

The Council is a Public Benefit Entity (PBE) for the purposes of NZ IFRS and is entitled to take advantage of the PBE exemptions within the individual NZ IFRS. In principle, the Council intends to comply with the requirements applicable to all reporting entities in New Zealand and will take advantage of the PBE exemptions only where it is practicable and necessary to do so. In adopting specific PBE exemptions the Council will efficiently and cost-effectively manage the effect of the transition upon the Council and for the benefit of Taupo district ratepayers.

As at the date of this statement of intent, the work team has identified the following key differences in the Council's accounting policies that will arise on the transition to NZ IFRS using the new terminology in NZ IAS 1: Presentation of Financial Statements:

### 1. FINANCIAL INSTRUMENTS – RECOGNITION OF FAIR VALUE OF INTEREST RATE SWAPS

The Council will recognise and account for its interest rate swaps using the hedge accounting rules prescribed by NZ IAS 39: Financial Instruments: Recognition and Measurement (NZ IAS 39).

Under current NZ GAAP, the Council's interest rate swaps are not recognised in the Statement of Financial Position, but separately disclosed in the notes to the financial statements (see Note 16: Financial Instruments).

Under NZ IFRS, these interest rate swaps will be treated as effective cash flow hedges under NZ IAS 39 and will be recognised at their fair value in the Balance Sheet. Changes in the fair value of the interest rate swaps will be recognised through a separate reserve in Capital, to the extent that the interest rate swaps remain "effective". In the event that the interest rate swaps are deemed "ineffective" then any change in the fair value of these interest rate swaps will be recognised in the Income Statement from the last date that the interest rate swaps were deemed to have been "effective".

#### *IMPACT ON THE FINANCIAL STATEMENTS OF THIS ACCOUNTING STANDARD CHANGE*

Under NZ IFRS, an estimated (that is, unaudited) fair value of the interest rate swaps as at 1 July 2005 (\$18,500) would be recorded as an asset in the opening Balance Sheet with a corresponding credit to a cash flow hedge reserve in Capital. The estimated (unaudited) fair value of the interest rate swaps as at 30 June 2006 (\$193,000) would also be recognised within the reserve to the extent that it meets the requirements of an effective hedge.

### 2. BIOLOGICAL ASSETS – FAIR VALUE MEASUREMENT OF FORESTRY ASSETS

The Council will treat its forestry assets as biological assets under NZ IFRS. This requires financial measurement of the asset at 1 July 2005 transition, and at each subsequent balance date, at fair value less estimated point-of-sale costs. This treatment is in accordance with the requirements of NZ IAS 41.

Prior to the current reporting period the Council's accounting policy was to value its forestry assets periodically at net present value with a 30 June 1999 valuation being reported for a number of periods up to and including the 30 June 2005 year end.

Under NZ IFRS the changes in fair value will be recognised through the Income Statement.

### *IMPACT ON THE FINANCIAL STATEMENTS OF THIS ACCOUNTING STANDARD CHANGE*

Under NZ IFRS, an estimated (unaudited) fair value of the forestry assets as at 1 July 2005 (\$3,665,000) would be recorded as an asset in the opening Balance Sheet with a corresponding credit of the difference from book value recognised in the Income Statement. The estimated (unaudited) fair value of the forestry assets as at 30 June 2006 (\$3,801,000) would also be recognised within the Income Statement.

### 3. OTHER ACCOUNTING POLICIES

As at the date of this Statement of Intent, the Council does not anticipate that the transition to NZ IFRS will result in any other material changes to its current accounting policies.

### FUTURE FOCUS

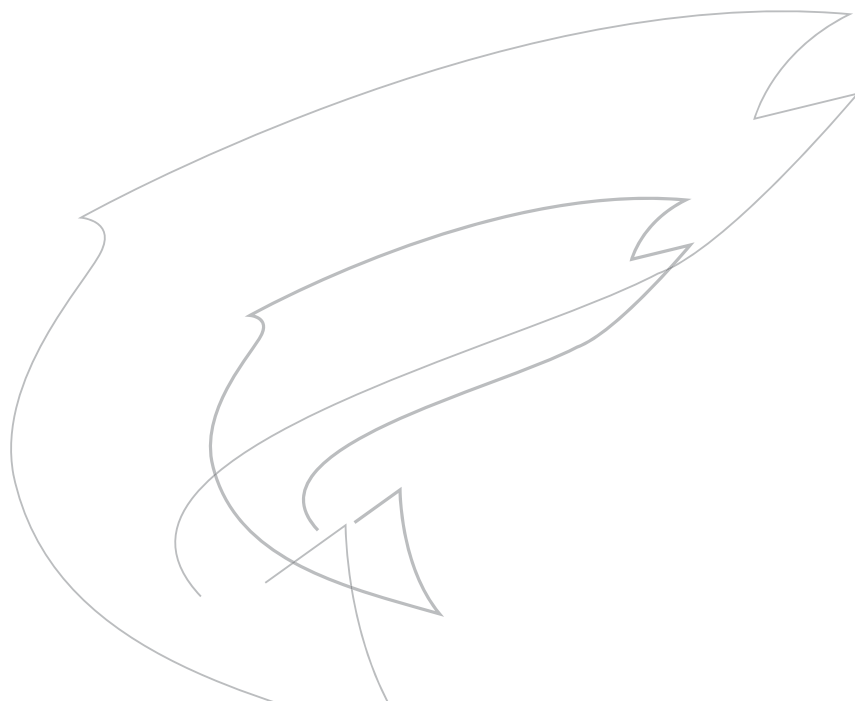
The Council's NZ IFRS work team will continue to work towards implementation of NZ IFRS over the coming months. Specifically, the work team will:

- Prepare an opening balance sheet reconciliation between current NZ GAAP and NZ IFRS as at 1 July 2005
- Continue work on determining the format of our NZ IFRS financial statements, ensuring incorporation of all the required disclosures

### CAUTIONARY NOTE

The information provided in this Statement of Intent is for indicative purposes only and is unaudited. The information is consistent with the disclosure requirements of FRS-41: Disclosing the Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards.

The actual impact of the transition to NZ IFRS on the Council's financial statements may vary from the information presented above. Accordingly, the impact of any variation from the information presented above may be material.



# CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2006

	Notes	Council Actual 2006 \$000	Council Estimate 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>Revenue</b>						
Revenue from activities	1	34,426	28,082	24,593	34,901	25,119
General rates	2	19,962	19,785	18,404	19,962	18,404
Other revenue	3	8,727	6,119	10,963	8,715	10,958
Total operating revenue		63,115	53,986	53,960	63,578	54,481
<b>Expenditure</b>						
Expenditure on activities	1	52,201	46,642	42,708	53,077	43,450
Total operating expenditure		52,201	46,642	42,708	53,077	43,450
Surplus before unrealised gains/losses in equities		10,914	7,344	11,252	10,501	11,031
Unrealised gain/(loss) on equities	3	3,707	0	550	3,707	550
Operating surplus after unrealised gains/losses in equities		14,621	7,344	11,802	14,208	11,581
<b>Other Adjustments</b>						
Asset adjustment - first time recognition		4,414	0	0	4,414	0
Change in treatment of development contributions	23	(2,431)	0	0	(2,431)	0
Operating surplus (deficit) before taxation		16,604	7,344	11,802	16,191	11,581
Less taxation expense		0	0	0	0	0
Operating surplus (deficit) after taxation		16,604	7,344	11,802	16,191	11,581
Minority interest in Taupo Airport Authority deficit	22	0	0	0	141	97
<b>Net surplus (deficit) for the year</b>		<b>16,604</b>	<b>7,344</b>	<b>11,802</b>	<b>16,332</b>	<b>11,678</b>

*Explanation of Council net surplus:*

Council achieved a net surplus this year of \$16.6m in comparison with a budget of \$7.3m. Explanations for the variance between the actual and estimated net surplus are provided in note 24. Much of the surplus derives from non-cash revenue items such as infrastructure vested by developers (\$4.3m), fair value increases in our international equities portfolio (\$3.7m), and the first time recognition of the heritage assets housed at the Taupo Museum and certain items of park furniture (\$4.4m). A further \$7.1m was derived from the recognition of a gain on sale of sections in the Botanical Heights subdivision.

*The accompanying accounting policies and notes form part of these financial statements.*

# CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2006

	Notes	Council Actual 2006 \$000	Council Estimate 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
Equity at start of the year		925,023	536,608	515,021	927,020	517,239
Net surplus (deficit) for the year attributable to:						
Equity holders of the parent		16,604	7,344	11,802	16,332	11,678
Minority interest	22	0	0	0	(141)	(97)
Increases (decreases) in revaluation reserves		5,351	0	398,200	5,351	398,200
Total recognised revenues and expenses for the year		21,955	7,344	410,002	21,542	409,781
Equity at end of the year		946,978	543,952	925,023	948,562	927,020

*The accompanying accounting policies and notes form part of these financial statements.*



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2006

	Notes	Council Actual 2006 \$000	Council Estimate 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>Equity</b>						
Accumulated Funds	6a	228,144	264,261	217,713	226,294	216,135
Council Created Reserves	6b	87,807	50,200	81,384	87,807	81,384
Restricted Reserves	6c	243	0	228	243	228
Asset Revaluation Reserves	6d	630,784	229,491	625,698	633,020	627,934
Minority Interest	22	0	0	0	1,198	1,339
<b>Total Equity</b>		<b>946,978</b>	<b>543,952</b>	<b>925,023</b>	<b>948,562</b>	<b>927,020</b>
<b>Current Assets</b>						
Cash and Bank		303	100	155	338	231
Investments	8	29,136	30,000	18,590	29,136	18,590
Accounts Receivable	7	9,221	3,000	7,528	8,888	7,478
Inventories		523	345	522	523	522
Properties Intended for Resale	10	3,816	700	515	3,816	515
<b>Total Current Assets</b>		<b>42,999</b>	<b>34,145</b>	<b>27,310</b>	<b>42,701</b>	<b>27,336</b>
<b>Non-Current Assets</b>						
Investments	8	47,876	18,266	45,837	46,280	44,241
Accounts Receivable	7	1,694	0	0	1,694	0
Property, Plant and Equipment	9	911,030	527,976	889,188	915,132	893,411
<b>Total Non-Current Assets</b>		<b>960,600</b>	<b>546,242</b>	<b>935,025</b>	<b>963,106</b>	<b>937,652</b>
<b>Total Assets</b>		<b>1,003,599</b>	<b>580,387</b>	<b>962,335</b>	<b>1,005,807</b>	<b>964,988</b>
<b>Current Liabilities</b>						
Accounts Payable	11	10,269	6,000	7,925	10,352	8,044
Employee Entitlements	12	1,588	1,150	1,291	1,604	1,302
Public Debt	13	10,351	7,196	10,872	10,568	10,885
<b>Total Current Liabilities</b>		<b>22,208</b>	<b>14,346</b>	<b>20,088</b>	<b>22,524</b>	<b>20,231</b>
<b>Non-Current Liabilities</b>						
Public Debt	13	33,734	21,589	16,669	34,042	17,182
Employee Entitlements	12	679	500	555	679	555
<b>Total Non-Current Liabilities</b>		<b>34,413</b>	<b>22,089</b>	<b>17,224</b>	<b>34,721</b>	<b>17,737</b>
<b>Total Liabilities</b>		<b>56,621</b>	<b>36,435</b>	<b>37,312</b>	<b>57,245</b>	<b>37,968</b>
<b>Total Net Assets</b>		<b>946,978</b>	<b>543,952</b>	<b>925,023</b>	<b>948,562</b>	<b>927,020</b>

The accompanying accounting policies and notes form part of these financial statements.



S F Rowbotham  
CHIEF EXECUTIVE OFFICER  
TAUPO DISTRICT COUNCIL  
6 October 2006



C T A Stent  
MAYOR  
TAUPO DISTRICT COUNCIL  
6 October 2006

# CONSOLIDATED STATEMENT OF CASHFLOWS

for the year ended 30 June 2006

	Notes	Council Actual 2006 \$000	Council Estimate 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>Cash Flows from operating activities</b>						
Cash was provided from:						
Rates		31,055	30,850	27,890	31,055	27,890
Interest Income		3,621	5,178	3,273	3,621	3,273
Fees, Charges & Other Income		16,553	16,175	13,690	17,037	14,292
Net GST Received		419	0	171	419	171
Cash Provided		51,648	52,203	45,024	52,132	45,626
Cash was applied to:						
Payments to Suppliers & Employees		37,945	37,369	34,513	38,516	35,027
Interest on Public Debt		2,868	1,769	1,651	2,899	1,673
Net GST Paid		0	65	0	0	0
Cash Applied		40,813	39,203	36,164	41,415	36,700
<b>Net cash inflow (outflow) from operating activities</b>	14	10,835	13,000	8,860	10,717	8,926
<b>Cash Flows from investing activities</b>						
Cash was provided from:						
Proceeds from sale of property, plant and equipment		6,251	5,867	637	6,251	637
Net Decrease in investments		0	20,226	2,617	0	2,617
Cash Provided		6,251	26,093	3,254	6,251	3,254
Cash was applied to:						
Purchase & Development of property, plant and equipment		24,604	41,872	16,568	24,654	16,572
Net Increase in investments		2,562	0	0	2,435	0
Cash Applied		27,166	41,872	16,568	27,089	16,572
<b>Net cash inflow (outflow) from investing activities</b>		(20,915)	(15,779)	(13,314)	(20,838)	(13,318)
<b>Cash Flows from financing activities</b>						
Cash was provided from:						
Loans Raised		18,738	10,981	12,301	18,738	12,301
Cash Provided		18,738	10,981	12,301	18,738	12,301
Cash was applied to:						
Repayment of public debt		2,194	8,202	6,838	2,194	6,838
Cash Applied		2,194	8,202	6,838	2,194	6,838
<b>Net cash inflow (outflow) from financing activities</b>		16,544	2,779	5,463	16,544	5,463
<b>Net increase (decrease) in cash held</b>		6,464	0	1,009	6,423	1,071
<b>Add cash at start of year</b>		3,967	300	2,958	4,043	2,972
<b>Cash at end of period</b>		10,431	300	3,967	10,466	4,043
Consisting of:						
Cash and bank		303	100	155	338	231
Call Deposits	8	10,128	200	3,812	10,128	3,812
Cash at End of Period		10,431	300	3,967	10,466	4,043

The accompanying accounting policies and notes form part of these financial statements.

# STATEMENT OF ACCOUNTING POLICIES

for the year ended 30 June 2006

## REPORTING ENTITY

Taupo District Council is a Local Authority governed by the Local Government Act 2002.

The Taupo District Council group consists of the Taupo District Council and its subsidiaries, Data Capture Systems Limited, the Lake Taupo Tourism Advisory Board, the Taupo District Economic Development Advisory Board and Destination Lake Taupo Limited. The Council has a 50% joint venture arrangement with the Crown in the Taupo Airport Authority.

The financial statements of Taupo District Council and Group have been prepared in accordance with the provisions of section 98(1) of the Local Government Act 2002. The financial statements comply with generally accepted accounting practice.

## MEASUREMENT BASE

The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain fixed assets.

## ACCOUNTING POLICIES

The following accounting policies which materially affect the measurement of results and financial position have been applied:

### REVENUE RECOGNITION

Rates revenue is recognised when levied.

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

Land Transport New Zealand roading subsidies are recognised as revenue upon entitlement, which is when conditions pertaining to eligible expenditure have been fulfilled.

Other grants and bequests, and assets vested in the Council – with or without conditions – are recognised as revenue when control over the assets is obtained.

Development Contributions are accounted for using the liability method which means that invoiced revenue from these contributions is not recognised as revenue until applied towards an allowable capital project. The invoiced revenue is treated as a liability until applied.

General rates are not allocated to significant activities and are included as general rate revenue in the Statement of Financial Performance.

Interest income is not allocated to significant activities and is included as other income in the Statement of Financial Performance.

### ACCOUNTS RECEIVABLE

Accounts receivable are valued at expected realisable value after providing for doubtful and uncollectible debtors.

### INVESTMENTS

Council's managed equity investments are valued at current market value based on the 30 June closing sale price recorded in the relevant stock exchange. The value of the foreign-listed managed equities is converted to New Zealand dollars at the 30 June closing rate of exchange.

Council's shareholding in King Country Energy Limited is also valued at current market value based on the 30 June closing stock exchange sale price.

The investment in the New Zealand Local Government Insurance Corporation Limited shares has no market price listing

so it is valued at the net equity value of Council's investment according to the most recent audited financial statements of the Corporation.

All other investments, including those in subsidiaries, are stated at the lower of cost or net realisable value. Any write-downs are recognised in the statement of financial performance.

#### INVENTORIES

Inventory is valued at the lower of cost and net realisable value.

#### PROPERTIES INTENDED FOR RESALE

Properties intended for resale are stated at the lower of cost and net realisable value.

#### PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS

Property, Plant and Equipment consist of:

- Operational assets – These include land, buildings, improvements, library books, plant and equipment, heritage assets and motor vehicles.
- Restricted assets – Restricted assets are parks and reserves owned by the Council, which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.
- Infrastructure assets – Infrastructure assets are the fixed utility systems owned by the Council. Each asset type includes all items that are required for the network to function, for example, wastewater reticulation includes reticulation piping and pump stations.
- Development expenditure – Costs related to producing the accounting billing system for Data Capture Systems Ltd. Development costs are capitalised where future benefits are expected to exceed those costs, otherwise such costs are recognised in the statement of financial performance in the period in which they are incurred. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable, and any amount so identified is written off.

#### Valuation

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

- Operational land has been valued at fair value by Quotable Value New Zealand as at 30 June 2005. Operational buildings have been valued at fair value by Quotable Value New Zealand as at 1 July 2005. Additions since these dates are recorded at cost.
- Restricted land has been valued at fair value by Quotable Value New Zealand as at 30 June 2005. Restricted buildings have been valued at fair value by Quotable Value New Zealand as at 1 July 2005. Additions since these dates are recorded at cost.
- Infrastructure roading assets have been valued at depreciated replacement cost by Council asset managers (with formal review by Opus International Consultants Ltd), as at 30 June 2005, except for the land under roads. Infrastructure water, wastewater and stormwater assets (excluding the buildings associated with these networks) have been valued at depreciated replacement cost by Beca Valuations Ltd as at 30 June 2005.
- Land under roads has been valued by QV Valuations Ltd as at 30 June 2005. Urban land was valued at 45% of the surrounding land market value. Rural land was valued based on the surrounding land value.
- Forestry assets, being the standing timber in Council's harvestable plantations, are valued at fair value less estimated point-of-sale costs. The recorded value has been determined by Chandler Fraser Keating Limited as at 30 June 2006.

All valuations are carried out or reviewed by independent qualified valuers and are carried out at least 5 yearly, except for forestry valuations. The 30 June 2006 forestry revaluation was the first revaluation of this asset class since 30 June 1999. This asset class will be revalued annually from now on.

Valuations will be undertaken more regularly if necessary to ensure that no individual item of property, plant and equipment within a class is included at a valuation that is materially different from its fair value.

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

Heritage assets and park furniture have been recorded at a 'deemed' cost determined in valuations as at 1 July 2005. The heritage assets were valued by Peter Webb Galleries Limited, the park furniture by Opus International Consultants Limited. It is not intended to revalue these asset classes in future.

#### Additions

Additions between valuations are shown at cost, except vested assets. Certain infrastructural assets and land have been vested in Council as part of the sub-divisional consent process. The vested land reserve has been initially recognised at the most recent appropriately certified government valuation. Vested infrastructural assets are valued based on the actual quantities of infrastructure components vested, and the current 'in the ground' cost of providing identical services.

#### Depreciation

Depreciation has been provided on a straight line basis on all fixed assets other than land, at rates which will write-off the cost (or valuation) of the assets to their estimated residual value over their useful lives.

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

#### Operational assets:

Land	Nil	Nil
Buildings		
Structure	20-80 yrs	1.3%-5% SL
Roof	20-40 yrs	2.5%-5% SL
Services	20-45 yrs	2.5%-5% SL
Internal fit out	15-35 yrs	2.9%-6.7% SL
Machinery	4-10 yrs	10-25%DV
Computer Equipment	4 yrs	25%SL
Office Equipment	5-10 yrs	10-20%DV
Furniture & Fittings	5-10 yrs	10-20%DV
Vehicles	5-10 yrs	10-20%DV
Library Books	6.5 yrs	15.5%SL

#### Infrastructural assets:

Roads		
Top surface	3 -20 yrs	5%-33%SL
Pavement	45 - 60 yrs	1.7%-2%SL
Formation	not depreciated	
Culverts	60-80 yrs	1.3%-1.7%SL
Footpaths	30 - 80 yrs	1.3%-3.3%SL
Kerbs	60 yrs	1.7%SL
Signs	10-25 yrs	4-10%SL
Street Lights & Poles	25 - 60 yrs	1.7%-4%SL
Bridges	90-100 yrs	1%-1.1%SL
Foot Bridges	30-60 yrs	1.7% -3.3%SL
Land under roads	not depreciated	

#### Water Reticulation

Pipes	45 - 80 yrs	1.25%-2.2%SL
Valves, hydrants	40 yrs	2.5%SL
Pump stations	10 - 60 yrs	1.7%-10%SL
Tanks	25 - 80 yrs	1.3%-4%SL

#### Sewerage Reticulation

Pipes	15 - 80 yrs	1.3%-6.7%SL
Manholes	80 yrs	1.3%SL
Treatment Plant	10 - 80 yrs	1.3%-10%SL

#### Stormwater Systems

Pipes	80 - 100 yrs	1%-1.3%SL
Manholes, Cesspits	80 - 100 yrs	1%-1.3%SL
Flood Control Systems	15 - 18 yrs	5.6%-6.7%SL

#### Restricted Assets:

Land	Nil	Nil
Other	0-40 ys	Nil - 2.5%SL

Forest Assets are not depreciated.

#### Assets Under Construction

Assets under construction are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated. The current carrying amount of items under construction is disclosed in Note 9.

#### Amortisation

Amortisation of Data Capture Systems Limited's development expenditure has been provided for on a straight-line basis. Amortisation is provided at rates calculated to allocate the asset cost over the years that related economic benefits are expected to be received. The development expenditure has been written down to a nominal amount in this year's financial statements.

#### GST

All items in the financial statements are exclusive of GST, with the exception of receivables and payables, which are stated inclusive of GST. Where GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

#### TAXATION

Income tax expense is charged in the statement of financial performance in respect of the current year's results, after allowing for permanent differences.

#### SUBSIDIARIES AND CONSOLIDATION

The consolidated financial statements include Taupo District Council, it's 100% owned subsidiaries Data Capture Systems Limited and Destination Lake Taupo Limited, and it's 50% interest in the Taupo Airport Authority. Council's interest in all three of these subsidiary entities is accounted for using a 'line by line' aggregation of like items of asset, liability, equity, revenue, expense and cashflow. All significant inter-entity transactions are eliminated. The Crown's 50% interest in the Taupo Airport Authority is treated as a minority interest.

#### EMPLOYEE ENTITLEMENTS

Provision is made in respect of Taupo District Council's liability for annual leave, long service leave, and gratuities. Annual leave has been calculated on an actual entitlement basis at current rates of pay while long service leave and gratuities have been calculated on an actuarial basis at current rates of pay by Council staff.

#### LANDFILL POST-CLOSURE COSTS

The Council, as operator of the district landfill, has a legal obligation under the resource consent to provide ongoing

maintenance and monitoring services at the landfill site after closure. A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises.

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including new legal requirements and known improvements in technology. The provision includes all costs associated with landfill post-closure.

Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits to be obtained. Components of the capitalised landfill asset are depreciated over their useful lives.

The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the Council.

#### LEASES: FINANCE LEASES

Leases which effectively transfer to the lessee substantially all the risks and benefits incident to ownership of the leased item are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and corresponding lease liabilities are recognised in the statement of financial position. The leased assets are depreciated over the period the Council is expected to benefit from their use.

#### LEASES: OPERATING LEASES

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are charged as an expense in the periods in which they are incurred.

#### COST ALLOCATION

Taupo District Council has derived the net cost of service for each significant activity of the Council using the following cost allocation system:

- Direct costs (costs directly attributable to a significant activity) are charged directly to significant activities.

- Indirect costs (those costs which cannot be identified in an economically feasible manner, with a specific significant activity) are charged to significant activities based on cost drivers and related activity/usage information.

#### BUDGET FIGURES

The budget figures are those approved by the Council at the beginning of the year after a period of consultation with the public as part of the Long Term Council Community Plan / Annual Plan process. The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of the financial statements.

#### FINANCIAL INSTRUMENTS

The group are party to financial instruments as part of their normal operations. These financial instruments include bank accounts, investments, debtors, creditors and loans. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to the financial instruments are recognised in the statement of financial performance. Except for loans, which are recorded at cost, and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value

Council has various financial instruments with off-balance sheet risk for the primary purpose of reducing its exposure to fluctuations in interest rates. While these financial instruments are subject to risk that market rates may change subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

Council has entered into interest rate and currency risk management instruments to manage the risks that it is exposed to. On maturity of the risk management instrument, the realised revenues and expenses are recognised in the statement of financial performance.

#### STATEMENT OF CASH FLOWS

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 operations.

Operating activities include cash received from all income sources and the cash payments made for the supply of goods and services. Agency transactions (the collection of regional council rates) are recognised as receipts and payments in the Statement of Cash Flows given that they flow through the Council's main bank account.

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.

#### EQUITY

Equity is the community's interest in the Council as measured by the value of total assets less total liabilities. Public Equity is disaggregated and classified into a number of reserves to enable clearer identification of the specified uses Council makes of its accumulated surpluses. The public equity of Council is made up of the following components:

- Accumulated Funds
- Council Created Reserves
- Restricted Reserves
- Asset Revaluation Reserves
- Minority Interest

#### Reserves

Reserves are a component of Public Equity and represent a particular use to which parts of equity have been assigned. Reserves may be legally restricted or created by the Council.

Council Created Reserves are reserves established by Council decision. The Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

Restricted Reserves are those reserves subject to specific conditions accepted as binding by the Council, and which Council

may not revise without reference to a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

#### Asset Revaluation Reserves

Certain asset classes have been revalued, with these classes including land, buildings, infrastructural assets, restricted assets, forestry assets and shares. The treatment of revaluation movements is detailed under the heading Property, Plant and Equipment and Other Non-Current Assets, subheading Valuation, elsewhere in these policies.

#### **CHANGES IN ACCOUNTING POLICIES**

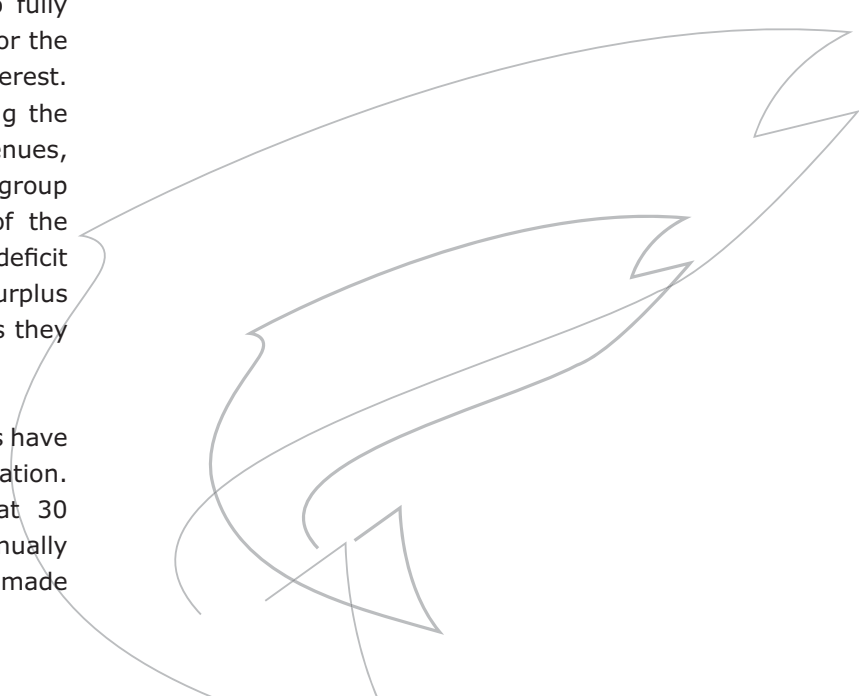
Development Contributions have previously been accounted for using the 'revenue' method which recognises the revenue as it is invoiced. This revenue stream is now accounted for using the 'liability' method which means that invoiced revenue from these contributions is not recognised as revenue until applied towards an allowable capital project. The invoiced revenue is treated as a liability until applied. This change in accounting treatment better reflects the nature of these funds and the requirement that they be repaid to the contributors if not utilised for appropriate allowable purposes. The impact of this change is disclosed in note 23.

Council's 50% interest in the Taupo Airport Authority has previously been accounted for using a proportionate 50% 'line by line' aggregation of like items of asset, liability, equity, revenue, expense and cashflow. This treatment has now been changed to fully aggregate each line, and to account for the Crown's 50% interest as a minority interest. While there is an impact in increasing the level of the assets, liabilities, revenues, expense, and cashflows in the group financial statements, the inclusion of the minority interest share of surplus / deficit and equity means that the reported surplus and financial position are the same as they would otherwise have been.

Until this year Council's forestry assets have been recorded at a 30 June 1999 valuation. These assets have been revalued at 30 June 2006 and will be revalued annually from now on. This change in policy is made

to better reflect the value of the forestry assets and to move to a practice consistent with that required in future by the New Zealand equivalents to International Financial Reporting Standards.

There have been no other material changes in accounting policies since the date of the last audited financial statements. All other policies have been applied on a basis consistent with the previous reporting period.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

	Actual 2006 \$000	Actual 2006 \$000	Actual 2006 \$000	Estimate 2006 \$000	Actual 2005 \$000
<b>1 Council Services provided were</b>	Revenue	Expenses	Net	Net	Net
Managing Growth	7,742	1,417	(6,325)	(448)	384
Strong Communities	13,509	29,166	15,657	11,395	11,699
Sustainable Environment	11,631	12,609	978	380	540
Economic Development and Marketing	1,380	2,381	1,001	1,113	992
Good Governance and Strategic Alliances	1	6,422	6,421	5,491	4,590
Other	977	2,008	1,031	629	843
<b>Totals per Cost of Service Statements</b>	<b>35,240</b>	<b>54,003</b>	<b>18,763</b>	<b>18,560</b>	<b>19,048</b>
Internal transactions	(814)	(1,802)	(988)	0	(933)
<b>Total Council</b>	<b>34,426</b>	<b>52,201</b>	<b>17,775</b>	<b>18,560</b>	<b>18,115</b>
Taupo Airport	459	729	270	(133)	96
Data Capture Systems Ltd	16	147	131	134	23
<b>Total Group</b>	<b>34,901</b>	<b>53,077</b>	<b>18,176</b>	<b>18,561</b>	<b>18,234</b>
<b>Internal transactions</b>					
Each significant activity is stated gross of internal costs and revenues, and includes targeted rates (refer note 2). 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, except for the revenue from internal rates eliminated against general rates (refer note 2), and the revenue from internal interest eliminated from the interest and dividend item in note 3.					
<b>2 Rates Revenue - Council only</b>			Actual 2006 \$000	Estimate 2006 \$000	Actual 2005 \$000
General Rates (excluding internal rates)			20,450	20,160	18,730
Less rates remissions			488	375	326
<b>Total General Rates</b>			<b>19,962</b>	<b>19,785</b>	<b>18,404</b>
<i>Targeted rates attributable to activities:</i>					
Lake Protection			1,341	1,300	617
Water Supply			3,733	3,684	3,611
Wastewater Disposal			4,100	4,066	3,720
Refuse Disposal			1,080	1,063	1,033
Marketing Development			657	661	634
Turangi Mainstreet Rate			162	157	156
Turangi Security Rate			34	35	39
Whakamaru Fire Protection			3	4	3
Taupo Town Centre			95	95	0
<b>Total Targeted Rates</b>			<b>11,205</b>	<b>11,065</b>	<b>9,813</b>
<b>Total Rates Revenue</b>			<b>31,167</b>	<b>30,850</b>	<b>28,217</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

	Council Actual 2006 \$000	Council Estimate 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>3 Other Revenue</b>					
Petroleum Tax	364	345	408	364	408
Interest and Dividend income	3,659	5,274	3,453	3,647	3,448
Vested assets	4,377	0	6,692	4,377	6,692
Other income	327	500	410	327	410
<b>Total Other Income</b>	<b>8,727</b>	<b>6,119</b>	<b>10,963</b>	<b>8,715</b>	<b>10,958</b>
<b>Subdivisional Vested Assets</b>					
The Council has vested to it certain infrastructural assets and land as part of the sub-divisional approval process. Council recognises the value of these vested assets as other income in its Statement of Financial Performance with an equivalent increase in fixed assets.					
				Council Actual 2006 \$000	Council Actual 2005 \$000
The vested assets comprise:					
Roads				2,494	2,554
Wastewater				679	1,417
Water				457	1,076
Stormwater				602	1,600
Reserves - land				145	0
Other				0	45
<b>Total Vested Assets</b>				<b>4,377</b>	<b>6,692</b>
<b>Unrealised Gain/(Loss) on equities</b>					
Equities held are shown in the financial statements at fair value (market value). The unrealised gain represents the increase in the market value of the equities for the year.					

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>4 Operating Expenditure</b>				
<i>Includes:</i>				
Audit fees				
- fees paid to Audit NZ for Council and Group entity audits	85	82	97	93
- other services provided by Audit NZ	46	0	46	0
Councillor remuneration	326	308	326	308
Community Board remuneration	36	33	36	33
Directors fees	0	0	4	25
Depreciation				
- Roothing network	3,506	2,767	3,519	2,778
- Wastewater	1,665	1,340	1,665	1,340
- Water	1,203	991	1,203	991
- Stormwater	545	504	551	510
- Buildings (operational)	1,377	882	1,386	890
- Machinery, vehicles and plant	658	554	667	561
- Furniture and office equipment	970	213	970	214
- Library books	287	233	287	233
- Leased computers	268	229	268	229
- Taupo Airport - Fencing	0	0	5	8
- Taupo Airport - Services & streetlighting	0	0	3	3
- Taupo Airport - Runway	0	0	59	137
- Development expenditure amortised	0	0	67	27
<b>Total depreciation and amortisation for the year</b>	<b>10,479</b>	<b>7,713</b>	<b>10,650</b>	<b>7,921</b>
Bad debts written off	381	25	381	25
Change in provision for doubtful debts	96	(74)	119	(74)
Donations	545	482	545	482
Interest expense	2,884	1,589	2,936	1,626
Rental expense on operating leases	177	246	185	249
Finance charges on leased assets	31	25	31	25
<i>In terms of Schedule 10 (19) of the Local Government Act 2002:</i>				
Severance payments (involves 1 employee in 2005/06)	8	19	8	19

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>5 Taxation</b>				
Operating surplus before taxation	16,604	11,802	16,191	11,581
Prima facie tax expense @ 33%	5,479	3,895	5,343	3,822
Less tax effect of:				
Non assessable income	(5,479)	(3,895)	(5,343)	(3,822)
Timing differences	0	0	0	0
Taxation expense	0	0	0	0
<p>Data Capture Systems Limited, a subsidiary of Council, has tax losses as at 31 March 2006 of \$79,063 to carry forward (2005 \$52,427). The tax effect of these losses is \$26,091 (2005 \$17,301). The carried forward losses originated from the activity of Taupo Information Centre Limited, that company later being renamed Data Capture Systems Limited and have in the past been applied to meet Council's tax liability on coupon interest received from various CCTO bonds.</p>				
	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>6 Equity</b>				
<b>(a) Accumulated Funds</b>				
Opening balance	217,713	215,244	216,135	213,672
Net Surplus/(Deficit)	16,604	11,802	16,332	11,678
	234,317	227,046	232,467	225,350
Transfers from reserves:				
- restricted reserves	0	0	0	0
- council created reserves	19,164	17,224	19,164	17,342
- revaluation reserves	265	(1,983)	265	(1,983)
Transfers to reserves:				
- restricted reserves	(15)	(15)	(15)	(15)
- council created reserves	(25,587)	(24,559)	(25,587)	(24,559)
Total Accumulated Funds	228,144	217,713	226,294	216,135
<b>(b) Council Created Reserves</b>				
Opening balance	81,384	74,049	81,384	74,167
Transfer from accumulated funds	25,587	24,559	25,587	24,559
Transfer to accumulated funds	(19,164)	(17,224)	(19,164)	(17,342)
Total Council Created Reserves	87,807	81,384	87,807	81,384
<b>(c) Restricted Reserves</b>				
Opening balance	228	213	228	213
Transfer to (from) Accumulated Funds	15	15	15	15
Total Restricted Reserves	243	228	243	228
<p>These restricted reserves are sinking funds put aside of the repayment of loans.</p>				

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>(d) Asset Revaluation Reserves</b>				
<b>General Assets</b>				
Opening balance	625,404	225,221	627,640	227,457
Change in asset value	4,768	398,200	4,768	398,200
Add/(Less) Revaluation attributable to assets sold	(265)	1,983	(265)	1,983
Closing balance	629,907	625,404	632,143	627,640
Roading network and land	354,866	355,044	354,866	355,044
Wastewater	17,522	17,522	17,522	17,522
Water	15,530	15,319	15,530	15,319
Stormwater	33,429	31,413	33,429	31,413
Reserves (restricted)	173,844	173,938	173,844	173,938
Land (operational)	24,521	24,521	24,521	24,521
Buildings (operational)	9,870	7,523	9,870	7,523
Furniture & Fittings	198	0	198	0
Heritage Assets	3	0	3	0
Shares	124	124	124	124
Taupo Airport	0	0	2,236	2,236
Closing balance	629,907	625,404	632,143	627,640
<b>Forest</b>				
Opening balance	294	294	294	294
Change in asset value	583	0	583	0
Closing balance	877	294	877	294
Total Asset Revaluation Reserve	630,784	625,698	633,020	627,934
<b>7 Accounts Receivable</b>	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
Rates Arrears	1,467	1,359	1,467	1,359
General Debtors	7,087	3,549	6,999	3,603
Accruals	2,625	2,346	2,579	2,313
Sundry Debtors	111	572	(103)	488
Prepayments	19	0	34	13
Total	11,309	7,826	10,976	7,776
Less Provision for Doubtful Debts	394	298	394	298
Total Accounts Receivable	10,915	7,528	10,582	7,478
Made up of:				
Current	9,221	7,528	8,888	7,478
Non-current	1,694	0	1,694	0
Total Accounts Receivable	10,915	7,528	10,582	7,478
The non-current debtors being delayed 'builder's terms' settlements on Botanical Heights subdivision section sales.				

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

		Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>8 Investments</b>					
<b>(a) Current</b>					
Call deposits		10,128	3,812	10,128	3,812
Short term deposits		19,008	14,778	19,008	14,778
Total Current Investments		29,136	18,590	29,136	18,590
<b>(b) Non-Current</b>					
Long term deposits		27,125	26,807	27,125	26,807
Sinking Funds		242	228	242	228
Managed Equity Investments		18,730	17,023	18,730	17,023
Interest in Taupo Airport Authority Joint Venture		1,596	1,596	0	0
Other Shares in Companies		183	183	183	183
Total Non-Current Investments		47,876	45,837	46,280	44,241
Sinking funds are invested with National Provident Fund. Equity Investments are invested by State Street Global Advisors, Fund Managers.					
		Council Actual 2006	Council Actual 2005	Group Actual 2006	Group Actual 2005
<b>(c) Interest Rates</b>					
Weighted Average Effective Interest Rates were:					
Short and long term deposits		7.22%	6.91%	7.22%	6.91%
Sinking Funds		6.03%	6.42%	6.03%	6.42%
	2006 \$000	2006 \$000	2006 \$000	2006 \$000	2006 \$000
	<6 mths	6-12 mths	1-2 yrs	2-5 yrs	>5 yrs
<b>(d) Maturities</b>					
Short and long term deposits	26,477	4,000	7,692	8,418	31,523
Sinking Funds	0	0	0	242	0
Total	26,477	4,000	7,692	8,660	31,523
<b>(e) Joint Venture</b>	Taupo District Council has 50% ownership of the joint venture Taupo Airport Authority. The Crown is the owner of the other 50%. The Taupo Airport Authority balance date is 30 June.				
<b>(f) Subsidiaries</b>	Taupo District Council has 100% ownership of the subsidiary Data Capture Systems Limited. The Data Capture Systems Limited balance date is 30 June. Council also owns 100% of Destination Lake Taupo Limited which is currently not trading, and has no assets or liabilities.				
<b>(g) Shares in Companies</b>	Council has the following equity investments: NZ Local Government Insurance Corporation Limited 83,971 shares at fair value of \$2.51 (2005 \$2.29) each. King Country Energy Limited 6,129 shares at fair value of \$4.10 (2005 \$3.75) each. Destination Lake Taupo Limited 100 shares no par value and Data Capture Systems Limited 100 shares at par value of \$1.00. Local Authority Shared Services Limited 1 ordinary capital share of \$1,000				

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

	Cost or Valuation 2006 \$000	Accumulated depreciation/ amortisation 2006 \$000	Net Book Value 2006 \$000	Cost or Valuation 2005 \$000	Accumulated depreciation/ amortisation 2005 \$000	Net Book Value 2005 \$000
<b>9 Property, Plant and Equipment</b>						
<b>Infrastructural Assets</b>						
<b>At valuation</b>						
Roading network and land	477,602	3,478	474,124	477,602	0	477,602
Wastewater	48,336	1,602	46,734	45,980	32	45,948
Water	37,883	1,196	36,687	37,719	59	37,660
Stormwater	34,290	540	33,750	34,290	0	34,290
<b>At cost</b>						
Roading network and land	6,183	24	6,159	0	0	0
Wastewater	7,843	25	7,818	315	0	315
Water	3,615	28	3,587	57	17	40
Stormwater	1,393	13	1,380	8	8	0
Solid Waste	2,352	1,204	1,148	2,352	976	1,376
Items under construction	5,283	0	5,283	8,078	0	8,078
<b>Total Infrastructural Assets</b>	<b>624,780</b>	<b>8,110</b>	<b>616,670</b>	<b>606,401</b>	<b>1,092</b>	<b>605,309</b>
<b>Restricted Assets</b>						
<b>At valuation</b>						
Reserves	186,889	0	186,889	186,896	0	186,896
Other	1,100	0	1,100	1,100	0	1,100
<b>At cost</b>						
Reserves	999	4	995	0	0	0
<b>Total Restricted Assets</b>	<b>188,988</b>	<b>4</b>	<b>188,984</b>	<b>187,996</b>	<b>0</b>	<b>187,996</b>
<b>Operational Assets</b>						
<b>At valuation</b>						
Land	40,443	0	40,443	41,593	0	41,593
Buildings	41,917	1,293	40,624	33,146	2,140	31,006
Furniture and office equipment	4,035	265	3,770	0	0	0
Heritage assets	40	0	40	0	0	0
<b>At cost</b>						
Land	4,053	0	4,053	0	0	0
Buildings	401	3	398	8,388	242	8,146
Machinery, vehicles and plant	7,915	4,188	3,727	7,585	3,764	3,821
Furniture and office equipment	8,348	3,973	4,375	6,972	4,063	2,909
Library books	2,973	2,707	266	2,808	2,424	384
Heritage assets	1,284	0	1,284	52	12	40
Items under construction	1,981	0	1,981	4,805	0	4,805
<b>Total Operational Assets</b>	<b>113,390</b>	<b>12,429</b>	<b>100,961</b>	<b>105,349</b>	<b>12,645</b>	<b>92,704</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

	Cost or Valuation 2006 \$000	Accumulated depreciation/ amortisation 2006 \$000	Net Book Value 2006 \$000	Cost or Valuation 2005 \$000	Accumulated depreciation/ amortisation 2005 \$000	Net Book Value 2005 \$000
<b>Capitalised Finance Leased Assets</b>						
<b>At cost</b>						
Computers and Fitness Equipment at Cost	769	298	471	687	241	446
<b>Total Leased Assets</b>	<b>769</b>	<b>298</b>	<b>471</b>	<b>687</b>	<b>241</b>	<b>446</b>
<b>Forestry</b>						
At valuation	3,740	0	3,740	2,161	0	2,161
At cost	200	0	200	572	0	572
Items under Construction	4	0	4	0	0	0
<b>Total Forestry Assets</b>	<b>3,944</b>	<b>0</b>	<b>3,944</b>	<b>2,733</b>	<b>0</b>	<b>2,733</b>
<b>Total Council</b>	<b>931,871</b>	<b>20,841</b>	<b>911,030</b>	<b>903,166</b>	<b>13,978</b>	<b>889,188</b>
<b>Taupo Airport Authority</b>						
<b>At valuation</b>						
Airport Assets	2,945	538	2,407	3,045	460	2,585
<b>At cost</b>						
Airport Assets	2,056	364	1,692	1,909	339	1,570
Items under Construction	3	0	3	0	0	0
<b>Total Airport Assets</b>	<b>5,004</b>	<b>902</b>	<b>4,102</b>	<b>4,954</b>	<b>799</b>	<b>4,155</b>
<b>Data Capture Systems Ltd</b>						
<b>At cost</b>						
Office equipment	0	0	0	2	1	1
Development expenditure	135	135	0	135	68	67
<b>Total Data Capture Assets</b>	<b>135</b>	<b>135</b>	<b>0</b>	<b>137</b>	<b>69</b>	<b>68</b>
<b>Total Group</b>	<b>937,010</b>	<b>21,878</b>	<b>915,132</b>	<b>908,257</b>	<b>14,846</b>	<b>893,411</b>
<p><b>Infrastructural assets</b> - Council manages infrastructural assets in accordance with Asset Management Plans. These plans detail the level of service required, the current physical extent, condition and capacity of the network and the timing, extent and cost of work required to maintain and restore the network's defined capacity in future years.</p> <p><b>Restrictions</b> - Restricted assets cannot be disposed of because of legal or other restrictions.</p> <p><b>Fair Value</b> - Council consider the fair value of land and buildings to be the book value of these assets.</p>						

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>10 Properties intended for resale</b>				
Land	3,816	515	3,816	515
Buildings	0	0	0	0
Total Properties intended for Resale	3,816	515	3,816	515
<b>11 Accounts Payable</b>	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
Creditors	3,084	4,760	3,095	4,785
Deposits/Bonds/Provisions	2,683	935	2,683	935
Accruals - General	867	844	920	912
Accruals - Interest payable	26	10	26	10
Landfill aftercare provision	30	28	30	28
Income in Advance	1,099	1,325	1,118	1,351
Development Contribution Liability	2,456	0	2,456	0
Councillors' fees payable	24	23	24	23
Total Accounts Payable	10,269	7,925	10,352	8,044
<b>12 Employee Entitlements</b>	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
Accrued pay	254	38	254	38
Annual leave	1,236	1,121	1,252	1,132
Retirement gratuities & long service leave	777	687	777	687
Total Employee Entitlements	2,267	1,846	2,283	1,857
Made up of:				
Current	1,588	1,291	1,604	1,302
Non-current	679	555	679	555
Total Employee Entitlements	2,267	1,846	2,283	1,857

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>13 Public Debt</b>				
<b>(a) Public debt liability</b>				
<b>Current</b>				
Loans	10,115	10,673	10,332	10,686
Lease Liabilities	236	199	236	199
Total Current Public Debt	10,351	10,872	10,568	10,885
<b>Non-current</b>				
Loans	33,451	16,375	33,759	16,888
Lease Liabilities	283	294	283	294
Total Non-Current Public Debt	33,734	16,669	34,042	17,182
Total Public Debt	44,085	27,541	44,610	28,067
<b>(b) Security</b>	All loans are secured over the rates of the district or Council assets. New loans are secured by Deed of Charge in favour of the ANZ Banking Group (New Zealand) Limited.			
<b>(c) Repayment terms</b>	Council Actual 2006	Council Actual 2005	Group Actual 2006	Group Actual 2005
Payable no later than one year	10,351	10,872	10,568	10,873
Later than one, not later than two years	12,184	5,660	12,184	5,660
Later than two, not later than five years	19,539	9,760	19,847	10,285
Later than five years	2,011	1,249	2,011	1,249
Total	44,085	27,541	44,610	28,067
<b>(d) Interest rates</b>	Council Actual 2006	Council Actual 2005	Group Actual 2006	Group Actual 2005
Weighted average effective interest rates on borrowing's (current & non current) were:				
Loans	6.88%	6.96%	6.89%	6.92%
Lease Liabilities	14.42%	15.02%	14.42%	15.02%
Overall weighted average	7.31%	7.15%	7.31%	7.19%

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
<b>(e) Analysis of Finance Lease Liabilities</b>				
Payable no later than one year	268	228	268	228
Later than one, not later than two years	205	184	205	184
Later than two, not later than five years	118	155	118	155
Total including Future Finance Charges	591	567	591	567
Future Finance Charges	(72)	(74)	(72)	(74)
Recognised as a liability	519	493	519	493
Representing Lease Liabilities:				
Current	236	199	236	199
Non-current	283	294	283	294
Total	519	493	519	493
<b>14 Reconciliation of Net Surplus to Net Cash Inflow from Operating Activities</b>	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
Net surplus (deficit)	16,604	11,802	16,332	11,678
<i>Add (less) Non Cash Items:</i>				
Depreciation & amortisation	10,479	7,713	10,650	7,921
Vested Assets & first time recognition of assets	(8,791)	(6,692)	(8,791)	(6,692)
Unrealised (Gain)/Loss on equities	(3,707)	(550)	(3,707)	(550)
(Decrease) increase in doubtful debts	96	(74)	119	(74)
Total Non-Cash Items	(1,923)	397	(1,729)	605
<i>Add (less) Movements in Working Capital:</i>				
(Increase) decrease in accounts receivable	(3,483)	(2,883)	(3,200)	(3,334)
(Increase) decrease in inventories	(1)	(65)	(1)	(65)
Increase (decrease) in accounts payable and employee entitlements	2,765	(628)	2,734	(723)
Total Movements in Working Capital	(719)	(3,576)	(467)	(4,122)
<i>Add (less) item classified as investing activity</i>				
Net (Gain) Loss on sale / write-offs	(6,693)	1,113	(6,693)	1,113
Non-operating movement in accounts receivable	0	0	(292)	528
Decrease / (increase) in creditors for capital expenditure	0	(876)	0	(876)
Increase / (decrease) in debtors for capital revenue	3,566	0	3,566	0
Total Items Classified as Investing Activity	(3,127)	237	(3,419)	765
Per statement of cashflows	10,835	8,860	10,717	8,926

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## 15 Related Party Transactions

During 2005/2006 the following related party transactions occurred:

### **Taupo Airport Authority (see Note 8 for details of the nature of the relationship)**

Taupo Airport Authority operates its own bank account.

The balance of a loan provided by the Council to the Airport at 30 June 2006 was \$141,500 (2005: \$25,000)

The Airport paid the Council administration and management fees of \$35,361 (2005: \$37,389)

The Airport has accounts payable to Council as at 30 June 2006 of \$186,349 (2005: \$24,273)

#### *Bank Borrowing Arrangements:*

The Airport Authority's term liabilities include bank-sourced lending of \$308,017 borrowed by way of distinct drawdown in the name of Taupo District Council, but on-lent to the Authority. This borrowing is subject to a 5 year evergreen arrangement requiring no principal repayments for 5 years. It is subject to quarterly re-pricing with the cost of this borrowing ranging between 7.18% and 7.83% over the 2005/06 year. Interest expense on this borrowing is fully charged in the Authority's financial statements.

### **Data Capture Systems Limited (see Note 8 for details of the nature of the relationship between the related parties)**

The balance of a loan provided by the Council to Data Capture Systems Limited at 30 June 2006 was \$69,436 (2005 \$59,343). The interest rate on the loan balances varies according to current interest rates prevailing.

Data Capture Systems Limited has amounts payable to Council as at 30 June 2006 of \$54,494 (2005: \$33,483). Data Capture Systems Limited has accounts receivable from Council as at 30 June 2006 of \$100 (2005: \$100).

Data Capture Systems Limited is given accounting and secretarial support by Taupo District Council and all associated costs are absorbed by Council.

Data Capture Systems Limited has accounts receivable from Taupo Airport Authority as at 30 June 2006 of \$304 (2005: \$282).

#### *Bank Borrowing Arrangements:*

The Company's term liabilities include bank-sourced lending of \$218,657 borrowed by way of distinct drawdown in the name of Taupo District Council, but on-lent to the Company. This borrowing is subject to a 5 year evergreen arrangement requiring no principal repayments for 5 years. It is subject to quarterly re-pricing with the cost of this borrowing ranging between 7.23% and 7.83% over the 2005/06 year. Interest expense on this borrowing is fully charged in the Company's financial statements.

### **Lake Taupo Development Trust**

Of the seven trustees on the Lake Taupo Development Trust, three are Taupo District Council appointees.

The Lake Taupo Development Trust owns 100% of the Lake Taupo Development Company Ltd. Payments totalling \$190,000 (2005: \$260,300) were made by Council to the Company during the year ended 30 June 2006, for the delivery of Economic Development Services.

### **Waiora Community Trust Taupo Inc.**

Taupo District Council has one councillor as an observer / advisor to the Waiora Community Trust.

An \$111,500 (2005: \$91,500) grant was paid by Council to the Trust during the year ended 30 June 2006.

Of this \$71,500 (2005: \$71,500) was for reallocation to the community in accordance with Councils Grants Policy.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## Taupo Employment Support

Taupo District Council has one councillor as an observer/advisor to the Taupo Employment Support Trust. Payments of \$960 (2005: \$35,000) were made by Council to the Trust during the year ended 30 June 2006.

## Lake Taupo Arts Festival Trust

Taupo District Council has one councillor as an observer / advisor to the Lake Taupo Arts Festival Trust.

Grants of \$31,000 (2005: \$31,444) were made by Council to the Trust during the year ended 30 June 2006. Council's funding of the Trust is a contribution towards the running of the Bi-Annual Taupo Arts Festival. A further \$15,148 was paid to the Trust for merchandise purchases or for artwork sold on behalf of the Trust.

## Councillors

During the year Councillors and key management, as part of a normal customer relationship, were involved in minor transactions with the Council.

## 16 Financial Instruments - Council only

Council is risk adverse and seeks to minimise risk exposure from its treasury activities. Council has risk management policies and processes in place particularly with regard to risk exposures relating to interest rates and the concentration of credit risk.

Council has established a Treasury Management Policy specifying what transactions can be entered into. The policy does not allow any transactions that are speculative in nature to be entered into.

### Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could impact on the cost of borrowing or the return from an investment.

Note 8 provides information on investment interest rates and maturity profile.

Note 13 provides information on term loan interest rates and maturity profile.

Council's current policy enables it to hedge up to 100% of its financial investments and borrowings.

Council can hold up to 35% of its total debt with a floating rate.

At 30 June 2006 Council had the following interest rate risk management instruments in place:

### Synthetic Contracts Held

Instrument	Maturity Date	Interest Rate	Loan Cover \$,000	Fair Value \$,000
Interest Rate Swaps	30 Jun 2007	6.60%	2,500	16
	30 Dec 2007	6.48%	3,500	31
	30 Jun 2008	6.54%	6,000	54
	30 Dec 2008	6.74%	3,000	15
	30 Dec 2008	6.75%	5,000	23
	30 Dec 2009	6.45%	3,000	37
	30 Jun 2010	6.74%	7,000	19
	30 Dec 2012	6.72%	2,000	(2)
Total			32,000	193

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Council has exposure to currency fluctuation on its international equity investments (note 8). As at 30 June 2006 Council hedged 50% of this exposure.

## Credit risk

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

Financial instruments which potentially subject the Council to credit risk principally consist of bank balances, accounts receivable, all investments, and sports club and other guarantees.

The maximum exposures to credit risk for each class is the carrying amount in the statement of financial position.

The group reduces counterparty risk by spreading its investments over approved institutions.

## Fair Values

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties, in an arm's length transaction.

Other than disclosed below, the fair value of financial instruments is approximately equivalent to the carrying amount disclosed in the Statement of Financial Position.

The figure disclosed as the fair value of Council's Bank Bonds and Corporate Papers has been determined by Council's investment brokers using 30 June 2006 market yield rates.

	<b>Carrying amount 2006 \$000</b>	<b>Fair Value 2006 \$000</b>	<b>Carrying amount 2005 \$000</b>	<b>Fair Value 2005 \$000</b>
Equity Investments (note 8)	18,730	18,730	17,023	17,023
Bank Bonds and Corporate Papers (note 8)	23,180	23,433	21,053	23,564
Bank Deposits (note 8)	33,081	33,081	24,344	24,344

## 17 Chief Executive Officer's Remuneration - Council only

The Chief Executive Officer of the Taupo District Council appointed under Section 42 of the Local Government Act 2002 receives a salary of \$170,605 (2005: \$162,600).

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

<b>Additional Benefit</b>	<b>Cost during the financial year</b>	
	<b>2006</b>	<b>2005</b>
Vehicle (market value plus FBT)	15,506	15,506
Medical Insurance Subsidy	3,000	3,000
Superannuation Contribution	8,475	8,134
Subscriptions	500	500
Telephone Allowance	384	505

For the year to 30 June 2006, the total cost including fringe benefit tax to the Council of the remuneration package being received by the Chief Executive Officer is calculated at \$198,470 (2005: \$190,245).

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## Mayor and Elected Members

The following people held office as elected members of the Council's governing body during the reporting period.

The aggregate monetary remuneration to the 19 councillor's/community board members and the Mayor during the year totalled \$ 362,059 (2005: 20 councillors/community board members and the Mayor \$340,629) and is disaggregated and classified as follows:

Council / Community Board Member	Salary	Meeting Allowances	Total 2006	Total 2005
Stent, Clayton (Mayor)	67,136	0	67,136	65,448
Howard, Shamus	17,150	4,400	21,550	18,903
Pocock, Karen	0	0	0	4,213
Uvhagen, Kathryn	13,470	8,200	21,670	23,399
Trewavas, David	17,150	5,100	22,250	20,384
Hickling, Barry	13,470	6,400	19,870	13,347
McElwee, Christine	13,470	7,200	20,670	23,400
Campbell, Don	6,000	0	6,000	5,114
Welch, Andrew	17,150	7,100	24,250	20,401
Smallman, Arthur	13,470	6,100	19,570	18,178
Coulter, Ian	13,470	5,300	18,770	21,449
Sutcliffe, Peter	6,000	0	6,000	4,133
Ormsby, Donald	23,150	7,800	30,950	26,442
Gathergood, Ailsa	12,933	8,300	21,233	20,176
Keepa, Gary	13,470	4,000	17,470	16,848
McCarthy, Susan	6,000	0	6,000	5,114
Lockyer, Janis	6,000	0	6,000	5,114
Stewart, Margaret	6,000	0	6,000	5,114
Smallman, Mary	6,000	0	6,000	5,114
Blyth, Doreen	13,470	7,200	20,670	18,338
<b>Total Monetary Remuneration</b>	<b>\$284,959</b>	<b>\$77,100</b>	<b>\$362,059</b>	<b>\$340,629</b>

The monetary remuneration detailed above (salary and meeting allowances) is determined by the Council resolution within limits set by the Local Government Elected Members Determination in accordance with the provisions of Clause 6 Schedule 7 of the Local Government Act 2002. FBT of \$6,574 was paid to the IRD by Council for a vehicle supplied to the Mayor Clayton Stent.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

<b>18 Commitments</b>	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
Major contracts which Council was committed to:				
Wastewater	1,667	4,496	1,667	4,496
Stormwater	0	144	0	144
Water Supply	184	928	184	928
District Roding	2,039	1,127	2,039	1,127
Refuse	6,078	454	6,078	454
AC Baths	100	100	100	100
Property Purchase (conditional)	220	600	220	600
<b>Total Contract Commitments</b>	<b>10,288</b>	<b>7,849</b>	<b>10,288</b>	<b>7,849</b>
Non-cancellable operating leases:				
Payable no later than one year	254	246	261	248
Later than one, not later than two years	203	197	208	197
Later than two, not later than five years	230	223	230	223
<b>Total Commitments</b>	<b>10,975</b>	<b>8,515</b>	<b>10,987</b>	<b>8,517</b>
<b>19 Contingencies</b>			Current level of guarantee outstanding 2006	Amount of original guarantee
<b>Loan Guarantees - Council only</b>	Year of guarantee	Term in years		
The following Loan Guarantees have been given by Council:				
Great Lake (Taupo) Hockey Club Inc.	2005	5	30,000	40,000
Mount Tauhara Gymnastics Club Inc.	1996	7	13,657	27,000
Taupo Association Football Club	1992	25	37,487	53,000
Taupo Squash Rackets Club	2005	4	35,126	39,000
Totals for the year ended 30 June 2006			116,270	159,000
Totals for the year ended 30 June 2005			74,357	136,000
<b>Other Contingencies</b>				
<b>Taupo District Council</b>				
Scientific advice has been received regarding the Hipaua Geothermal Landslide risk near Waihi at the southern end of Lake Taupo. In the event of a landslide any property damage and/or loss of life could potentially give rise to claim(s) against Council, currently unquantifiable (2005: Same contingency disclosure made).				
A land subsidence issue has been identified in the Taupo urban area, with the potential for property damage and therefore raising liability issues. Taupo District Council does not believe it has any direct potential liability, specifically related to the causes of the subsidence. The issue of contingent liability however, currently unquantifiable, is under review (2005: Same contingency disclosure made).				
Council controls and has brought to account certain reserve lands throughout the District which will return to Iwi ownership in the event that they are no longer required for reserve purposes. Council does not envisage that this situation will ever eventuate (2005: Same disclosure of this contingency).				

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

There are 10 unresolved potential legal claims against Council as at 30 June 2006. All seek compensation related to resource consents, property damage [water] and one claim relevant to the Public Works Act that the claimants believe are attributable to council operations. Council's maximum financial exposure for these claims is \$380,000 (2005: 7 claims - \$613,000). However, Council will vigorously defend all claims and expects its actual liability to be for a much lesser amount, if found to be liable at all.

Council may be subject to claims relating to weathertightness building defects. As at the date of this report the Weathertight Home Resolution Service (WHRS) is investigating five claims relating to properties in the Taupo District. These may or may not result in formal claims against Council. One further weathertightness claim has been lodged directly with Council. The quantum of this claim is currently unknown, although any liability under this claim will be met by our insurers, subject to our usual excess requirements (2005: 4 WHRS claims plus one lodged directly).

## **Other Contingencies**

### **Group**

There are no contingent liabilities relating to the subsidiary entities (2005: nil).

### **Contingent Asset**

#### **Group**

In July 2005 Taupo District Council and the Airport Sub-Committee were advised by the Secretary of Transport of a change in policy direction in regard to Crown funding of joint venture airport operating losses.

We understand that the policy change means that the Crown will meet its share of the operating losses of joint venture airports such as Taupo. We have been advised that the policy change is applicable to both past and future losses.

This policy change should result in the Taupo Airport Authority obtaining an equity injection from the Crown in recognition of any operating losses incurred over the past few years which fit the Crown's policy criteria.

The quantum, form, and timing of this compensating payment is currently being determined, hence its disclosure as a contingent asset.

## **20 Segmental Reporting**

Taupo District Council provides local authority services to ratepayers and other residents of the Taupo, Kaingaroa, Mangakino/Pouakani, and Turangi/Tongariro wards.

## **21 Landfill Aftercare - Council Only**

Taupo District Council gained resource consent in September 1998 to operate the Broadlands Road Landfill. The Council has responsibility under the resource consent to provide ongoing maintenance and monitoring of the landfill after the site is closed. There are closure and post-closure responsibilities such as the following:

### *Closure responsibilities:*

- final application and vegetation
- drainage control features
- facilities for leachate collection and monitoring
- facilities for water quality monitoring
- facilities for monitoring and recovery of gas

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

*Post-closure responsibilities:*

- treatment and monitoring of leachate
- ground water and surface monitoring
- gas monitoring and recovery
- implementation of remedial measures such as needed for cover and control systems
- ongoing site maintenance for drainage systems, final cover and vegetation

The management of the landfill will influence the timing of recognition of some liabilities, for example, the current landfill consists of a series of new cells being progressively opened as old ones are completed. Each of these require additional capital expenditure and the recalculation of the landfill aftercare provision.

Capacity of the Site

- the remaining capacity of the site is approximately 595,000 cubic metres (refuse, cleanfill and cover).
- the estimated remaining life is 24 years.

Estimates of the remaining life have been made by Council's engineers based on historical volume information and early results from the new Solid Waste Management Strategy.

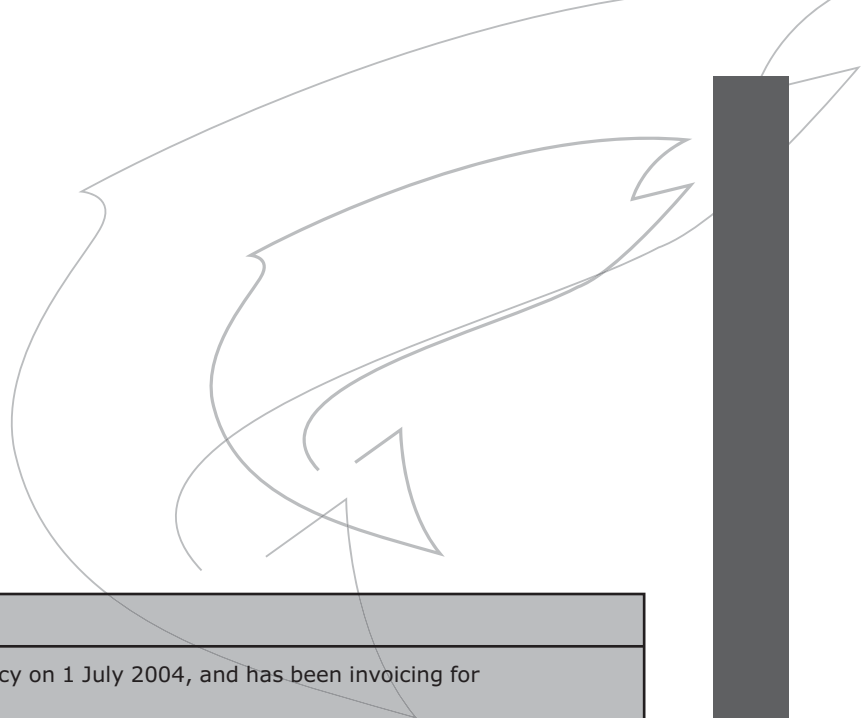
The cash outflows for landfill post-closure are expected to occur between 2030 and 2035. The long term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated taking into account existing technology and is discounted using a discount rate of 7.75%.

<b>Landfill Liability - Council Only</b>	Council Actual 2006 \$000	Council Actual 2005 \$000		
Landfill liability	30	28		
<i>Movements during year:</i>				
Opening balance	28	26		
Adjustment for adoption of FRS-15	0	0		
Additional provisions	2	2		
Provision applied to meet costs	0	0		
Unused provision reversed	0	0		
Discounting changes	0	0		
Closing balance	30	28		
<b>22 Minority Interest</b>	Council Actual 2006 \$000	Council Actual 2005 \$000	Group Actual 2006 \$000	Group Actual 2005 \$000
Opening balance	0	0	1,339	1,436
Minority interest in Taupo Airport Authority deficit	0	0	(141)	(97)
Closing balance	0	0	1,198	1,339

Council has a 50% interest in the joint venture, Taupo Airport Authority. As Council has effective control of the Authority in terms of FRS-37 it fully consolidates the activities of the Authority and records the minority interest in accordance with the provisions of FRS-37.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006



## 23 Development Contributions

Council introduced a development contributions policy on 1 July 2004, and has been invoicing for these contributions since that date.

These contributions were recognised in the 2004/05 year using the 'revenue method', which recognised the revenue as it was invoiced. The 2006/16 Long Term Council Community Plan accounts for this revenue stream using the 'liability method'. Under this method it is only when the contributions are applied to the appropriate capital projects that they are recognised as revenue, as it is only at this point that there is certainty that they will not have to be refunded to the contributor. Accordingly, a change has been made to the accounting policy for the 2005/06 year to introduce the 'liability method' accounting policy for this year.

In the year 2004/05, a significant value of development contributions were invoiced. These were recognised as revenue that year. However, due to the change in accounting policy, a \$2,456,000 expense adjustment has been necessitated in the current 2005/06 year.

Details of the adjustment are provided below:

Total development contribution invoices in 2004/05 and 2005/06 years

Interest earned on these balances while "unspent"

Group  
Actual  
2006  
\$000

3,205

67

3,272

Less development contribution projects funded in 2004/05

Less development contribution projects funded in 2005/06 - this is the development contribution revenue recognised in this financial report

Unapplied development contribution monies at 30 June 2006 - transferred to liability

(84)

(732)

2,456

Revenue reversed in 2005/06 year - initially recognised under 'revenue method', reversed to apply 'liability method'

Expense adjustment relating to revenues recognised in prior year

25

2,431

Unapplied development contribution monies at 30 June 2006 - transferred to liability

2,456

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## 24 Major Budget Variations - Council only

Explanations for major variations from the Council estimate figures in the 2005/06 annual plan are as follows:

### **Statement of Financial Performance**

Council's actual surplus of \$16.6m is \$9.2m greater than the \$7.3m budgeted. The major variations are due to:

- Revenue from activities being \$6.4m higher than budgeted. The major factor in this is the recognition of a gain on sale from the Botanical Heights subdivision project (\$7.1m). Originally the section sales were anticipated to be completed in the 2004/05 year, and the gain on sale was budgeted for that year. Delays in the timing of the completion of the project and issue of titles, together with a situation of section sales being slower than expected, have resulted in a mismatch in the budget versus actual timing of the recognition of these revenues. This gain is offset by some shortfalls in activity revenue items
- Unbudgeted infrastructure vested in council of \$4.3m, this gain being offset however by interest and dividend income being \$1.0m below budget
- An unbudgeted \$3.7m write up of international equities to reflect fair value increases from capital growth and exchange rate movements
- An unbudgeted \$4.4m first time recognition of assets being heritage assets at the Taupo Museum and certain items of park furniture, never valued or accounted for previously
- A \$2.4m unbudgeted expensing of unapplied development contributions, an adjustment required to move council's accounting treatment for this revenue stream from a 'revenue' approach to a 'liability' approach. This change is described in fuller detail in note 23 to these financial statements
- A \$5.6m overrun in activity expenditure with much of this being due to increases in the level of depreciation expense following the 30 June 2005 revaluations of infrastructure and the 1 July 2005 revaluations of buildings (\$2m), increases in loan interest expense (\$1m), unbudgeted legal costs related to council's geothermal advocacy activity (\$1m), and unbudgeted losses on disposal of assets (\$0.7m)

### **Statement of Movements in Equity**

The major variations are due to:

- The opening equity position being \$388.4m higher than anticipated in the budget, primarily the result of 30 June 2005 revaluations of land and infrastructure
- Unbudgeted increases in revaluation reserves due to 1 July 2005 revaluations of building, forestry, park furniture, and heritage assets
- The net surplus for the year being \$9.2m higher than budgeted (see explanation under 'Statement of Financial Performance' heading above)

### **Statement of Financial Position**

The major variations are due to:

- Accounts receivable (current and non-current combined) being \$7.9m higher than budgeted. A significant factor in this variance is a number of the Botanical Heights section sales being made on-builders terms which allow settlement to be delayed for a number of months.
- Properties intended for sale being \$3.1m higher than budgeted. Council has three significant subdivision projects in progress at balance date, classed as properties intended for sale. In the case of two of those subdivisions, the sections have been pre-sold off plan, but the sales cannot be recognised until titles are issued.
- Investments being \$28.7m higher, and public debt \$15.3m higher than budgeted. Factors in this variance are the \$3.7m of capital growth in the international equities portfolio contributing to an increase in investment levels. Many of the other movements in investments and public debt relate to the funding of capital expenditure, which has been at lower than budgeted levels. The higher than expected investment levels, even accounting for a shift of funding source to public debt, can be partly explained by the delays in capital expenditure.
- Property, plant and equipment being \$383m higher than budgeted, primarily the result of the budgeted figure not taking into account the results of the 30 June 2005 and 1 July 2005 asset revaluations.
- Accounts payable being \$4.3m higher than budgeted, \$1.3m of this being Lake Protection monies being held in trust for the entity that is being created.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## 25 Statement of Financial Involvement in CCO's and other Companies

The Council has 100% control over the following entities:

Data Capture Systems Limited (previously Taupo Information Centre)

Lake Taupo Tourism Advisory Board (no financial involvement)

Taupo District Economic Development Advisory Board (no financial involvement)

Destination Lake Taupo Limited (currently a non-trading shelf company for name protection purposes only)

The Council also has a joint venture interest in the Taupo Airport Authority and a minority shareholding in Local Authority Shared Services Limited.

Details of financial interests in these entities are detailed in notes 8 and 15. Advances to subsidiaries and joint ventures are: \$69,436 advance to Data Capture Systems Limited (2005: \$59,343) and \$141,500 advance to Taupo Airport Authority (2005: \$25,000), both on normal commercial terms.

The cost to each of the above enterprises for the financial interests, finance or financial assistance of the Council is as follows:

	<b>Dividends 2006 \$000</b>	<b>Interest 2006 \$000</b>	<b>Total 2006 \$000</b>	<b>Dividends 2005 \$000</b>	<b>Interest 2005 \$000</b>	<b>Total 2005 \$000</b>
<b>Subsidiary / Investee Company</b>						
Data Capture Systems Limited	0	4	4	0	4	4
Local Authority Shared Services	0	0	0	0	0	0
<b>Joint Venture</b>						
Taupo Airport Authority	0	8	8	0	2	2
<b>Total Cost</b>	0	12	12	0	6	6

The provision of financial assistance by Taupo District Council to these entities is through loans and share capital.

## 26 Post Balance Date Events

### Group

#### **Data Capture Systems Limited**

The Board of Directors of Data Capture Systems Limited resolved in June 2006 that the company should cease trading as soon as practicable in the 2006/07 year.

In view of the level of debt that the company had, a request was made to Taupo District Council for recapitalisation of the company to a level sufficient to meet the company's obligations. Resolutions were passed by the Company (on 28 July 2006) and Taupo District Council (on 2 August 2006), providing for the issue of a further 50 ordinary shares to Taupo District Council at a total issue price of \$356,000. The share issue was subscribed and settled on 15 August 2006 and on that same day the Company repaid all of its loan advances.

With these transactions and through other steps taken by the Company, subsequent to balance date, it has achieved the cessation of trading and orderly settlement of its obligations.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## 27 Budget Restatement

The budget figures stated in both the Managing Growth cost of service statement and the statement of financial performance have been restated to correct the accounting treatment associated with the Botanical Heights subdivision development. The LTCCP budget included \$4.082m of Botanical Heights section sales revenue and \$4.082m of subdivision development expenditure as operational items. This treatment did not comply with generally accepted accounting practice which would require the development expenditure to be treated as capital expenditure, and only the profit on sale of the sections (not the total realised prices) to be treated as revenue. The actuals have been prepared correctly, and the budgets restated by reducing both the revenue and expenditure items by \$4.082m to ensure correct treatment of these items and presentation in a manner that is comparable.

The budgeted "*Funded By*" figures as stated in the cost of service statements in this financial report have been split to separately disclose the funding of operating expenditure and capital expenditure. The numbers as stated need to be combined to agree to the Annual Plan which did not split the funding between these two types of expenditure.

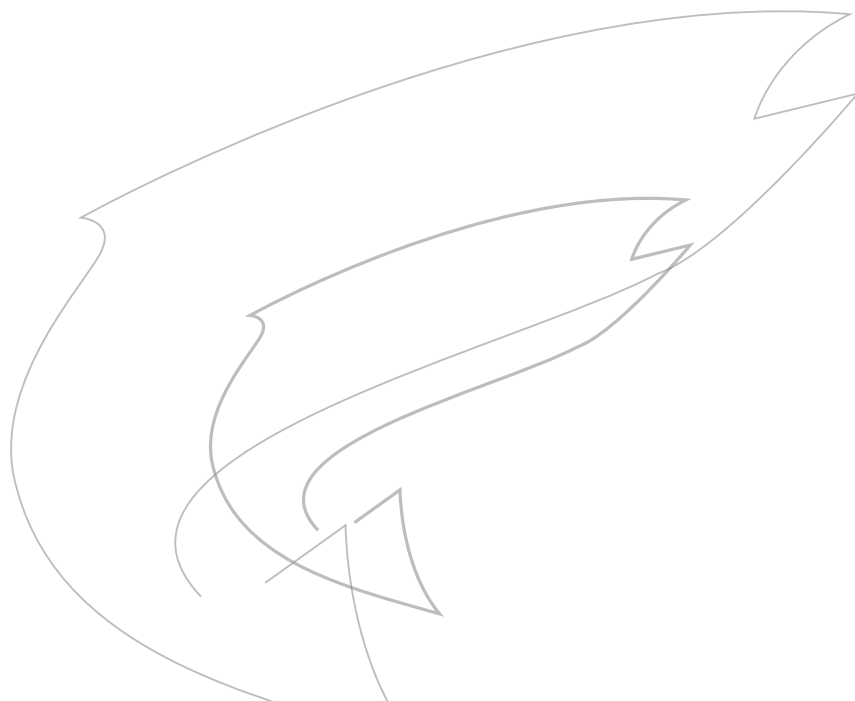
## 28 Establishment of New Council Entities

Council is currently working through the establishment of a new Council Controlled Organisation:

### **A Council Controlled Organisation (CCO) to administer a public fund to protect Lake Taupo**

Taupo District Council and Environment Waikato, in conjunction with central government, are proposing to establish a CCO for managing public funds targeted for reducing the levels of nitrogen entering Lake Taupo. After considering a range of different structures, the funding partners propose to set up a CCO under the Local Government Act 2002. Trustees have been appointed although the Trust documentation is still being finalised.

The proposal to establish the Trust was consulted on using the special consultative procedure set out in the Local Government Act 2002, in conjunction with the adoption of the 2005/06 Annual Plan.



# COUNCIL CONTROLLED ORGANISATIONS



Taupo District Council has a controlling interest in five Council Controlled Organisations:

Taupo Airport Authority  
Data Capture Systems Limited  
Lake Taupo Tourism Advisory Board  
Taupo District Economic Development Advisory Board  
Destination Lake Taupo Limited

In addition, Taupo District Council, together with other local authorities in the Waikato region has a shareholding interest in Local Authority Shared Services Limited.

This section of the annual report reports the performance of these entities in the 2005/06 year.

## **TAUPO AIRPORT AUTHORITY:**

### BACKGROUND

The Taupo District Council and the Crown - represented by the Ministry of Transport, own the Taupo Airport Authority (TAA) equally.

TAA is a Council Controlled Organisation (CCO) for the purposes of the Local Government Act 2002 and of the other legislation under which the TAA operates.

TAA is managed, under agreement with the Crown, by the Taupo District Council. The governance of the Airport operations is provided by a Sub-Committee of Council while future governance options are considered. The Sub-Committee has two members, His Worship the Mayor Clayton Stent and Councillor Andrew Welch.

Auditors - Audit New Zealand  
Bankers - Bank of New Zealand  
Solicitors - Le Pine & Co, Taupo

### SIGNIFICANT POLICIES AND OBJECTIVES

The objective of the Taupo Airport Authority is to operate a successful business providing for the safe, appropriate and efficient air transport needs of the Taupo district.

The Authority provided for the safe, appropriate and efficient air transport needs of the Taupo district during the year. In meeting this objective the Authority operated at a loss.

## NATURE AND SCOPE OF ACTIVITIES

The Taupo Airport Authority is to provide an airport infrastructure to meet the needs of the Taupo district, together with leasehold land for airport related development.

The nature and scope of the activities provided by the Authority during the year are consistent with this intention.

## PERFORMANCE<sup>1</sup>

Performance Targets	Results	Achievement
The sealed runway will be open for air traffic 365 days of the year unless prevented by adverse weather or unexpected events.	The sealed runway was open for air traffic each day.	Achieved
The grass runway will be open for air traffic 365 days of the year unless prevented by adverse weather or unexpected events, or when the sealed runway is in use.	The grass runway was open for air traffic each day.	Achieved
A Unicom information service will be provided 365 days of the year.	A Unicom service was provided every day.	Achieved
The terminal building will be open at least one hour before arrival times and half an hour after flight departure.	The terminal building was open as specified.	Achieved
Three new lease sites will be created as demand requires.	The creation of any new lease sites is subject to the master plan update now in progress. Options on three vacant lease sites on the grass runway were not taken up and the sites remain vacant.	Not achieved

Financial Performance for the year ended 30 June 2006	Actual 2006 \$	Budget 2006 \$
Total revenue	496,114	560,664
Total expenditure	774,135	694,152
Net Surplus(deficit) before taxation	(278,021)	(133,488)
Taxation	-	-
Net Surplus(deficit) after taxation	(278,021)	(133,488)
The actual deficit is higher than budgeted due to operating expenditure being approximately \$80,000 higher than expected, and anticipated increases in revenue not being realised.		

### (FOOTNOTES)

<sup>1</sup> The Taupo Airport Authority did not adopt a statement of intent for the 2005/06 year. The performance measures and budgets reported are those that were reported in prior year annual reports. They are also very similar to the measures included in the 2006/07 statement of intent, which was prepared and approved in compliance with the requirements of the Act.

## DATA CAPTURE SYSTEMS LIMITED:

### BACKGROUND

Taupo District Council is the 100% owner of Data Capture Systems Limited (DCSL).

DCSL is a Council Controlled Organisation (CCO) for the purposes of the Local Government Act 2002 and of the other legislation under which DCSL operates. As it has an objective to operate profitably, DCSL is a Council Controlled Trading Organisation (CCTO).

DCSL is governed by a Board of Directors comprising three members.

- Mr C Stent - Chairman
- Mr L Fernando
- Mr A Vane

Registered Office:

Staples Rodway,  
C/o WEL Building,  
PO Box 9159,  
Hamilton.

Auditors - Audit New Zealand

Bankers - Bank of New Zealand

Solicitors - Le Pine & Co, Taupo

### SIGNIFICANT POLICIES AND OBJECTIVES

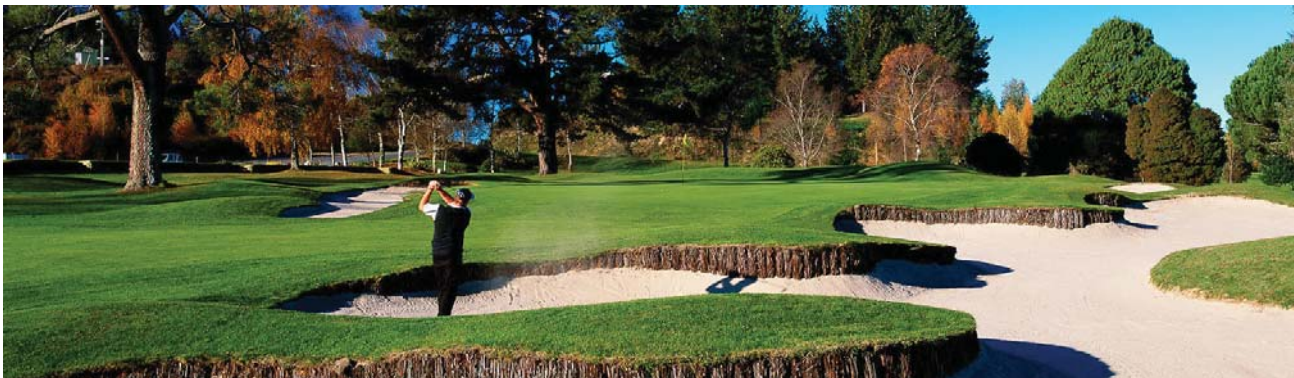
The principal objective of the Company is to operate as a successful business.

The company has not been actively marketing its accounting billing product this year. The focus has been on exiting the business through seeking a buyer for the commercial rights to the intellectual property. Towards the end of the year plans were progressed to ensure an orderly wind-down of the company's activity. The company made an operating loss in the 2005/06 year.

### NATURE AND SCOPE OF ACTIVITIES

The intended principal activity of Data Capture Systems Limited is the ongoing development, marketing and sale of its accounting billing system.

As explained above, the company has not been actively developing or marketing its product this year. Instead the focus has been on exiting the business and ensuring an orderly wind-down of the company's activity.



## PERFORMANCE<sup>2</sup>

Performance Targets	Results	Achievement
Data logging systems will be sold during the year generating gross sales income of \$305,000 in 2005/06.	The target was not met.	Not achieved.

Financial Performance for the year ended 30 June 2006	Actual 2006 \$	Budget 2006 \$
Revenue	15,980	305,000
Expenditure	150,889	171,000
Net surplus (deficit) before taxation	(134,909)	134,000
Less Taxation Expense	0	0
Net surplus (deficit) after taxation	(134,909)	134,000
Ratio of Shareholders Funds to Total Assets	-3170%	-73%

Sales are significantly less than budgeted. The shareholders funds to total assets ratio is also significantly impacted by the operating results of the last four years.

### LAKE TAUPO TOURISM ADVISORY BOARD:

#### BACKGROUND

The Lake Taupo Tourism Advisory Board (LTTAB) is an Advisory Board established by the Taupo District Council.

LTTAB is a Council Controlled Organisation (CCO) for the purposes of the Local Government Act 2002.

LTTAB's constitution provides for a 10-person board with five of these independent members and the other five representatives of various organisations.

Auditors - Audit New Zealand

#### SIGNIFICANT POLICIES AND OBJECTIVES

The objectives of LTTAB are:

- To develop a vision and strategic pathway for the Lake Taupo District as one of New Zealand's premier visitor destinations
- To provide advice on tourism in the district including:
  - Marketing direction and operations of Destination Lake Taupo (DLT)
  - Destination Management
- To ensure alignment and consistency of approach with other organisations involved in economic development and with other strategy documents prepared by the community
- To advise Council on tourism expenditure (short and long term)

These objectives have been met.

#### (FOOTNOTES)

<sup>2</sup> Data Capture Systems Limited did not adopt a statement of intent for the 2005/06 year. The performance measure and budgets reported are as set in the 2003/04 statement of intent. A 2006/07 statement of intent was prepared and approved in compliance with the requirements of the Act.

## NATURE AND SCOPE OF ACTIVITIES

The intended activity of the Lake Taupo Tourism Advisory Board is to meet the objectives set out above. The nature and scope of the activities provided by the Board during the year are consistent with this intention.

## PERFORMANCE

Performance Targets	Results	Achievement
Inclusion of a tourism vision statement and strategic pathway in Council's 2006 Long Term Community Plan (LTCCP).	The LTCCP incorporates the 10 Year Visitor Industry Strategy, which has a vision and strategic pathway.	Completed and presented to stakeholders.
Successful negotiation of revenue and financing policy for the tourism industry, as part of the LTCCP.	Detailed budgets were prepared and presented to Council.	Initial funding request for additional \$300,000 was reduced to \$140,000.
Completion of a Draft 10 Year Tourism Strategic Plan by mid Oct 2005 for presentation to Council.	A Forum was held in May 2005 and a working group of stakeholders held several meetings to develop the strategy.	The Draft Strategy was presented to Council in October 2005. The 10 year Visitor Industry Strategy is complete and is now being actioned through DLT's business plan.
Provide information within timeframes as detailed in Section 6 of the SOI.	The Board has prepared a detailed strategy and budgets and presented to Council. Monthly reports have been prepared and made available to the public. Board minutes have been recorded but not made public through the website due to IT issues. These reports will be published once the website update is complete in September.	All performance targets have been met except publication of Board minutes. These will be made available within two weeks of each Board meeting from September onwards.
<p>Any other performance targets that arise from the 10 Year Visitor Industry Strategic Plan.</p> <ul style="list-style-type: none"> <li>• Visitor nights spent in the Taupo District increased by an average 2.5% per year.</li> <li>• Visitor expenditure in the Taupo District increased by an average 5.2% per year.</li> <li>• Conference attendee days increased by an average 3% per year.</li> <li>• At least 50% of funding used in marketing campaigns is leveraged from the private sector.</li> <li>• 90% of respondents to annual tourism stakeholder survey are satisfied with DLT's performance.</li> </ul>	DLT has actioned all strategies from its 05/06 Annual Plan. Tourism in New Zealand is experiencing a downturn with the international market flattening out and the domestic market reducing.	<p>DLT will not achieve the average 2.5% growth in visitor nights or the 5.2% growth in visitor expenditure due to the overall tourism picture within New Zealand at present.</p> <p>Ministry of Tourism forecasts have Lake Taupo Visitor nights increasing by 1.8% annually. Visitor expenditure should show annual growth of 4.2 %.</p> <p>Conference attendee days have increased 3.5%.</p> <p>Approximately 55% of funding used in marketing campaigns is leveraged from the private sector.</p> <p>Our annual stakeholder survey will be conducted in October.</p>

As the Board has no assets or liabilities and no financial activity there is no financial performance to report.

## TAUPO DISTRICT ECONOMIC DEVELOPMENT ADVISORY BOARD:

### BACKGROUND

The Taupo District Economic Development Advisory Board (TDEDAB) is an Advisory Board established by the Taupo District Council.

TDEDAB is a Council Controlled Organisation (CCO) for the purposes of the Local Government Act 2002.

TDEDAB's constitution provides for an eight-person board with four of these independent members and the other four representatives of various organisations.

Auditors - Audit New Zealand

### SIGNIFICANT POLICIES AND OBJECTIVES

To provide leadership through economic development respecting the values of people, place and the environment to improve the standard of living and quality of life of our people.

The Board is newly established. It is too early to assess the achievement of this objective.

### NATURE AND SCOPE OF ACTIVITIES

The intended primary responsibility of the Board is to provide advice to Taupo District Council on Council's role in economic development.

Other roles include:

- At its discretion promote, or carry out any activities that advance the economic wellbeing of the Taupo District as defined in its vision.
- Review and update the Taupo District Economic Development Strategy.
- Recommend to Council a ten-year budget for achieving the economic development outcomes of the Board in so far as these relate to Council's activities, for inclusion in the LTCCP
- Liaise regularly with and encourage the alignment of the strategies of other organisations involved in economic development.
- Provide general advice to Council on economic development.
- Provide funding allocation advice to Council.

The Board is newly established. It is too early to assess the consistency of its activities with this intention.

### PERFORMANCE

This entity was established in April 2006. It has existed for only three months of the 2005/06 year, and it has no Statement of Intent for this period. The focus of its activity over the three month period has been the determination of its on-going role and the development of a Statement of Intent for the 2006/07 year.

There are no accountability measures to report for this period, and as the Board has no assets or liabilities and no financial activity, there is no financial performance to report.

## DESTINATION LAKE TAUPO LIMITED:

### BACKGROUND

Taupo District Council is the 100% owner of Destination Lake Taupo Limited (DLTL).

DLTL is a non-trading company that is held only for name-protection purposes. It has no revenue or expenditure, assets or liabilities. Council has passed a resolution under section 7 of the Local Government Act 2002 making DLTL an exempt organisation, and hence removing it from the definition and requirements pertaining to a council-controlled organisation.

Auditors - Audit New Zealand



## LOCAL AUTHORITY SHARED SERVICES LIMITED:

### BACKGROUND

Taupo District Council has a one-thirteenth ordinary shareholding in the Local Authority Shared Services Limited company.

Taupo district council also holds service shares in the Waikato Regional Aerial Photography Services (21,652 shares) and the Valuation Data Hosting Services (1 share) activities of the company. These service shareholdings give no rights to a share in the distribution of surplus assets, nor do they provide voting rights.

Auditors - Audit New Zealand

### SIGNIFICANT POLICIES AND OBJECTIVES

The company has been set up to provide Waikato Region local authorities with a vehicle to procure shared services and provide them to local authorities.

The services that will be initiated under the umbrella of this company will only be promulgated if the business case shows that they provide benefit to the share holders in terms of improved level of service or reduced cost.

### NATURE AND SCOPE OF ACTIVITIES

The principle nature and scope of the activity for the company is to:

- Provide shared services to all local authorities within the Waikato Region. The company also intends to sell processes and systems as set up under individual agreements to local authorities outside the Region.
- Pursue all opportunities to procure shared services that may benefit the community, either through enhanced services or reduced cost.
- Give consideration to developing shared service products which a majority of local authorities of the Region believe are of value. The objective is to provide the most effective access to Regional information that may be of value to the community using modern technology and processes.
- Explore all possible avenues to provide these services itself or contract them from outside parties, each depending on a rigorous business case.



PERFORMANCE

Performance Targets	Results / Achievement
<p>Initial performance targets are shown as best estimates and will be fully reviewed year by year to ensure that the products offered continue to provide state-of-the-art cost effective processes for shareholders.</p>	<p>The performance targets have been reviewed and changed in line with comments received from the shareholders and after debate by the Directors. With the intent of keeping the operational costs to a minimum the new performance targets have been reduced in number and focus on financial management and customer satisfaction.</p>
<p>All products to be fully costed, including development costs, and recovered from revenue over a maximum of five years.</p>	<p>The full costs of SVDS are still being determined. These include development costs of the initial application, data load processes and refinement of business processes. The medium to long term operational costs are being determined based on the short term operational experience.</p> <p>No new products have been set up as a business unit under LASS during this period. The Directors require a full business case to be presented for their endorsement prior to acceptance. All such business plans will include a full cost breakdown of development and operational costs and will identify how these costs will be funded.</p>
<p>The company will enter into long-term contracts of at least three years with each participating party for any product development to ensure costs of development are spread equitably between the partners and over a realistic time frame.</p>	<p>Contracts are presently being negotiated between LASS and various service providers including Environment Waikato. Environment Waikato is currently providing company management and support services.</p>
<p>The participating parties will guarantee to provide capital and cash requirements of the organisation and provide guarantees to the company based on prevailing interest rates in the market to cover the cost of new product development.</p>	<p>The cost of development of products by a business unit will be financed by those councils that participate in that business unit.</p> <p>The ongoing development of the SVDS is being financed by councils through a service levy. Expenditure in excess of budget will be funded by a loan at prevailing interest rates. At the end of June 2006, this funding had been provided by Environment Waikato and Hamilton City Council. It is expected that this funding will be repaid from future revenue.</p>
<p>Positive cash flow will be maintained so that equity ratio is maintained at least 40%.</p>	<p>Cashflow for LASS is currently being provided by Environment Waikato. While it was anticipated that revenue would come from the sale of data held in the SVDS, or by sale of the software, this has not eventuated during this financial year. Debt / Equity ratio at 30 June 2006 is 18% which is significantly less than the allowable maximum.</p>
<p>Customers will be surveyed annually to ensure that there is at least 90% satisfaction with the services provided.</p>	<p>As no sales were made during this period, no customers were surveyed.</p>

# INVESTMENT FUND

## TEL/TGL INVESTMENT FUND

On 5 September 1995, Taupo District Council sold its investments in Taupo Electricity Ltd and Taupo Generation Ltd [TEL/TGL] providing a net investment fund of \$61.3 million.

The policies regarding the use of the capital and investment income are included in the Treasury Management Policy. Amongst other requirements the policies stipulate:

- the investment income earned on the inflation proofed sale proceeds be available for distribution each year, with the distribution determined during the Annual Plan process. Income available for distribution in 2005/2006 net of the amount required to inflation proof the fund was \$1.045 million [budget \$3.392 million].
- a fluctuation reserve be set up to provide income in any year where income received from the fund does not meet the amount required for distribution by the Annual Plan. The reserve was set up at \$4.5 million and currently has a negative balance of \$-1.8 million.

During 2002 Council resolved to use \$10,000,000 TEL funds to repay Taupo/Kaingaroa and Mangakino/Pouakani general rate debt.

The value of the fund at 30 June 2006 was \$57,246,263. The cumulating sale proceeds plus inflation proofing, fluctuation reserve and unrealised losses are shown below:

	\$
Initial investment September 1995	61,273,557
Inflation proofing	14,867,291
Less: establishment of fluctuation reserve	(4,500,000)
Balance of investment at 30 June 2006	71,640,848
Fluctuation reserve at 30 June 2006	(1,825,468)
Unrealised gains/(losses) on equities 30 June 2006	(2,569,117)
Repayment of public debt (general rate)	(10,000,000)
Value of fund at 30 June 2006	\$57,246,263