FINANCIAL REPORTS
Ngā Pūrongo Pūtea

REPORTING AS REQUIRED BY THE LOCAL GOVERNMENT (FINANCIAL REPORTING AND PRUDENCE) REGULATIONS 2014

LOCAL GOVERNMENT ACT 2002 - Financial Disclosures

The Local Government Act 2002 sets out a number of disclosure requirements for Councils over and above the generally accepted accounting practice (GAAP) information. New disclosures were added in legislative changes and additions to the Local Government (Financial Reporting and Prudence) Regulations 2014.

Network Assets

Schedule 6 of the Regulations requires the Council to add to the information currently disclosed under GAAP, to enable separate disclosure for each of the five network infrastructures (water supply; sewerage; stormwater; roads and footpaths; and flood protection and control works). In addition, water supply and sewerage are to be separated between treatment plant and facilities and other assets. Also, any asset additions are to be split between assets constructed by the Council and those transfered to (or vested in) the Council.

Most of the detail required to comply with these regulations can be found in Notes 12 and 13 to the Financial Statements. Additional information on the replacement values of network assets is disclosed below.

Optimised Replacement Value of network assets is as follows:

as at 30 June 2018 **$ millions**	Optimised Replacement Values	Optimised Depreciated Replacement Values
Roads & footpaths (includes bridges & culverts, excludes land)	642.6	515.1
Water treatment plant & facilities - Masterton	21.0	8.6
Water reticulation (including rural supplies)	63.3	28.9
Sewerage treatment plant & facilities - Masterton	36.1	32.7
Sewerage reticulation - Masterton	92.5	30.7
Sewerage systems - rural*	10.6	8.6
Stormwater assets	27.9	15.7
Flood protection & control works	5.6	4.0
	$ 899.5	$ 644.3

Notes: excludes land values associated with the assets.
Infrastructural assets were revalued as at 30 June 2017
* Rural sewerage systems at Riversdale Beach, Castlepoint and Tinui have not been split into treatment and reticulation components, but the value split is estimated at 29/71 (treatment/retic).

Rating Base Information

The Local Government Act (Amendment No.3) includes a clause 30A in Schedule 10. The information below satisfies the disclosure requirements of that clause and adds comparative information for the current year, value of rates income and average rates.

30 June 2018

Number of rating units within the District	12,373
Capital Value of rating units as at 30 June 2018	$5,844.0 million
Land Value of rating units as at 30 June 2018	$3,015.6 million
Rates income for 2018/19 (per 2018-28 LTP)	$29,924,231 (excl GST & capital contribution rates)
Average rates income per rating unit	$2,418.50 (excl GST)

30 June 2017

Number of rating units within the District	12,325
Capital Value of rating units as at 30 June 2017	$4,729.8 million
Land Value of rating units as at 30 June 2017	$2,473.1 million
Rates income for 2017/18 (per 2017-18 Annual Plan)	$28,237,425 (excl GST & capital contribution rates)
Average rates income per rating unit	$2,291 (excl GST)

Insurance information

Local Government Act (Amendment No.3) clause 31A in Schedule 10 requires disclosure of information relating to the insurance of assets.

The cost of the Canterbury earthquakes has highlighted the importance of good risk management and the part insurance and/or risk financing plays when it comes to rebuilding public assets. In many instances, Councils can provide services in the future only through the continuing use of their assets. Public entities have had to think carefully about how they are managing their risks and how they are using the insurance and risk finance options available to them. Set out below is detail of the Council's insurance of assets, under the prescribed three headings.

Insurance of Assets - for the year ending 30 June 2018

Asset values from Statement of Financial Position		Carrying value 1 July 2017	**All values in $000's**
Property, plant and equipment		85,650	
Infrastructural assets		650,042	
Forestry		533	
Investment properties		2,145	
		738,370	
Less:			
Land component of operational assets		49,669	
Land under roads & road formation		354,789	
		404,458	
Net Non-Financial Assets (excluding land)	**$**	**333,912**	
Insurance Arrangements 2017/18			
Material damage cover for buildings, plant, contents	$	123,669	Cover spread over 5 insurers, $5k excess, covers 228 buildings or assets, of which 45 are insured for indemnity value only, the balance for full reinstatement value, contents cover totals $5.0 million, earthquake claims are subject to higher deductibles. The policy is shared with CDC & SWDC.
Motor vehicle insurance cover - value estimate	$	679	Insured for market value, carrying value assumed here.
Forestry (standing timber) cover	$	492	Cover for trees declared value for fire, windstorm value $17.5k, deductible of 1.5% of declared value
Risk Sharing Arrangements			
Cover for infrastructural assets as a member of LAPP (underground assets)	$	222,298	This is the replacement value (ORV) of assets listed on the LAPP Fund schedule for 2017/18. LAPP cover equated to 40% ie $88,919k, with a deductible of $600k. LAPP factor up the ORV for additional costs of recovery and had reinsurance to cover up to $100m through the course of 2017/18. The Government's disaster recovery plan commits to paying 60% of the costs of recovering from a disaster, with a deductible for Masterton DC of $355k.
Cover for roading assets (subsidised)	$	252,287	This is the replacement value of all roading assets that would be subject to NZTA subsidies, including bridges and culverts, but excluding land and formation value. The NZTA subsidy on flood and other roading network damage is 57%, but a sliding scale would see that increase depending on the severity of the event. Council's share of the recovery costs on these assets would be met from existing budgets, the flood damage fund, bridge depn funds, general capital funds and raising new debt (if required).
Assets Self-insured			
Airport runway & taxiways	$	4,054	Masterton airport's runway and taxiways are not covered by insurance. The risk of damage is low and it is expected that in the event of an earthquake causing damage, the cost of repair would be done from Council's general reserves.
Non-subsidised roading (footpaths, CBD paving, street furniture, berms and street trees)	$	29,694	This is the replacement value of roading assets which are not subject to NZTA sudsidy. The risk of damage to these assets is low and other than depreciation funds held, no specific insurance cover is provided for.

The Council has no insurances relating to financial or intangible assets

Benchmarks - per LG (Financial Reporting and Prudence) Regulations 2014

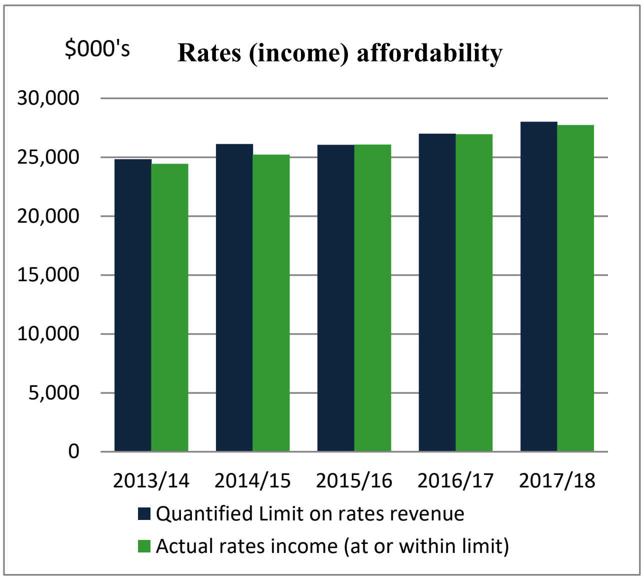
Rates affordability benchmarks

The Council meets this benchmark if:

1. The actual rates revenue equals or is less than each quantified limit on rates; and
2. Actual rates increases equal or are less than each quantified limit on rates increases.

Rates (income) affordability

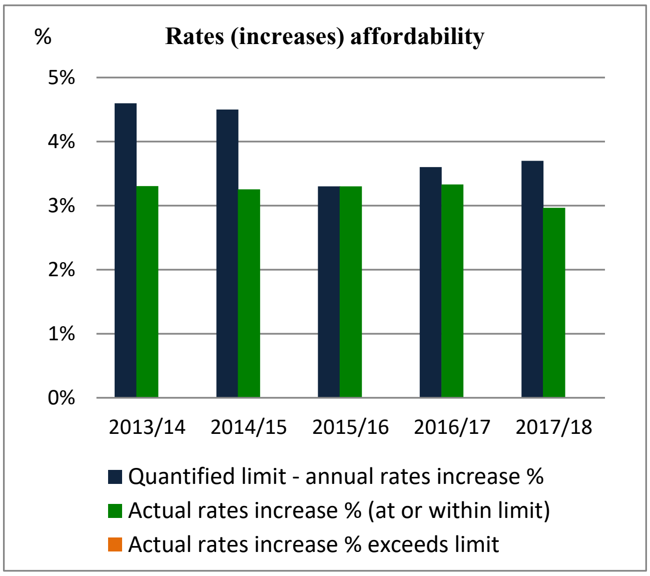
This graph compares the Council's actual revenue from rates, with the rates revenue limit forecast in the Long-Term Plan



The rates income signalled in the 2012 and 2015 LTPs were modified in subsequent Annual Plans.

Rates (increases) affordability

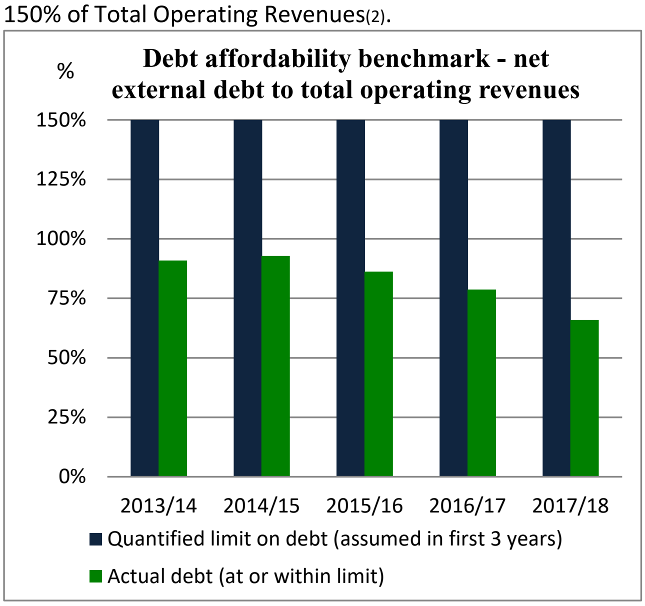
This graph compares the Council's actual rates increases with a quantified limit on rates increases included in the 2012 & 2015 financial strategy and LTP. The limit is that rates increases will be within the LGCI increase, plus 1% and excluding growth.



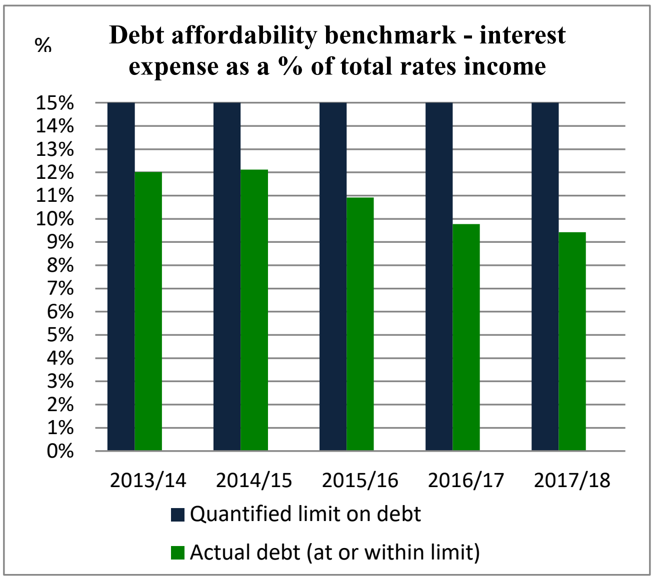
Debt affordability benchmarks

The Council meets the debt affordability benchmarks if its actual borrowing and borrowing costs are within the Council's quantified limits for borrowing, as set in the LTP.

The graph below compares the Council's actual borrowing with the quantified limit: Net External Debt(1) not to exceed 150% of Total Operating Revenues(2).



The graph below compares the Council's actual borrowing cost with the quantified limit: Interest expense on external debt not to exceed 15% of total rates income.



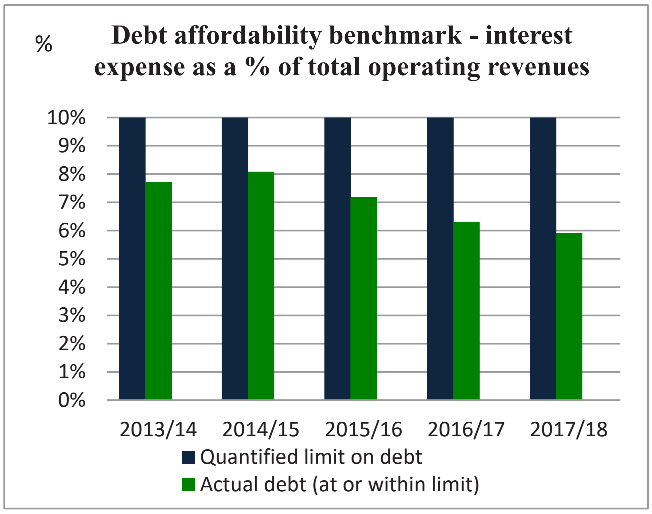
(1) Net External Debt is defined as gross external debt (aggregate borrowings of the council, including any capitalised finance leases and financial guarantees provided to third parties) less any financial assets (excluding trade and other receivables).

(2) Operating Revenue is as per the Statement of Comprehensive Revenue & Expense - all earnings including financial contributions, but excluding vested assets.

Debt affordability benchmarks (continued)

The graph to the right compares the Council's actual borrowing cost with the quantified limit: Interest expense on external debt not to exceed 10% of total operating revenues

(1) Operating revenue is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue but excluding vested assets.



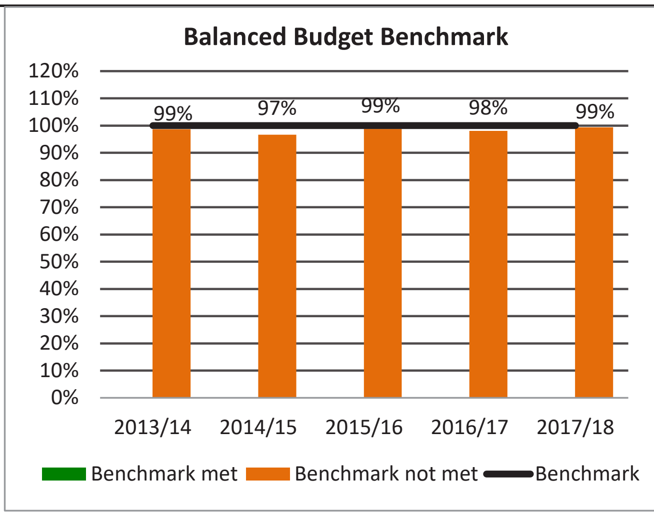
Balanced budget benchmark

The graph below shows the Council's operating revenue as a proportion of operating expenses. The Council meets this benchmark if its revenue equals or is greater than its operating expenses.

As per the regulations, Operating Revenue definition excludes financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment. Operating Expenses excludes losses on derivative financial instruments and any losses on revaluation of property, plant, or equipment.

Notes:

Operating expenses include the losses from writing down the residual values of assets that have been renewed. These write-downs are not budgeted for or funded, hence, using the above definition, a small deficit results each year.



Essential services benchmark

The graph below to the right shows the Council's capital expenditure on network services as a proportion of depreciation on network services. The Council meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on those network services.

Notes:

Essential services are: roads and footpaths, water supplies, sewerage systems and stormwater systems.

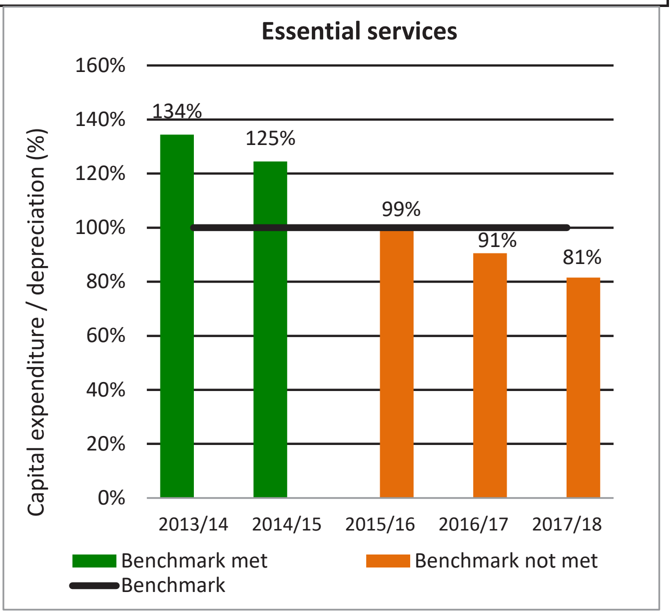
Capital expenditure on the Homebush wastewater plant has influenced the result in 2013 - 2015.

2017/18 capital and renewals expenditure on Roading of $4.2m was short of the depreciation of $4.7m. Some renewals work could not be completed by year end due to lack of capacity of contractors.

Capital and renewals expenditure on water assets was $1.25m which a little more than the depreciation of $1.23m.

With the Homebush wastewater plant only completed in 2015 and the Riversdale wastewater sytem built in 2012, the renewals expenditure needs will be lower than the depreciation booked against those assets for many years, making this benchmark difficult to achieve.

The wastewater reticulation network had $1.0m of renewals expenditure compared to depreciation of $1.25m for 17/18.



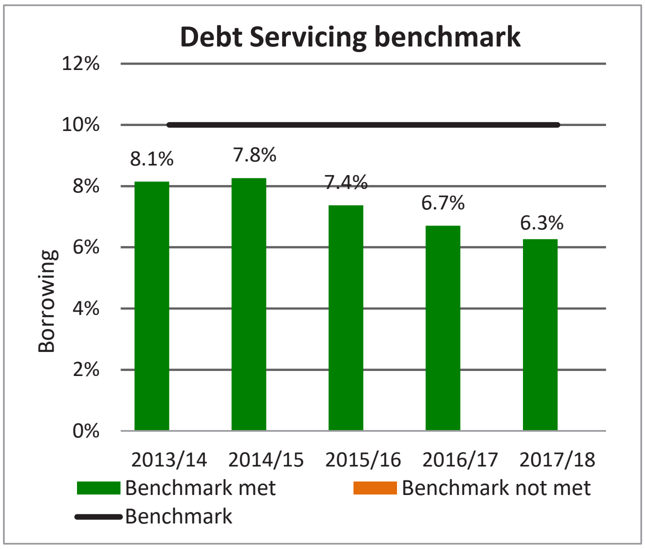
Debt servicing benchmark

The graph on the right shows the Council's borrowing costs as a proportion of operating revenue, as required by the regulations. The benchmark to stay within is 10%.

This measure differs from the Council's debt affordability benchmark as Operating Revenue definition excludes financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment.

Notes:

The decline in the last two years has been the result of a lower level of capital expenditure funded by debt and declining interest rates.



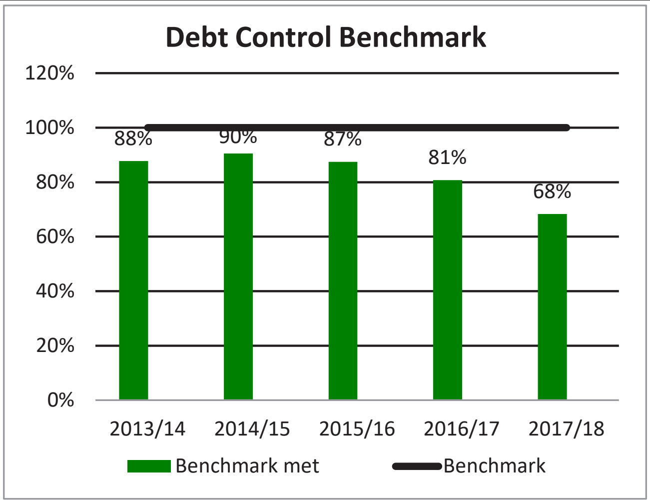
Debt control benchmark

The following graph displays the Council's actual net debt as a proportion of planned net debt. The Council meets the debt control benchmark if its actual net debt equals or is less than its planned net debt.

In this statement, net debt means financial liabilities less financial assets (excluding trade and other receivables).

Notes:

Delays in capital projects which were planned to be funded by debt have resulted in actual net debt being consistently below the level planned.

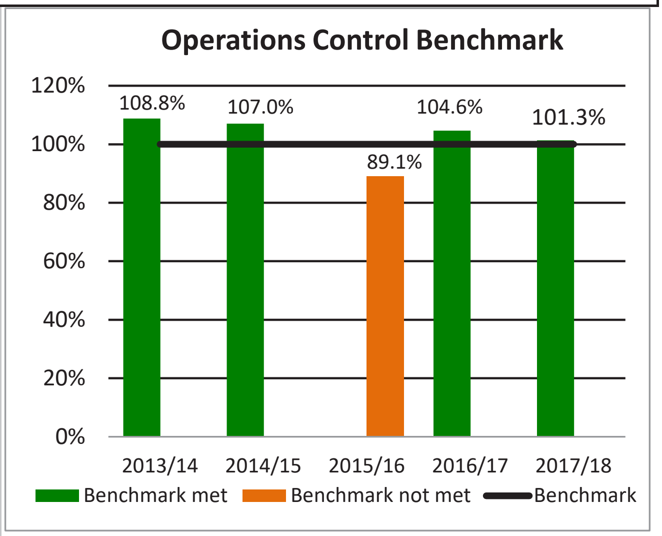


Operations control benchmark

The graph below shows the Council's actual net cash flow from operations as a proportion of its planned net cash flow from operations. The Council meets the benchmark when actual net cash flow from operations equals or is greater than its planned net cash flow from operations.

Notes:

The Council's cashflow from operation's has been consistently better than planned over the last 5 years, except for 2015/16 when a receivable at year end from NZTA of some $1.3m meant net cash from operating was adversely affected.



FUNDING IMPACT STATEMENTS

As per the Local Government Act 2002 (Schedule 10, sec 26) the Council is required to produce an audited funding impact statement for the Council and for each group of activities comparing the information in the required format with the Long-Term Plan (LTP). Set out below and on the following 11 pages are the funding impact statements in the required format. Both Plan, LTP and prior year comparatives are shown where required.

COUNCIL	2016-17 Annual Plan $000s	2016-17 Actual $000s	2017-18 Annual Plan $000s		2017-18 Actual $000s
Sources of Operating Funding					
General rates, uniform charges, rates penalties*	180	206	200		200
Targeted rates (excluding water by meter)*	26,785	26,875	27,632		27,642
Subsidies and grants (for operating)	2,299	2,061	2,444		2,481
Fees & charges (incl metered water)	6,729	7,254	7,191		7,659
Interest & dividends	736	423	774		765
Other receipts (incl petrol tax & fines)	66	294	290		312
Total operating funding (A)	36,795	37,113	38,531		39,059
Applications of Operating Funding					
Payments to staff and suppliers	25,837	25,798	27,234		27,328
Finance costs	2,852	2,633	2,879		2,615
Other operating funding applications	-	-	-		-
Total applications of operating funding (B)	28,688	28,431	30,113		29,943
Surplus/(Deficit) of operating funding (A-B)	**8,106**	**8,682**	**8,418**		**9,116**
Sources of Capital Funding					
Subsidies & grants for capital expenditure	2,126	2,061	2,546		2,485
Development & financial contributions	364	555	549		2,185
Increase /(decrease) in debt	5,152	6,750	6,112		(7,028)
Gross proceeds from sale of assets	-	67	-		496
Lump sum contributions	-	17	-		4,625
Other dedicated capital funding	204	-	204		-
Total sources of capital funding (C)	7,845	9,449	9,411		2,764
Application of Capital Funding					
Capital expenditure:					
- to meet additional demand	-	-	180		4,566
- to improve level of service	4,269	4,587	9,129	*1	2,244
- to replace existing assets	13,495	7,212	11,476	*1	7,163
Increase/(decrease) in reserves	(2,186)	2,037	(3,345)		3,094
Increase/(decrease) in investments	373	4,296	388		(5,187)
Total application of capital funding (D)	15,951	18,132	17,829		11,880
Surplus / (deficit) of capital funding (C-D)	**(8,106)**	**(8,682)**	**(8,418)**		**(9,116)**
Funding balance (A-B)+(C-D)	0	0	0		(0)

* Rates revenue at the Council level is net of rates charged on Council properties.

*1 Plan restated due to classification errors

FUNDING IMPACT STATEMENT	2016-17	2016-17	2017-18	2017-18
	Annual Plan	Actual	Annual Plan	Actual
Reconciliation	$000s	$000s	$000s	$000s
- between FIS & Financial Statements				
Operating Revenue - per FIS	36,795	37,113	38,531	39,059
Capital Funding (revenue)- per FIS	2,693	2,632	3,299	9,296
	39,488	39,745	41,830	48,355
Other Gains	32	2,000	37	456
	39,520	41,745	41,867	48,812
Operating Revenue - per Stmt of Comp. Rev. & Exp.	39,521	41,745	41,867	48,812
Less Other Gains/ (Losses) on Sale of Assets	(32)	(2,000)	(37)	(456)
	39,488	39,745	41,830	48,355
	-	-	-	-
Operating Expenditure - per FIS	28,689	28,431	30,113	29,943
Add depreciation	10,936	11,006	11,407	11,275
	39,625	39,437	41,520	41,218
Other Losses	0	597	0	1,116
Operating Expenditure - per Stmt of Comp. Rev. & Exp.	39,625	40,034	41,520	42,334
	-	-	-	-
Capital Expenditure - per FIS	17,764	11,798	20,786	13,973
Capital Expenditure - per Cost of Service Statements	17,764	11,798	20,786	13,973
	-	-	-	-
Transfer to/(from) Reserves - per COSS	(7,113)	(2,899)	(8,500)	(2,560)
Depreciation transferred to reserves - per COSS	4,927	4,869	5,155	5,157
Proceeds from sale of assets - tsf to reserves	-	67	-	496
	(2,187)	2,037	(3,345)	3,094
Increase/(Decrease) in Reserves - per FIS	(2,187)	2,037	(3,345)	3,094
	-	-	-	-

DEPRECIATION by Group	2016-17	2016-17	2017-18	2017-18
	Annual Plan	Actual	Annual Plan	Actual
	$000s	$000s	$000s	$000s
Groups of Activities				
Roading	4,624	4,551	4,874	4,748
Water Services	1,243	1,278	1,334	1,333
Sewerage Services	2,352	2,386	2,498	2,472
Stormwater	273	277	292	294
Solid Waste Services	96	98	99	99
Community Facilities/Activities	2,156	2,204	2,087	2,094
Regulatory Services	106	112	106	115
Governance	9	1	1	2
Internal Functions	77	99	116	118
	10,936	$11,006	$11,407	$11,275

FUNDING IMPACT STATEMENT

As required by the Local Government (Financial Reporting and Prudence) Regulations 2014

ROADING

	LTP 2016/17 $000s		LTP 2017/18 $000s		Actual 2017/18 $000s	
Sources of Operating Funding						
General rates, uniform charges, rates penalties	-		-		-	
Targeted rates	5,705		5,843		5,854	
Subsidies and grants (for operating)	2,132		2,163		2,276	
Fees & charges	91		92		107	
Internal charges & overheads recovered	-		-		-	
Interest & dividends	-		-		-	
Other receipts (incl petrol tax & fines)	172		174		206	
Total operating funding (A)	8,100		8,273		8,442	
Applications of Operating Funding						
Payments to staff and suppliers	4,565		4,631		4,372	
Finance costs	31		41		6	
Internal charges and overheads applied	963		1,011		1,508	
Other operating funding applications	-		-		-	
Total applications of operating funding (B)	5,559		5,683		5,886	
Surplus/(Deficit) of operating funding (A-B)	**2,541**		**2,590**		**2,557**	
Sources of Capital Funding						
Subsidies & grants for capital expenditure	2,233		2,111		2,460	
Development & financial contributions	76		77		475	
Increase /(decrease) in debt	154		153		(4)	
Gross proceeds from sale of assets	-		-		-	
Lump sum contributions	-		-		2,698	
Other dedicated capital funding	-		-		-	
Total sources of capital funding (C)	2,463		2,341		5,629	
Application of Capital Funding						
Capital expenditure:						
- to meet additional demand	606				2,698	
- to improve level of service	1,046		1,631		1,370	
- to replace existing assets	3,459		3,474		2,820	
Increase/(decrease) in reserves	(107)	*	(174)	*	1,234	*
Increase/(decrease) in investments	-		-		64	
Total application of capital funding (D)	5,004		4,931		8,186	
Surplus / (deficit) of capital funding (C-D)	**(2,541)**		**(2,590)**		**(2,557)**	
Funding balance (A-B)+(C-D)	-		-		-	

* The Plan allowed for depreciation funded into reserves as part of the change in investments

FUNDING IMPACT STATEMENT

As required by the Local Government (Financial Reporting and Prudence) Regulations 2014

WATER SERVICES

	LTP 2016/17 $000s		LTP 2017/18 $000s		Actual 2017/18 $000s	
Sources of Operating Funding						
General rates, uniform charges, rates penalties	-		-		-	
Targeted rates (excl water by meter)	3,234		3,377		3,086	
Subsidies and grants (for operating)	-		-		-	
Fees & charges (incl metered water)	313		325		362	
Internal charges & overheads recovered	81		83		134	
Interest & dividends	11		11		13	
Other receipts (incl petrol tax & fines)	-		-		-	
Total operating funding (A)	3,638		3,795		3,596	

*Disclosure of the General and Targeted Rates from 2014/15 financial statements are restated to align with definitions within the Local Government (Rating) Act 2002

	LTP 2016/17 $000s		LTP 2017/18 $000s		Actual 2017/18 $000s	
Applications of Operating Funding						
Payments to staff and suppliers	1,488		1,522		1,477	
Finance costs	252		365		123	
Internal charges and overheads applied	549		582		669	
Other operating funding applications	-		-		-	
Total applications of operating funding (B)	2,289		2,469		2,269	
Surplus/(Deficit) of operating funding (A-B)	**1,349**		**1,326**		**1,327**	
Sources of Capital Funding						
Subsidies & grants for capital expenditure	-		-		-	
Development & financial contributions	4		4		19	
Increase /(decrease) in debt	1,770		2,157		(77)	
Gross proceeds from sale of assets	-		-		-	
Lump sum contributions	-		-		454	
Other operating funding applications	-		-		-	
Total sources of capital funding (C)	1,774		2,161		397	
Application of Capital Funding						
Capital expenditure:						
- to meet additional demand	-		-		444	
- to improve level of service	-		6		-	
- to replace existing assets	2,928		3,239		1,254	
Increase/(decrease) in reserves	196	*	242	*	290	*
Increase/(decrease) in investments	-		-		(264)	
Total application of capital funding (D)	3,124		3,487		1,723	
Surplus / (deficit) of capital funding (C-D)	**(1,349)**		**(1,326)**		**(1,327)**	
Funding balance (A-B)+(C-D)	-		-		-	

* The Plan allowed for depreciation funded into reserves as part of the change in investments.

FUNDING IMPACT STATEMENT

As required by the Local Government (Financial Reporting and Prudence) Regulations 2014

SEWERAGE SERVICES

	LTP 2016/17 $000s	LTP 2017/18 $000s	Actual 2017/18 $000s
Sources of Operating Funding			
General rates, uniform charges, rates penalties	-	-	-
Targeted rates	6,894	7,157	6,773
Subsidies and grants (for operating)	-	-	-
Fees & charges	499	522	387
Internal charges & overheads recovered	5	5	9
Interest & dividends	-	-	-
Other receipts (incl petrol tax & fines)	-	-	-
Total operating funding (A)	7,398	7,684	7,169
Applications of Operating Funding			
Payments to staff and suppliers	1,334	1,339	1,241
Finance costs	2,751	2,817	2,128
Internal charges and overheads applied	1,060	1,111	1,298
Other operating funding applications	-	-	-
Total applications of operating funding (B)	5,145	5,267	4,667
Surplus/(Deficit) of operating funding (A-B)	**2,253**	**2,417**	**2,502**
Sources of Capital Funding			
Subsidies & grants for capital expenditure	-	-	-
Development & financial contributions	117	122	81
Increase /(decrease) in debt	337	(1,199)	(6,550)
Gross proceeds from sale of assets	-	-	18
Lump sum contributions	-	-	668
Other operating funding applications	-	-	-
Total sources of capital funding (C)	454	(1,077)	(5,783)
Application of Capital Funding			
Capital expenditure:			
- to meet additional demand	-	-	630
- to improve level of service	-	-	-
- to replace existing assets	2,805	1,433	1,231
Increase/(decrease) in reserves	(98) *	(93) *	(128) *
Increase/(decrease) in investments	-	-	(5,014)
Total application of capital funding (D)	**2,707**	**1,340**	**(3,281)**
Surplus / (deficit) of capital funding (C-D)	**(2,253)**	**(2,417)**	**(2,502)**
Funding balance (A-B)+(C-D)	-	-	-

* The Plan allowed for depreciation funded into reserves as part of the change in investments.

FUNDING IMPACT STATEMENT

As required by the Local Government (Financial Reporting and Prudence) Regulations 2014

STORMWATER SERVICES

	LTP 2016/17 $000s	LTP 2017/18 $000s	Actual 2017/18 $000s
Sources of Operating Funding			
General rates, uniform charges, rates penalties	-	-	-
Targeted rates	548	626	526
Subsidies and grants (for operating)	-	-	-
Fees & charges	-	-	-
Internal charges & overheads recovered	-	-	-
Interest & dividends	-	-	-
Other receipts (incl petrol tax & fines)	-	-	-
Total operating funding (A)	548	626	526
Applications of Operating Funding			
Payments to staff and suppliers	190	251	102
Finance costs	49	41	32
Internal charges and overheads applied	170	176	168
Other operating funding applications	-	-	0
Total applications of operating funding (B)	409	468	302
Surplus/(Deficit) of operating funding (A-B)	**139**	**158**	**224**
Sources of Capital Funding			
Subsidies & grants for capital expenditure	-	-	-
Development & financial contributions	-	-	-
Increase /(decrease) in debt	(141)	384	(151)
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	433
Other operating funding applications	-	-	-
Total sources of capital funding (C)	(141)	384	282
Application of Capital Funding			
Capital expenditure:			
- to meet additional demand	-	-	433
- to improve level of service	-	-	-
- to replace existing assets	156	749	115
Increase/(decrease) in reserves	(158) *	(207) *	(98) *
Increase/(decrease) in investments	-	-	55
Total application of capital funding (D)	(2)	542	506
Surplus / (deficit) of capital funding (C-D)	**(139)**	**(158)**	**(224)**
Funding balance (A-B)+(C-D)	-	-	-

* The Plan allowed for depreciation funded into reserves as part of the change in investments.

FUNDING IMPACT STATEMENT

As required by the Local Government (Financial Reporting and Prudence) Regulations 2014

SOLID WASTE SERVICES

	LTP 2016/17 $000s	LTP 2017/18 $000s	Actual 2017/18 $000s
Sources of Operating Funding			
General rates, uniform charges, rates penalties	-	-	-
Targeted rates	1,032	1,059	1,016
Subsidies and grants (for operating)	77	79	95
Fees & charges	2,514	2,577	2,990
Internal charges & overheads recovered	207	213	164
Interest & dividends	-	-	-
Other receipts (incl petrol tax & fines)	-	-	-
Total operating funding (A)	3,829	3,928	4,266
Applications of Operating Funding			
Payments to staff and suppliers	3,126	3,191	3,298
Finance costs	97	95	74
Internal charges and overheads applied	534	555	619
Other operating funding applications	-	-	-
Total applications of operating funding (B)	3,758	3,841	3,992
Surplus/(Deficit) of operating funding (A-B)	**72**	**87**	**274**
Sources of Capital Funding			
Subsidies & grants for capital expenditure	-	-	-
Development & financial contributions	-	-	-
Increase /(decrease) in debt	(95)	(101)	(64)
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	12
Other operating funding applications	-	-	-
Total sources of capital funding (C)	(95)	(101)	(52)
Application of Capital Funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve level of service	51	252	-
- to replace existing assets	-	211	16
Increase/(decrease) in reserves	(75) *	(477) *	142 *
Increase/(decrease) in investments	-	-	64
Total application of capital funding (D)	(24)	(14)	221
Surplus / (deficit) of capital funding (C-D)	**(72)**	**(87)**	**(274)**
Funding balance (A-B)+(C-D)	-	-	-

* The Plan allowed for depreciation funded into reserves as part of the change in investments.

FUNDING IMPACT STATEMENT

As required by the Local Government (Financial Reporting and Prudence) Regulations 2014

COMMUNITY FACILITIES / ACTIVITIES

	LTP 2016/17 $000s	LTP 2017/18 $000s	Actual 2017/18 $000s
Sources of Operating Funding			
General rates, uniform charges, rates penalties	-	-	-
Targeted rates	7,987	8,226	8,828
Subsidies and grants (for operating)	96	73	93
Fees & charges	1,456	1,654	1,588
Internal charges & overheads recovered	300	308	480
Interest & dividends	-	-	-
Other receipts (incl petrol tax & fines)	-	-	-
Total operating funding (A)	9,839	10,261	10,989
Applications of Operating Funding			
Payments to staff and suppliers	6,756	6,980	7,876
Finance costs	160	239	245
Internal charges and overheads applied	1,365	1,435	1,915
Other operating funding applications	-	-	-
Total applications of operating funding (B)	8,281	8,654	10,037
Surplus/(Deficit) of operating funding (A-B)	**1,558**	**1,607**	**953**
Sources of Capital Funding			
Subsidies & grants for capital expenditure	-	-	25
Development & financial contributions	-	-	-
Increase /(decrease) in debt	1,168	2,658	(183)
Gross proceeds from sale of assets	-	-	478
Lump sum contributions	-	-	361
Other operating funding applications	-	-	-
Total sources of capital funding (C)	1,168	2,658	682
Application of Capital Funding			
Capital expenditure:			
- to meet additional demand	-	-	361
- to improve level of service	1,731	3,180	860
- to replace existing assets	1,214	685	1,538
Increase/(decrease) in reserves	(219) *	400 *	(969) *
Increase/(decrease) in investments	-	-	(155)
Total application of capital funding (D)	2,725	4,265	1,634
Surplus / (deficit) of capital funding (C-D)	**(1,558)**	**(1,607)**	**(953)**
Funding balance (A-B)+(C-D)	-	-	-

* The Plan allowed for depreciation funded into reserves as part of the change in investments.

FUNDING IMPACT STATEMENT

As required by the Local Government (Financial Reporting and Prudence) Regulations 2014

REGULATORY SERVICES

	LTP 2016/17 $000s		LTP 2017/18 $000s		Actual 2017/18 $000s	
Sources of Operating Funding						
General rates, uniform charges, rates penalties	-		-		-	
Targeted rates	1,708		1,822		1,690	
Subsidies and grants (for operating)	-		-		17	
Fees & charges	1,445		1,478		1,938	
Internal charges & overheads recovered	448		486		454	
Interest & dividends	2		2		2	
Other receipts (incl petrol tax & fines)	97		100		106	
Total operating funding (A)	3,700		3,888		4,208	
Applications of Operating Funding						
Payments to staff and suppliers	2,505		2,620		2,605	
Finance costs	-		-		-	
Internal charges and overheads applied	993		1,054		1,049	
Other operating funding applications	-		-		-	
Total applications of operating funding (B)	3,498		3,674		3,655	
Surplus/(Deficit) of operating funding (A-B)	**201**		**214**		**553**	
Sources of Capital Funding						
Subsidies & grants for capital expenditure	-		-		-	
Development & financial contributions	464		322		1,610	
Increase /(decrease) in debt	-		-		-	
Gross proceeds from sale of assets	-		-		-	
Lump sum contributions	-		-		-	
Other operating funding applications	-		-		-	
Total sources of capital funding (C)	464		322		1,610	
Application of Capital Funding						
Capital expenditure:						
- to meet additional demand	-		-		-	
- to improve level of service	-		-		9	
- to replace existing assets	114		98		107	
Increase/(decrease) in reserves	551	*	438	*	1,935	*
Increase/(decrease) in investments	-		-		112	
Total application of capital funding (D)	665		536		2,163	
Surplus / (deficit) of capital funding (C-D)	**(201)**		**(214)**		**(553)**	
Funding balance (A-B)+(C-D)	-		-		-	

* The Plan allowed for depreciation funded into reserves as part of the change in investments.

FUNDING IMPACT STATEMENT

As required by the Local Government (Financial Reporting and Prudence) Regulations 2014

GOVERNANCE

	LTP 2016/17 $000s	LTP 2017/18 $000s	Actual 2017/18 $000s
Sources of Operating Funding			
General rates, uniform charges, rates penalties	-	-	-
Targeted rates	554	570	633
Subsidies and grants (for operating)	-	-	-
Fees & charges	-	-	-
Internal charges & overheads recovered	370	380	456
Interest & dividends	-	-	-
Other receipts (incl petrol tax & fines)	-	-	-
Total operating funding (A)	924	950	1,089
Applications of Operating Funding			
Payments to staff and suppliers	680	637	671
Finance costs	-	-	-
Internal charges and overheads applied	280	294	441
Other operating funding applications	-	-	-
Total applications of operating funding (B)	960	931	1,112
Surplus/(Deficit) of operating funding (A-B)	**(37)**	**19**	**(22)**
Sources of Capital Funding			
Subsidies & grants for capital expenditure	-	-	-
Development & financial contributions	-	-	-
Increase /(decrease) in debt	-	-	-
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Other operating funding applications	-	-	-
Total sources of capital funding (C)	-	-	-
Application of Capital Funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve level of service	-	-	-
- to replace existing assets	-	-	-
Increase/(decrease) in reserves	(37)	19	29
Increase/(decrease) in investments			(51)
Total application of capital funding (D)	(37)	19	(22)
Surplus / (deficit) of capital funding (C-D)	**37**	**(19)**	**22**
Funding balance (A-B)+(C-D)	-	-	-

FUNDING IMPACT STATEMENT

As required by the Local Government (Financial Reporting and Prudence) Regulations 2014

INTERNAL FUNCTIONS

	LTP 2016/17 $000s	LTP 2017/18 $000s	Actual 2017/18 $000s
Sources of Operating Funding			
General rates, uniform charges, rates penalties	-	-	-
Targeted rates	-	-	-
Subsidies and grants (for operating)	8	8	-
Fees & charges	252	258	287
Internal charges & overheads recovered	4,675	4,912	6,218
Interest & dividends	794	843	750
Other receipts (incl petrol tax & fines)	-	-	-
Total operating funding (A)	5,729	6,021	7,254
Applications of Operating Funding			
Payments to staff and suppliers	4,571	4,751	5,658
Finance costs	-	-	6
Internal charges and overheads applied	393	407	846
Other operating funding applications	-	-	-
Total applications of operating funding (B)	4,964	5,158	6,509
Surplus/(Deficit) of operating funding (A-B)	**765**	**863**	**745**
Sources of Capital Funding			
Subsidies & grants for capital expenditure	-	-	-
Development & financial contributions	-	-	-
Increase /(decrease) in debt	-	-	-
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Other operating funding applications	-	-	-
Total sources of capital funding (C)	-	-	-
Application of Capital Funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve level of service	-	-	5
- to replace existing assets	150	94	83
Increase/(decrease) in reserves	615	769	658
Increase/(decrease) in investments	-	-	(1)
Total application of capital funding (D)	765	863	745
Surplus / (deficit) of capital funding (C-D)	**(765)**	**(863)**	**(745)**
Funding balance (A-B)+(C-D)	-	-	-

2017-18 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS

STATEMENT OF FINANCIAL POSITION as at 30 June 2018

$ 30 June 2017		Notes	$ 30 June 2018	$ 2017/18 Plan
	CURRENT ASSETS			
4,840,108	Cash & cash equivalents	*10*	9,505,117	4,034,493
11,020,200	Other financial assets	*11*	4,441,460	4,402,221
317,246	Inventories	*8*	192,198	216,421
3,479,142	Debtors and other receivables	*9*	4,964,883	2,971,301
19,656,696	Total Current Assets		19,103,658	11,624,436
	NON-CURRENT ASSETS			
85,649,785	Property, equipment & other assets	*12,13*	99,056,439	98,688,726
650,042,023	Infrastructural assets	*12,13*	651,687,552	658,698,640
4,045,077	Intangible assets	*14*	3,825,215	3,573,993
532,578	Forestry assets	*15*	679,434	555,869
2,145,000	Investment property	*16*	2,314,000	2,087,000
59,056	Derivative financial instruments	*22*	0	0
	Other financial assets	*11*		
294,662	- Investments in CCO's & other similar entities		292,253	1,242,817
10,069,144	- Investments in other entities		8,905,859	9,625,407
752,837,324	Total Non-current Assets		766,760,752	774,472,451
$772,494,020	**TOTAL ASSETS**		**$785,864,410**	**$786,096,887**
	CURRENT LIABILITIES			
5,964,990	Creditors & other payables	*20*	6,208,840	6,023,211
0	Derivative financial instruments	*22*	34,748	0
1,009,593	Employee benefits	*21*	1,168,464	1,039,805
66,038	Provisions (current)	*23*	50,472	72,000
7,000,000	Financial liabilities - current portion	*24*	10,028,736	2,094,069
14,040,622	Total Current Liabilities		17,491,260	9,229,085
	NON-CURRENT LIABILITIES			
52,064,747	Financial liabilities	*24*	42,007,814	58,698,632
3,557,208	Derivative financial instruments	*22*	3,809,423	5,257,181
68,205	Employee benefits	*21*	7,546	71,812
116,414	Provisions & other liabilities	*23*	125,386	208,163
55,806,574	Total Non-current Liabilities		45,950,169	64,235,788
$702,646,825	**NET ASSETS**		**$722,422,981**	**$712,632,014**
	PUBLIC EQUITY			
424,574,774	Retained earnings (ratepayers' equity)	*25*	428,175,213	426,911,372
254,152,504	Revaluation reserves	*25*	267,234,317	265,021,121
23,919,547	Special funds & restricted reserves	*28*	27,013,451	20,699,521
$702,646,825	**TOTAL PUBLIC EQUITY**		**$722,422,981**	**$712,632,014**

The accompanying notes form part of these financial statements.

STATEMENT OF COMPREHENSIVE REVENUE & EXPENSE

For the Year Ended 30 June 2018

$ Actual 2016/17		Note	$ Actual 2017/18	$ Plan 2017/18	
	REVENUE				
26,945,320	Rates Revenue	3	27,744,123	27,758,425	
135,373	Rural sewerage scheme capital rates	3 & 4	97,889	73,958	
555,081	Financial Contributions		2,185,038	549,000	
4,121,537	Subsidies and grants	4	4,966,679	5,169,791	*1
423,011	Finance Revenue	5	764,807	773,800	
7,564,643	Other Operating Revenue	4	8,031,063	7,504,558	*1
0	Assets vested from developments/subdivisions	4	4,565,771	-	
1,999,913	Other Gains	4a	456,369	37,494	
41,744,878	**Total Operating Revenue**		48,811,739	41,867,026	
	EXPENDITURE				
7,659,133	Personnel Costs	6	8,239,780	8,007,303	*2
18,138,436	Other Expenses	7	19,088,687	19,226,761	*2
2,633,396	Finance Costs	5	2,614,740	2,878,945	
11,006,358	Depreciation & amortisation	12, 13, 14	11,274,627	11,406,816	
596,812	Other Losses	4a	1,116,450	-	
40,034,135	**Total Operating Expenditure**		42,334,284	41,519,825	
$1,710,743	**Surplus/(Deficit) before tax**		$6,477,455	$347,201	
-	Income tax expense		-	-	
$ 1,710,743	**SURPLUS/(DEFICIT) AFTER TAX**		**$ 6,477,455**	**$347,201**	
	Other Comprehensive Revenue & Expense				
19,809,273	Gain/(Loss) on asset revaluations	12, 13, 25	13,302,587	27,402,531	*3
(3,065,633)	Write down revaluation reserve on impaired assets	25	-	-	
22,987	Change in value of financial assets at fair value through comprehensive revenue & expense	25	(3,886)	-	
16,766,628	**Total Other Comprehensive Revenue & Expense**		13,298,701	27,402,531	
$18,477,370	**TOTAL COMPREHENSIVE REVENUE & EXPENSE**		**$ 19,776,156**	**$27,749,732**	

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2018

Opening Balance	$ Revaluations *(Note 25)*	$ Special Funds & Reserves *(Note 28)*	$ Ratepayers' Equity *(Note 25)*	$ **Total 2017/18**	$ Plan **2017/18**	$ Total **2016/17**
1 July 2017	254,152,504	23,919,547	424,574,774	**$702,646,825**	684,882,282	684,169,455
Comprehensive revenue & expense for the year	13,298,701		6,477,455	**19,776,156**	27,749,732	18,477,370
Tsf disposals revaltns	(216,889)		216,889	0		
Transfers from Reserves		(6,458,166)	6,458,166	0		
Transfers to Reserves		3,898,127	(3,898,127)	0		
Tsf proceeds on sale of assets		496,461	(496,461)	0		
Tsf depreciation to reserves		5,157,483	(5,157,483)	0		
Closing Balance	267,234,317	27,013,451	428,175,213	**$722,422,981**	712,632,014	702,646,825

** 1 The plan for subsidies & grants has been adjusted to reflect more than just roading subsidies.*

** 2 The plan for personnel costs has been adjusted by $16,000 to reflect a position previously included in Other Expenses.*

**3 The plan for revaluation gains assumed both infrastructural assets and land and buildings would be revalued in 2017/18*

The accompanying notes form part of these financial statements.

STATEMENT OF CASHFLOWS for the Year Ending 30 June 2018

Last Year 2016/17	Cash Flows from Operating Activities:	$ Notes	Actual 2017/18	Plan 2017/18
	Cash was provided from:			
27,004,446	Rates (M.D.C. only)		27,714,426	27,733,233
135,373	Rural sewerage scheme capital rates		97,889	73,958
555,081	Financial Contributions		2,185,038	549,000
4,131,283	Subsidies and grants		4,156,001	5,193,791
358,056	Interest & Dividends received		801,748	766,800
7,696,914	Receipts from other revenue		7,695,080	7,286,208
39,881,153			42,650,182	41,602,990
	Cash was applied to:			
(17,847,321)	Payments to suppliers		(18,630,360)	(18,028,134)
(7,671,874)	Payments to employees		(8,141,568)	(7,985,303)
(2,570,571)	Interest paid		(2,623,056)	(2,878,945)
31,915	Goods and services tax (paid)/received (net)		(375,080)	-
(28,057,851)			(29,770,064)	(28,892,382)
11,823,302	**Net Cash from Operating Activities**	29	**12,880,118**	**12,710,608**
	Cash Flows from Investing Activities:			
	Cash was provided from:			
67,284	Receipts from sale of property, plant and equipment		496,461	24,000
-	Receipts from sale of forestry		-	
2,604,441	Receipts from sale of investments		13,095,200	
2,671,725			13,591,661	24,000
	Cash was applied to:			
(11,525,735)	Purchase of property, plant and equipment		(9,326,818)	(20,785,588)
(256,499)	Purchase of intangible assets		(101,139)	-
(8,241,171)	Acquisition of investments		(5,350,616)	(186,001)
(20,023,405)			(14,778,573)	(20,971,589)
(17,351,680)	**Net Cash from Investing Activities**		**(1,186,912)**	**(20,947,589)**
	Cash Flows from Financing Activities:			
	Cash was provided from:			
8,755,685	Proceeds from new financial liabilities		-	8,000,064
8,755,685			-	8,000,064
	Cash was applied to:			
(1,972,783)	Repayment of term liabilities		(7,000,000)	(1,887,997)
(33,148)	Repayment of finance lease liabilities		(28,197)	-
(2,005,931)			(7,028,197)	(1,887,997)
6,749,754	**Net Cash from Financing Activities**		**(7,028,197)**	**6,112,067**
1,221,376	**Net Increase/(Decrease) in Cash and cash equivalents**		**4,665,009**	**($2,124,914)**
3,618,732	Cash and cash equivalents at beginning of the year		4,840,108	10,561,628
$ 4,840,108	**Cash and cash equivalents at the end of the year**	10	**$ 9,505,117**	**$ 8,436,714**

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

During the period, MDC acquired PPE (office equipment) totalling $0 (2017: $78,902) by means of finance leases.
10 & 29 refer to Note 10 & Note 29

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2018

Reporting Entity

MDC is a Territorial Authority governed by the Local Government Act 2002 (LGA). The Council was constituted on 1 November 1989 pursuant to the Local Government (Wellington Region) Reorganisation Order 1989.

MDC consists of a single operating entity with no subsidiaries or associates, which provides local infrastructure, local public services and performs regulatory functions to the community. MDC's primary objective is to provide goods and services for the community or social benefit rather than making a financial return. Accordingly, MDC has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of MDC are for the year ended 30 June 2018. The financial statements were authorised for issue by the Council on 31st October 2018.

Basis of Preparation

The financial statements have been prepared on the going concern basis and the accounting policies have been applied consistently throughout the year.

Statement of Compliance

The financial statements of the Council have been prepared in accordance with the requirements of the LGA Part 6, Section 98 and Part 3 of Schedule 10, and the Local Government (Financial Reporting and Prudence) Regulations 2014 (LG(FRP)R), which includes the requirements to comply with New Zealand generally accepted accounting practice (NZ GAAP). These financial statements have been prepared in accordance with, and comply with, PBE Standards.

Measurement Base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, infrastructural assets, investment property, forestry assets, library books and certain financial instruments (including derivative instruments). The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The financial statements are presented in New Zealand dollars. Some Note disclosures use values rounded to the nearest thousands ($000s). The functional currency of MDC is New Zealand dollars. The financial statements are rounded to the nearest dollar.

Standards Issued and Not Yet Effective that have been Early Adopted

Impairment of Revalued Assets

In April 2017, the XRB issued Impairments of Revalued Assets, which now scopes in revalued property, plant and equipment into the impairment accounting standards. MDC early adopted this amendment in preparing its 30 June 2017 financial statements.

From 30 June 2017 onwards, MDC has been required to assess at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, MDC is required to assess the recoverable amount of that asset and recognise an impairment loss if the recoverable amount is less than the carrying amount. MDC can therefore impair a revalued asset without having to revalue the entire class of asset to which the asset belongs.

Standards Issued and Not Yet Effective and Not Early Adopted

Service Concession Assets

In January 2017 the External Reporting Board (XRB) issued the 2016 Omnibus Amendments to PBE Standards, which incorporates a range of amendments to the PBE Standards. A relevant amendment is to PBE IPSAS 32 relating to grouping of similar assets for the purposes of measurement and disclosure under PBE IPSAS 17 Property, Plant and Equipment. MDC has chosen not to early adopt this amendment and will continue the practice of disclosing water and sewerage treatment plant assets separately from the reticulation assets.

Financial Instruments

In January 2017 the XRB issued PBE IFRS 9 Financial Instruments. PBE IFRS 9 replaces PBE IPSAS 29 and is effective for annual reports on or after 1 January 2021, with early application permitted. The main changes under PBE IPSAS 9 are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised.
- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks.

MDC plans to apply this standard in preparing its 30 June 2022 financial statements. MDC has not yet assessed the effects of the new standard.

Changes in Accounting Policies

There have been no other changes in accounting policies during the financial year as a consequence of changes in accounting standards.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goods and Services Tax

Items in the financial statements are stated exclusive of GST, except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position. The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cashflows. Commitments and contingencies are disclosed exclusive of GST.

Budget Figures

The budget figures are those approved by the Council in its 2017/18 Annual Plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by MDC in preparing these financial statements.

Critical Accounting Estimates and Assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the actual results.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Estimating the fair value of land, buildings and infrastructural assets – see Note 12
- Estimating the retirement gratuity obligations – see Note 21
- Estimating the landfill closure and aftercare provision – see Note 23

Critical judgements in applying accounting policies: - Management has exercised the following critical judgements in applying accounting policies:

- Classification of investment property - Note 16

Revenue

Revenue is measured at the fair value of consideration received or receivable. The specific accounting policies for significant revenue items are explained below.

Rates Revenue
Rates are set annually by resolution and according to the processes required under the LGA and the LG (Rating) Act 2002 and they relate to a financial year. All ratepayers are invoiced within the financial year to which the rates have been set.

Rates revenue is recognised when payable. Rates arising from late payment penalties are recognised as revenue when rates become overdue. Rates remissions are recognised as a reduction of rates revenue when MDC applies the remission to the rates accounts of those properties which qualify for the remissions, as per the remissions policy.

Rates collected on behalf of the Greater Wellington Regional Council (GWRC) are not recognised in the financial statements, as MDC is acting as an agent for GWRC.

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

Parking and dog control infringements are recognised when infringement notices are issued.

MDC receives government grants from the New Zealand Transport Agency, which subsidises part of MDC's costs in maintaining the local roading infrastructure. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled.

Other grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

Revenue from the providing of services (e.g. building consent fees) is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided. Sales of goods and services (e.g. transfer station fees) are recognised when a product or service is sold to the customer. Sales are usually in cash or by credit account.

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

Interest revenue is recognised using the effective interest method. Dividends are recognised when the right to receive payment has been established.

Donated and bequeathed financial assets are recognised as revenue unless there are substantive use or return conditions. A liability is recorded if there are substantive use or return conditions and the liability released to revenue as the conditions are met (e.g. as the funds are spent for the nominated purpose).

For Financial Contributions, the revenue recognition point is at the latter of the point when MDC is ready to provide the service for which the contribution was levied, or the event that will give rise to a requirement for a development or financial contribution under the legislation. Financial contributions revenue is shown separately on the Statement of Comprehensive Revenue and Expense. Those contributions that are required as a nominal contribution towards specific future work, are recognised as revenue and held as part of special funds (equity).

Classification of Revenue

Revenue may be derived from either exchange or non-exchange transactions.

Assets and revenues arising from exchange and non-exchange transactions are recognised in accordance with the requirements of PBE IPSAS 23 while revenue from exchange transactions in accordance with PBE IPSAS 9.

Revenue from Exchange Transactions
Revenue from exchange transactions arises where MDC provides goods or services to another entity or individual and directly receives approximately equal value in a willing arm's length transaction (primarily in the form of cash in exchange).

Revenue from Non-Exchange Transactions
Revenue from non-exchange transaction arises when MDC receives value from another party without giving approximately equal value directly in exchange for the value received.

Approximately Equal Value
Approximately equal value is considered to reflect a fair or market value, which is normally commensurate with an arm's length commercial transaction between a willing buyer and willing seller. Some goods or services that Council provides (e.g. the sale of goods at market rates) are defined as being exchange transactions. Only a few services provided by MDC operate on a full user pays, cost recovery or breakeven basis and these are considered to be exchange transactions unless they are provided at less than active and open market prices. Most of the services that MDC provides for a fee are subsidised by rates and therefore do not constitute an approximately equal exchange. Accordingly most of MDC's revenue is categorised as non-exchange. Due to the volume of transactions, classifying revenue as exchange or non-exchange is on a broad category basis where the deciding factor is the nature of the main proportion of transactions within any revenue stream.

Construction Contracts

Contract costs are recognised as expenses by reference to the stage of completion of the contract at balance date. The stage of completion is measured by reference to the contract costs incurred up to balance date as a percentage of total estimated costs for each contract. Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the group's construction activities in general.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Grant Expenditure

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received. Discretionary grants are those grants where MDC has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of the MDC's decision.

Income Tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax. Generally, MDC's structure and activities mean no income tax is applicable.

Finance Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred. At the commencement of the lease term, MDC recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments. The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether MDC will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less from date of acquisition, and bank overdrafts. Bank overdrafts (if any) are shown within borrowings in current liabilities in the Statement of Financial Position.

Debtors and Other Receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Loans, including loans to community organisations made by MDC at nil, or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar asset/investment. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of expected future cash flows of the loan is recognised in the statement of comprehensive revenue and expense as a grant. A provision for impairment of receivables is established when there is objective evidence that MDC will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

Inventories

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost and current replacement cost. The cost of purchased inventory is determined using the FIFO method.

Inventories acquired through non-exchange transactions are measured at fair value at the date of acquisition.

The write down from cost to current replacement cost or net realisable value is recognised in the surplus or deficit in the Statement of Comprehensive Revenue and Expense.

Financial Assets

MDC classifies its financial assets into one of the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and financial assets at fair value through comprehensive revenue. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the Statement of Comprehensive Revenue and Expense.

Purchases and sales of investments are recognised on trade-date, the date on which MDC commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and MDC has transferred substantially, all the risks and rewards of ownership. The fair value of financial instruments, whether traded in active markets or not, is based on a market price valuation supplied by an investment advisor.

The four categories of financial assets are defined below.

Financial Assets at Fair Value through Surplus or Deficit

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the Statement of Comprehensive Revenue & Expense. Financial assets in this category include the investment funds managed by ANZ Investments Ltd.

Loans and Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included as current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets. After initial recognition, they are measured at amortised cost using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit. There are no loans to community organisations made at nil or below-market interest rates. Loans and receivables are classified as "debtors and other receivables" in the Statement of Financial Position.

Held to Maturity Investments

These are assets with fixed or determinable payments and fixed maturities that MDC has the positive intention and ability to hold to maturity. After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the Statement of Comprehensive Revenue and Expense.

Financial Assets at Fair Value through Other Comprehensive Revenue

These are those that are not classified in any of the other categories above. They are included in non-current assets unless council intends to dispose of the share investment within 12 months of balance date or if the debt instrument is not expected to be realised within 12 months of balance date. This category encompasses: investments that MDC intends to hold long-term, but which may be realised before maturity; and shareholdings that MDC holds for strategic purposes. After initial recognition these investments are measured at their fair value. Gains and losses are recognised directly in other comprehensive revenue except for impairment losses, which are recognised in the surplus or deficit. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in the surplus or deficit even though the asset has not been de-recognised. On de-recognition the cumulative gain or loss previously recognised in other comprehensive revenue is re-classified from equity to surplus or deficit.

Impairment of Financial Assets

At each balance sheet date MDC assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the surplus or deficit.

Carbon Credits

Council has classified carbon credits in its investment portfolio. Purchased carbon credits are recognised at cost on acquisition. Free carbon credits received from the Crown are recognised at fair value on receipt. They are not amortised, but are instead tested for impairment annually. They are derecognised when they are used to satisfy carbon emission obligations.

Accounting for Derivative Financial Instruments

MDC does use derivative financial instruments to manage exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, MDC does not hold or issue derivative financial instruments for trading purposes. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date.

The associated gains or losses on derivatives are recognised in the surplus or deficit.

Non-Current Assets held for Sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Property, Plant and Equipment

Property, plant and equipment consists of:

- Operational assets - these include land, buildings, landfill post closure, library books, plant and equipment, and motor vehicles.
- Restricted assets - parks and reserves owned by MDC which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.
- Infrastructure assets - the fixed utility systems owned by MDC. Each asset class includes all items that are required for the network to function, for example sewer reticulation includes reticulation piping, manholes, sewer pump stations and a portion of the laterals to private properties.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to MDC and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

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

Subsequent Costs

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

Depreciation

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

Buildings - component lives range from	5 to 100 years	(1%-20%)
Plant and equipment	7-15 years	(7% - 14%)
Intangibles - software	4 years	(25%)
Motor vehicles	6.67 years	(15%)
Office equipment, office furniture	4 and 5 years	(20% and 25%)
Library books	3 to 5 years	(20% to 33.3%)
Infrastructural assets		
Roading network		
Formation (not depreciated)		
Top surface (seal) 2nd coat/1st coat	17 and 80 years	(5.9% & 1.25%)
Road metal (unsealed)	3 years	(33%)
Pavement (base course) 50% depreciated	80 years	(1.25%)
Pavement (sub base) 15% depreciated	80 years	(1.25%)
Pipe culverts	90 years	(1.1%)
Footpaths (basecourse) 40% depreciated	50 years	(2%)
Footpaths (seal) chip/AC/concrete	15/18/50 years	(6.67%, 5.55%, 2%)
Kerb & Channel	80 years	(1.25%)
Signs	12 years	(8.33%)
Road markings	1 year	(100%)
Streetlights (lamps, fittings & poles)	5/15/60 years	(20%, 6.67% and 1.67%)
Bridges	65 to 100 years	(1% to 1.54%)
Other structures	50 years	(2%)
Water system		
Treatment plant	10 to 100 years	(1% to 10%)
Pipes	73 to 100 years	(1.0% to 1.37%)
Valves, hydrants, connections	50 years	(2%)
Reservoirs & tanks	50 and 80 years	(1.25% and 2%)
Sewerage system		
Pipes	64 to 85 years	(1.18% to 1.56%)
Manholes	75 years	(1.33%)
Treatment plant	10 to 80 years	(1.25% to 10%)
Drainage network		
Pipes	80 to 90 years	(1.1% to 1.25%)
Stopbanks & seawall	100 years	(1%)
Airport runway		
Pavement & seal	80 years and 17 years	(1.25% and 5.88%)

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

Revaluation

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

Operational Land and Buildings

At fair value as determined from market-based evidence by an independent valuer. The most recent valuation was performed by Jones Lang LaSalle Ltd, and the valuation is effective as at 30 June 2018.

Restricted Land and Buildings

Some land owned by MDC has reserve status while other land has obligations to prior owners if sold. Reserve status can be revoked and land with prior obligations is not of any significant value. On that basis MDC has not identified any of its land and buildings assets as restricted.

Infrastructural Asset Classes: Roads, Water Systems, Sewerage Systems and Stormwater Systems

At fair value determined on a depreciated replacement cost basis by an independent valuer. There are a number of estimates and assumptions exercised when valuing infrastructural assets using the depreciated replacement cost method. These include:

- Estimating any obsolescence or surplus capacity of the asset.
- Estimating the replacement cost of the asset. The replacement cost is derived from recent construction contracts in the region for similar assets.
- Estimates of the remaining useful life over which the asset will be depreciated. These estimates can be affected by the local conditions. For example, weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then MDC could be over- or under-estimating the annual depreciation charge recognised as an expense in the statement of comprehensive revenue and expense. To minimise this risk, infrastructural asset lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and asset condition-modelling are also carried out regularly as part of asset management planning activities, which provides further assurance over useful life estimates.

At balance date MDC assesses the carrying values of its infrastructural assets to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued. The most recent valuation was performed by Opus International Consultants Ltd and the valuation is effective as at 30 June 2017. Other asset classes carried at valuation were revalued as below.

Land under Roads

Land under roads was valued based on fair value of adjacent land determined by Opus International Consultants Ltd, effective 30 June 2003. Under the previous NZ IFRS MDC has elected to use the fair value of land under roads as at 30 June 2003 as deemed cost. Land under roads is no longer revalued.

Library Collections

At depreciated replacement cost in accordance with the guidelines released by the New Zealand Library Association and the National Library of NZ in May 2002. Library valuations are performed by the Library Manager and are not subject to an independent review because books are purchased at current market prices and these are used to determine fair value. The last valuation was performed in June 2018.

Accounting for Revaluations

MDC accounts for revaluations of property, plant and equipment on a class of asset basis. The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset in other comprehensive revenue. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the surplus or deficit. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the surplus or deficit, will be recognised first in the surplus or deficit up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

Intangible Assets

Software Acquisition and Development
Acquired computer software licenses are capitalised as intangible assets on the basis of the costs incurred to acquire and use the specific software. Costs associated with maintaining computer software are recognised as an expense when incurred. MDC has not incurred any costs that are directly associated with the in-house development of software for use by MDC only. Software assets are depreciated, straight line, over four years.

Resource Consents
MDC holds resource consents for many of its activities. Where the consent has a life beyond one year and the costs of obtaining the consents have been identified separately from the asset, the value of the consent is treated as an intangible asset and is amortised over its useful life. Costs associated with gaining a consent are included with the consent value e.g. engineering investigations, assessment of environmental effects, legal review, consent processing charges, hearings and appeals. The period over which the consent value is amortised over (straight line) is based on the life of the consent as granted by the Greater Wellington Regional Council (consent granted is for 25 years).

Easements
While MDC holds easements for only some of its assets, no comprehensive register is kept, no historical cost information is available and no attempt has been made to place a value on the easements held. Because easements have an indefinite useful life and are not generally amortised, the lack of recognition of the value does not significantly affect the financial results of MDC.

Forestry Assets

Forestry assets are independently revalued annually. The 30 June 2018 valuation has been performed by Stuart Orme of Woodnet Ltd, at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the surplus or deficit. The costs to maintain the forestry assets are included in the surplus or deficit.

Investment Property

MDC holds a small number of investment properties for strategic purposes that have been valued at fair value as determined annually by an independent valuer. Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit. There are properties, not defined as investment properties, where rental returns are earned. These properties which are leased to third parties under operating leases, are owned primarily to meet service delivery objectives.

Impairment of Non-Financial Assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

Cash-generating assets are those assets that are held with the primary objective of generating a commercial return.

The value in use for cash-generating assets is the present value of expected future cash flows. If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash generating assets, value is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the surplus or deficit.

Employee Entitlements

Short-term Employee Entitlements
Employee benefits that MDC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, alternative leave owing but not taken for working on statutory holidays and retiring gratuity entitlements expected to be settled within 12 months.

MDC recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that MDC anticipates it will be used by a portion of staff to cover those future absences.

MDC recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term Employee Entitlements
Retirement leave entitlements that are payable beyond 12 months, have been calculated on an actuarial basis. The calculations are based on: likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information, and the present value of the estimated future cash flows. A discount rate of 3.57%, and an inflation factor of 2% were used. The discount rate is based on the rate we apply to our internal loans which is half way between investment funds and cost of loan funds. The inflation factor is based on the expected long-term increase in remuneration for employees.

Superannuation Schemes
Defined contribution schemes: obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus or deficits incurred.

Provisions

MDC recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

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

Financial Guarantee Contracts
A financial guarantee contract is a contract that requires MDC to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at fair value. If a financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, its fair value at inception is equal to the consideration received. When no consideration is received a provision is recognised based on the probability MDC will be required to reimburse a holder for a loss incurred, discounted to present value. The portion of the guarantee that remains unrecognised, prior to discounting to fair value, is disclosed as a contingent liability.

Financial guarantees are subsequently measured at the initial recognition amount less any amortisation, however if MDC assesses that it is probable that expenditure will be required to settle a guarantee, then the provision for the guarantee is measured at the present value of the future expenditure.

Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless MDC has an unconditional right to defer settlement of the liability for at least 12 months after the balance date or if the borrowings are not expected to be settled within 12 months.

Equity

Equity is the community's interest in MDC and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves. The components of equity are:

- Retained earnings
- Special funds & restricted reserves
- Asset revaluation reserves

Special Funds and Restricted Reserves

These are a component of equity representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by MDC for a designated purpose.

Restricted reserves are those subject to specific conditions accepted as binding by MDC and which may not be revised by MDC without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

Also included in this category are reserves restricted by Council decision. MDC may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

MDC's objectives, policies and processes for managing capital are described in Note 27.

Property Revaluation Reserves
These reserves relates to the revaluation of property, plant and equipment to fair value.

Cost Allocation

MDC has derived the cost of service for each significant activity of MDC using the cost allocation system outlined below:

- Direct costs are those costs directly attributable to an activity. Indirect costs are those costs, which cannot be identified in an economically feasible manner, with a specific significant activity.
- Direct costs are charged directly to significant activities.
- Indirect costs are charged to significant activities using an allocation model that utilises cost drivers such as actual usage of support services, staff numbers and rates funding required.

Critical Judgements in Applying MDC's Accounting Policies

Management has exercised the following critical judgements in applying the MDC's accounting policies for the period ended 30 June 2018.

Classification of Property
MDC owns a number of properties, which are maintained primarily to provide housing to pensioners. The receipt of market-based rental from these properties is incidental to holding these properties. These properties are held for service delivery objectives as part of the MDC's social housing policy. These properties are accounted for as property, plant and equipment.

MDC currently has partly-occupied land and buildings in its ownership that had previously been occupied by the Masterton Borough Council depot and gasworks. This land has been identified by MDC as surplus to requirements, but site contamination issues and previous ownership issues will require further work before it can realistically be regarded as a 'property intended for sale'. It remains listed within Property, Plant and Equipment, with its valuation discounted as a result of the site contamination.

Urban Wastewater Resource Consent and Treatment Plant Upgrade

The Council has worked through the process of renewing its resource consent for its waste water treatment and disposal facility and constructed a new plant between 2010 and 2015. Over the past 14 years, costs relating to the options analysis, consultation, concept design and resource consent application process, have been capitalised as intangible assets – recognising the one-off costs of gaining the consent. In December 2009 the Council was granted a consent, based on a proposed scheme, for 25 years. The capitalised costs of the consent have been assumed to be written off over the 25 year life of the consent.

NOTES TO THE ACCOUNTS

Notes to the Accounts **Note 1**

RATES REQUIREMENT SUMMARY

2016/17 Actual		2017/18 Actual	2017/18 Plan	Variance
	Groups & Activities			
$	**Roading**	$	$	$
4,079,016	Subsidised Roading	4,371,218	4,477,787	106,569
1,528,186	Non-subsidised Roading	1,445,814	1,378,729	(67,085)
	Water Services			
2,953,010	Urban Water Supply	2,996,310	2,996,076	(233)
100,125	Rural Water Supplies & Races	97,844	93,115	(4,729)
	Sewerage Services			
6,156,150	Urban Sewerage System	6,406,203	6,434,484	28,281
364,486	Rural Sewerage Schemes*	341,970	305,984	(35,986)
	Stormwater Services			
449,486	Urban Stormwater System	470,550	500,279	29,729
	Solid Waste Services			
499,528	Solid Waste Services	668,918	690,953	22,035
288,329	Waste Minimisation Services	316,959	314,543	(2,416)
	Community Facilities/Activities			
2,150,633	Parks, Reserves & Sportsfields	2,385,261	2,338,436	(46,824)
1,207,177	Trust House Recreation Centre	920,381	931,778	11,396
66,112	Cemeteries	64,676	72,492	7,816
1,811,992	Library & Archive	1,916,652	1,878,415	(38,237)
1,134,540	Property	1,192,092	1,208,336	16,243
2,265,738	Community Services (incl Econ Dev)	2,280,843	2,222,874	(57,969)
157,836	Airport	186,222	169,956	(16,266)
95,276	Mawley Park	111,783	124,548	12,766
	Regulatory Services			
639,152	Resource Management & Planning	749,917	750,469	551
235,199	Building Control	303,453	327,397	23,944
277,796	Environmental Health	366,856	373,146	6,290
113,759	Bylaw Control	3,182	19,638	16,456
(56,227)	Parking Services	(57,776)	(74,231)	(16,456)
52,133	Animal Services	27,856	37,385	9,529
446,513	Emergency Management & Rural Fire	184,786	184,569	(217)
	Governance			
633,546	Representation	684,232	634,222	(50,011)
5,943	**Internal Functions**	1,430	(0)	(1,430)
27,655,436	**Total Rates Requirement**	28,437,633	28,391,383	(46,251)
	Rates Revenue			
27,454,495	Masterton District rates levied	**28,289,493**	28,237,425	52,068
135,373	Rural Sewerage capital contributions*	**97,889**	73,958	23,931
432,171	Rates penalties	**437,840**	200,000	237,840
(366,014)	Rates remissions	**(384,967)**	(120,000)	(264,967)
27,656,025	**Rates Revenue** (incl Council properties)	**28,440,255**	**28,391,383**	**48,872**
589	**Net Rates Surplus/(Deficit)**	**2,622**	**0**	**2,622**

*Rural sewerage net cost is offset by capital contributions

The figures above represent the net requirement for rates funding for each significant activity of the Council.

The figures include capital expenditure from rates, transfers to and from reserves and loan principal repayments funded from rates. Depreciation not funded into asset replacement reserves has been reversed before arriving at the net figures.

COST OF SERVICES SUMMARY

for the 2017/18 Year	Operating Revenue	Operating Expenditure	Actual Net Operating Cost	Plan Net Operating Cost	Capital Expenditure
Roading					
Subsidised Roading	2,276,048	9,370,048	7,094,000	7,240,230	6,181,297
Non-subsidised Roading	787,854	1,264,004	476,150	855,259	706,746
Water Services					
Urban Water supply	319,678	3,273,391	2,953,713	2,949,637	1,625,899
Rural Water Supplies & Races	208,879	330,408	121,529	79,908	71,625
Sewerage Services					
Urban Sewerage System	386,861	6,605,718	6,218,857	6,324,565	1,817,360
Rural Sewerage Schemes	89,573	558,851	469,278	452,504	43,732
Stormwater Services					
Urban Stormwater System	-	595,552	595,552	635,279	548,071
Solid Waste Services					
Solid Waste Management	2,846,390	2,967,749	121,358	263,750	15,580
Waste Minimisation Services	402,857	1,122,807	719,950	743,802	
Community Facilities/Activities					
Parks, Reserves & Sportsfields	58,006	2,499,920	2,441,914	2,497,209	1,264,969
Trust House Recreation Centre	94,101	1,063,013	968,912	1,096,778	97,146
Cemeteries	82,836	127,512	44,676	79,492	45,006
Library & Archive	103,537	2,053,489	1,949,952	1,906,415	237,694
Property	1,095,018	2,541,464	1,446,445	1,476,463	621,961
Community Services	73,272	2,916,574	2,843,302	2,853,745	375,873
Airport	211,280	375,106	163,826	147,601	11,428
Mawley Park	443,307	554,174	110,868	50,329	104,453
Regulatory Services					
Resource Management & Planning	1,735,811	736,662	(999,149)	309,969	
Building Control	1,161,984	1,295,438	133,453	327,397	-
Environmental Health	410,561	777,417	366,856	373,146	11,834
Bylaw Control	187,784	190,967	3,182	19,638	89,968
Parking Services	240,327	182,551	(57,776)	(74,231)	-
Animal Services	368,897	384,813	15,916	38,617	14,285
Emergency Mgmt & Rural Fire	22,322	202,108	179,786	209,569	-
Governance					
Representation	456,155	1,114,099	657,944	609,222	
Internal Functions	7,254,400	6,627,489	(626,911)	(635,000)	88,295
External funding of capital expend.*	7,110,864		(7,110,864)	(2,749,620)	
Eliminate internal recoveries**	(7,915,244)	(8,513,487)			
	20,513,358	**41,217,835**	**21,302,718**	**28,081,675**	**13,973,224**

* Includes NZTA subsidy for roading renewals

** Includes rates paid for council properties

	Actual	Plan
Capital expenditure	13,973,224	20,785,588
Add loan principal repayments	2,774,891	2,275,920
Less loan funds applied to capex	(936,018)	(8,000,064)
Less finance lease funds applied	-	-
Transfers to reserves	3,898,127	1,265,629
Transfers from reserves	(6,458,166)	(9,765,344)
	34,554,776	**34,643,404**
Depreciation not funded from rates	(6,117,143)	(6,252,021)
Rates Requirement	**$28,437,633**	**$28,391,383**

Notes to the Accounts — **Note 3**

RATES REVENUE	*Notes*	$	$	$
excluding metered water supply rates		**Actual 2017/18**	**Plan 2017/18**	**Last Year 2016/17**
Gross MDC Rates Levied		28,289,493	28,237,425	27,454,495
less Rates levied on Council properties		(598,243)	(559,000)	(575,331)
plus Rates Penalties		437,840	200,000	432,171
less Rates Remissions	30	(384,967)	(120,000)	(366,014)
		27,744,123	27,758,425	26,945,320
Rural Sewerage capital contributions		97,889	73,958	135,373
Total Revenue From Rates		$27,842,012	$27,832,383	$27,080,694

Notes to the Accounts — **Note 4**

	Actual 2017/18	Plan 2017/18	Last Year 2016/17
SUBSIDIES AND GRANTS			
Roading subsidies NZTA	4,736,141	4,813,291	3,880,660
Other Government grants	170,307	136,100	167,422
Other grants	60,231	220,400	73,455
Total Subsidies and Grants	**$4,966,679**	**$5,169,791**	$4,121,537
OTHER REVENUE			
Regulatory fee revenue	1,890,581	1,554,971	1,760,600
Rental revenue	875,711	908,039	906,208
Solid waste user charges	2,989,901	2,804,400	2,818,851
Other user charges and recoveries	1,726,304	1,737,848	1,578,710
Metered water & sewer rates charged in CDC area	236,417	209,300	206,570
Infringements and fines	106,054	105,000	101,123
Local authority petrol tax	206,095	185,000	192,581
Sub total	8,031,063	7,504,558	7,564,643
Revenue recognised from vested assets	4,565,771	-	-
Total Other Revenue	**$12,596,834**	$7,504,558	$7,564,643

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

Annual Rates Revenue - per LGFA Guarantee and Indemnity Deed	Actual	Last Year
Rates revenue per Note 3 (includes rural sewerage capital contributions)	27,842,012	27,080,694
Targeted water supply rates (metered water)	185,378	167,056
Rates levied in Carterton District for sewerage	51,039	39,514
	$28,078,429	$27,287,263

Notes to the Accounts — **Note 4a**

OTHER GAINS/(LOSSES)		$ Actual 2017/18	$ Plan 2017/18	$ Last Year 2016/17
Gains	Forestry asset revaluation gain	146,856	37,494	82,149
	Property, plant and equipment gains on disposal	82,711	-	39,794
	Library books revaluation gain	21,362	-	34,441
	Carbon credits revaluation gain on forestry	22,440	-	
	Investment Bond gain on disposal	14,000		26,500
	Investment property revaluation gains	169,000	-	58,000
	Total non-financial instrument gains	456,369	37,494	240,884
	Gain on valuation of financial assets (fair value thru surplus/deficit)		-	
	Gain on mark-to-market valuation of cash flow hedges *		-	1,759,029
	Total Gains	456,369	37,494	1,999,913
Losses	Carbon credits revaluation loss on forestry		-	(3,825)
	Property, plant and equipment losses on disposal	(766,351)	-	(582,158)
	Investment Bond loss on disposal	(4,080)		(10,829)
	Total non-financial instrument losses	(770,431)	-	(596,812)
	Loss on valuation of financial assets (fair value thru surplus/deficit)		-	
	Loss on mark-to-market valuation of cash flow hedges *	(346,019)	-	-
	Total Losses	(1,116,450)	-	(596,812)

* Interest rate swaps (or cash flow hedges) are disclosed in Note 22. Their change in value is required to be brought through the Surplus/Deficit as per PBE IPSAS 29.

REVENUE ANALYSIS - Exchange & Non-exchange

	$ Actual 2017/18	$ Plan 2017/18	$ Last Year 2016/17
Exchange Revenue			
Finance revenue	764,807	773,800	423,011
Rental revenue	875,711	908,039	906,208
Solid waste user charges	2,989,901	2,804,400	2,818,851
Other user charges and recoveries	1,726,304	1,737,848	1,578,709
Metered water & sewer rates charged in CDC area	236,417	209,300	206,570
Total Exchange Revenue	**$6,593,140**	**$6,433,387**	**$5,933,349**
Non-Exchange Revenue			
Rates revenue	27,842,012	27,832,383	27,080,694
Financial contributions	2,185,038	549,000	555,081
Subsidies and grants	4,966,679	5,169,791	4,121,537
Regulatory fee revenue	1,890,581	1,554,971	1,760,600
Infringements and fines	106,054	105,000	101,123
Local authority petrol tax	206,095	185,000	192,581
Assets vested from developments/subdivisions	4,565,771	-	-
Other gains	456,369	37,494	1,999,913
Total Non-Exchange Revenue	**$42,218,599**	**$35,433,639**	**$35,811,529**
Total Revenue	**$48,811,739**	**$41,867,026**	**$41,744,878**

Explanation of the Analysis

Revenue may be derived from either exchange or non-exchange transactions.

Revenue from exchange transactions

This revenue arises where the Council provides goods or services to another entity or individual and directly receives approximately equal value in a willing arm's length transaction (primarily in the form of cash in exchange).

Revenue from non-exchange transactions

This revenue arises when the Council receives value from another party without giving approximately equal value directly in exchange for the value received.

Approximately equal value

Approximately equal value is considered to reflect a fair or market value, which is normally commensurate with an arms length commercial transaction between a willing buyer and willing seller. Some goods or services that Council provides (e.g. the sale of goods at market rates) are defined as being exchange transactions. Only a few services provided by Council operate on a full user pays, cost recovery or breakeven basis and these are considered to be exchange transactions unless they are provided at less than active and open market prices. Most of the services that Council provides for a fee are subsidised by rates and therefore do not constitute an approximately equal exchange. Accordingly most are non-exchange.

Broad category basis

Due to the volume of transactions, classifying revenue as exchange or non-exchange is on a broad category basis where the deciding factor is the nature of the main proportion of transactions within any revenue stream.

FINANCE REVENUE & FINANCE COSTS

		$ Actual 2017/18	$ Plan 2017/18	$ Last Year 2016/17
Finance revenue				
Interest Revenue on:				
- financial assets held/invested by MDC		411,798	423,800	350,601
- financial assets invested from funds borrowed in advance		7,207		36,934
- financial assets managed by ANZ Investments Ltd		345,802	350,000	35,477
Total finance revenue		**764,807**	**773,800**	**423,011**
Finance costs				
Interest expense:	- on bank borrowings	28,808	28,000	34,507
	- on LGFA bonds	2,551,862	2,818,945	2,342,831
	- on loan funds borrowed in advance	5,773	5,000	29,585
	- on Secure Floating Note (FRN)	11,991	12,000	211,040
	- on finance leases	5,359	5,000	5,106
Discount unwind on provisions (Note 23)		10,948	10,000	10,328
Total finance costs		**2,614,740**	**2,878,945**	**2,633,396**
Net Finance Costs/(Revenue)		$1,849,934	$2,105,145	$2,210,385

Notes to the Accounts **Note 6**

PERSONNEL COSTS	Actual 2017/18	Plan 2017/18	Last Year 2016/17
Salaries & wages	7,201,644	7,121,609	6,812,976
Mayor & Councillors' honorariums	388,855	390,100	383,308
Medical insurance (incl FBT)	220,755	209,294	209,078
Superannuation - employer contributions	294,651	286,300	266,511
Income Protection Insurance	35,663	-	
Incr/(Decr) in employee benefits liability	98,212	-	(12,740)
Total Personnel costs	$8,239,780	$8,007,303	$7,659,133

Notes to the Accounts **Note 7**

OTHER EXPENSES		Actual 2017/18	Plan 2017/18	Last Year 2016/17
Fees to principal auditor:	- for annual report	109,460	110,000	107,978
	- for LTP audit	70,000	72,000	4,000
Donations		6,512	9,000	6,922
Grants - funding community development		578,710	580,030	549,492
Grants - funding arts & culture		343,865	343,500	326,329
Grants - funding economic development		412,421	442,500	417,469
ACC levies		22,437	42,384	25,887
Inventories (change in value)		125,048	-	(102,483)
Impairment of receivables		8,464	1,500	(4,902)
Election costs		6,712	0	148,148
Civic entertainment costs		4,559	11,000	7,509
Ceremonies & presentations		6,790	7,000	8,849
Other operating expenses		17,393,710	17,607,847	16,643,238
Total other expenses		$19,088,687	$19,226,761	$18,138,436

Notes to the Accounts **Note 7a**

COST OF SERVICE STMT RECONCILIATION - Note 2 to Other Notes	Actual 2017/18	Plan 2017/18
Revenue		
Financial Contributions	2,185,038	549,000
Subsidies and grants (per note 4)	4,966,679	5,169,791
Other Revenue (per Note 4)	12,596,834	7,504,558
Finance Revenue (per Note 5)	764,807	773,800
Total Operating Revenue (per Note 2)	20,513,358	13,997,149
Expenditure		
Personnel Costs (per Note 6)	8,239,780	8,007,303
Other Expenses (per Note 7)	19,088,687	19,226,761
Finance Costs (per Note 5)	2,614,740	2,878,945
Depreciation (per Notes 12,13,14)	11,274,627	11,406,816
Total Operating Expenditure (per Note 2)	$41,217,835	$41,519,825
Add back MDC rates on Council properties (net of discount)	598,243	559,000
Net Operating Cost	$21,302,719	$28,081,676

Notes to the Accounts **Note 8**

INVENTORIES

$ 30 June 2017		$ 30 June 2018
	Held for distribution inventory:	
80,920	Water & sewer reticulation spares	80,920
17,613	Street furniture & pavers	16,655
50,668	Water treatment chemicals	46,546
17,882	Pre-paid envelopes	22,613
	Commercial inventory:	
3,428	Rubbish bags & bins	3,903
124,800	Baleage - ex Homebush	1,275
21,935	Miscellaneous items	20,286
$317,246	**Total Stock**	**$192,198**

DEBTORS & OTHER RECEIVABLES

$ 30 June 2017		$ 30 June 2018
523,411	Rates receivables	557,562
1,266,143	Roading subsidies receivable	2,010,095
1,367,592	Sundry debtors & receivables	2,308,404
260,935	GST receivable	68,354
176,688	Prepayments	187,431
3,594,769		**5,131,846**
(115,626)	- less provision for doubtful debts	(166,963)
$3,479,142	**Total Debtors & Other Receivables**	**$4,964,883**
	Total receivables comprise:	
1,170,725	Receivables from exchange transaction	1,160,811
2,308,417	Receivables from non-exchange transaction	3,804,072

Fair Value

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

Impairment

MDC has previously provided for a nominal sum of $4,000 for any impairment of rates receivable, as the Local Govt (Rating) Act 2002 provides a range of powers to recover outstanding debts, including approaching mortgage holders and legal proceeding which can lead to sale of the property to recover the rates. This year the provision has been increased by $15,600 to recognise the probable need to write-off the rates due on land with a historic road legalisation dispute. Ratepayers can apply for payment plan options to allow them to catchup. The value of those debts is not considered significant enough to calculate discounted values.

Exchange & Non-Exchange

Receivables from exchange transactions includes outstanding amounts for commercial sales, fees & charges that have not been subsidised by rates.

Receivables from non-exchange transactions includes outstanding amounts for rates, grants, infringements & fees and charges that are partly subsidised by rates.

The status of receivables as at 30 June 2017 and 2018 are detailed below:

30 June 2017		30 June 2018
2,752,040	Not past due	4,195,917
354,403	Past due 1-60 days	403,657
156,589	Past due 61-120 days	173,238
331,738	Past due > 120 days	359,034
$3,594,769	**Total**	**$5,131,846**

30 June 2017		30 June 2018
5,073	Individual impairment	13,355
110,553	Collective impairment	153,608
$115,626	**Total provision for impairment**	**$166,963**

30 June 2017		30 June 2018
0	Past due 1-60 days	0
0	Past due 61-120 days	0
5,073	Past due > 120 days	13,355
$5,073	**Total individual impairment**	**$13,355**

30 June 2017		30 June 2018
184,568	At 1 July	115,626
52,012	Additional provisions made during the year	54,747
(13,617)	Provisions reversed during the year	(3,227)
(107,337)	Receivables written off during the year	(183)
$115,626	**As At 30 June**	**$166,963**

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

Notes to the Accounts **Note 10**

CASH & CASH EQUIVALENTS

30 June 2017		$ 30 June 2018
1,840,108	Cash at bank and in hand	2,600,117
3,000,000	Short term deposits of 3 months or less (from acquisition)	6,905,000
$4,840,108	**Total cash and cash equivalents**	**$9,505,117**

The carrying value of cash at bank and term deposits with maturities less than three months approximate their fair value. The total value of cash and cash equivalents that can only be used for a specific purpose as outlined in the relevant Trust Deed is $225,498 (2017 = $224,042).

Notes to the Accounts **Note 11**

OTHER FINANCIAL ASSETS

$ 30 June 2017		*Notes*	$ 30 June 2018
	Current		
10,519,320	Short term deposits - maturities > 3 but less than 12 mths	*2	4,280,776
500,880	Corporate bonds & Borrower Notes (LGFA)	*4	160,684
0	Investments held by fund manager	*3	0
$11,020,200	**Total Current Portion of Financial Assets**		**$4,441,460**
	Non-current		
	Investments in CCO's & other similar entities		
294,662	Shares (NZLGFA & Civic Financial Services)		292,253
$294,662			**$292,253**
	Investments in other entities		
21,014	Shares (Airtel)	*1	19,551
943,200	Corporate bonds	*4	58,500
898,282	Borrower notes (NZ LGFA)	*5	752,918
86,700	NZ Units - Carbon Credits on forestry	*7	109,140
500,000	Long term deposits - maturities > than 12 mths	*8	0
7,619,948	NZ fixed interest investments held by fund manager	*3	7,965,750
$10,069,144			**$8,905,859**
$10,363,806	Total Non-Current Portion of Financial Assets		$9,198,112
$21,384,007	Total Other Financial Assets		$13,639,572
	Internal loans/investments		
$6,839,945	Balance at 30 June (also see Note 24)	*6	$7,001,072
$33,064,059	Total Funds On Hand or Invested (including Cash & Internal)		$30,145,761

Notes:

Fair value: the carrying amount of term deposits approximates their fair value.

Impairment: There are no impairment provisions for Other Financial Assets. None of the financial assets are either past due or impaired.

***1** Shares are valued as 'fair value through comprehensive revenue & expense' and consist of: 127,230 Civic Financial Services fully paid ordinary $1.00 shares valued at $1.51 each, 13,300 Airtel Ltd shares valued at $1.47 each and 100,000 paid up shares in the NZ LGFA valued at cost of $1 each (a further 100,000 remains uncalled).

***2** Bank deposits have maturity dates which range from 1 to 12 months. The deposits are spread across five financial institutions, as per the Council's investment policy and are valued as 'held to maturity'.

***3** ANZ Investments are contracted to actively manage an investment portfolio that was converted during the year from a segregated mandate to a 50/50 split between two (High Grade and Sovereign) bond funds. This portfolio is valued as 'fair value through surplus/deficit'.

***4** Corporate bonds held directly by the Council are valued as 'fair value through comprehensive revenue & expense'.

***5** The Council holds $913,602 of borrower notes issued by NZ LGFA (incl accrued interest), valued at 'fair value through comprehensive revenue & expense'. These will be repaid on maturity of borrowings frrom the NZ LGFA, with interest accrued and payable on maturity.

***6** The Council has continued to utilise internal loans/investments for both long term funding of certain capital projects and short term cash flow funding to allow optimal timing of external debt drawdowns.

***7** The Council has been allocated 5,100 NZU carbon credits, based on it's forestry area. These have been re valued at the estimated carbon price at 30 June 2018 of $21.40 per NZU.

***8** In 2017, one bank deposit has a maturity date of 3 years.

PROPERTY PLANT & EQUIPMENT 2018

2018	Original Cost/ Valuation 30-Jun-17	Accum. Depreciation & Impairment 30-Jun-17	Carrying Amount 30-Jun-17	Current Year Additions	Vested Assets *5	Current Year Disposals *1	Current Year Transfers/ Adjustments *2	Current Year Depreciation	Current Year Revaluation	Original Cost/ Valuation 30-Jun-18	Accum. Depreciation & Impairment 30-Jun-18	Carrying Amount 30-Jun-18
Operational Assets												
Land	50,519,099	(850,000)	49,669,099	0	60,562	(409,203)			8,428,543	57,749,001	-	57,749,001
Buildings	38,266,682	(5,855,012)	32,411,671	1,394,020	300,000	(3,210)	4,008	(1,679,492)	4,874,044	37,301,042	0	37,301,042
Plant & vehicles	3,760,421	(2,281,422)	1,478,999	265,696		(24,518)		(267,794)		3,927,525	(2,475,143)	1,452,382
Equipment & furniture	5,142,554	(3,660,898)	1,481,656	327,561		(274)	-	(322,893)		5,451,618	(3,965,568)	1,486,050
Office equip (finance lease)	91,491	(30,697)	60,794	-		(2)		(27,912)		78,902	(46,022)	32,880
Library books	508,877	-	508,877	165,105		(8,410)		(193,025)	21,362	493,910	-	493,910
Work in progress	38,688	-	38,688	506,493			(4,008)			541,174	-	541,174
Total operational assets	98,327,813	(12,678,028)	85,649,785	2,658,876	360,562	(445,616)	-	(2,491,116)	13,323,950	105,543,172	(6,486,733)	99,056,439
Infrastructural Assets												
Land (under roads)	85,156,551	-	85,156,551	4,500	937,620			-		86,098,671	-	86,098,671
Roading network	428,206,755	-	428,206,756	3,706,392	1,760,689	(51,729)	85,452	(4,726,557)		433,707,559	(4,726,557)	428,981,003
Water treatment plant - Masterton	8,943,099	-	8,943,099	70,423				(416,408)		9,013,522	(416,408)	8,597,114
Water reticulation (incl rural supplies)	30,625,217	-	30,625,217	757,755	443,792	(356,470)	43,045	(809,315)		31,513,339	(809,315)	30,704,024
Sewerage treatment plant - Masterton	33,250,603	-	33,250,603	49,841				(554,995)		33,300,444	(554,995)	32,745,449
Sewerage reticulation - Masterton	30,042,223	-	30,042,223	1,013,369	630,173	(305,275)	543,570	(1,253,718)		31,924,060	(1,253,718)	30,670,343
Sewerage systems - rural *4	8,845,328	-	8,845,328	54,942		(17,969)		(262,303)		8,882,301	(262,303)	8,619,998
Stormwater assets	15,431,196	-	15,431,196	113,028	432,926	(13,168)		(303,406)		15,963,982	(303,406)	15,660,576
Flood protection & control works	4,065,422	-	4,065,422	0				(62,105)		4,065,422	(62,105)	4,003,317
Other infrastructure	4,724,052	-	4,724,052	11,428				(78,101)		4,735,480	(78,101)	4,657,378
Work in progress	751,574	-	751,574	870,172		-	(672,067)			949,679	-	949,679
Total infrastructural assets	650,042,021	0	650,042,023	6,651,850	4,205,200	(744,611)	(0)	(8,466,909)	-	660,154,459	(8,466,909)	651,687,552
Total Property, Plant & Equipment	**$ 748,369,834**	**($12,678,028)**	**$ 735,691,807**	**$ 9,310,725**	**$ 4,565,762**	**($1,190,227)**	**($0)**	**($10,958,024)**	**$ 13,323,950**	**$ 765,697,632**	**($14,953,641)**	**$ 750,743,991**

There are no restrictions over the title of MDC's Plant, Property and Equipment assets, nor are any assets pledged as security for liabilities.

***1** *Disposals are reported net of accumulated depreciation.*

***2** *In the Transfers & Adjustments column $676,075 was transferred out of work in progress as detailed below:*
In operational, the international garden pagoda structure was completed.
In infrastructural assets, Lees Pakaraka Rd sealing was completed along with four sewer and one water main replacement started last year.

***3** *In 2017 the Town Hall and District Building value were impaired on the basis of an engineering assessment placing it below the acceptable standard and the estimated cost to strengthen being uneconomic to proceed with. This impairment has been taken into account with the valuation of Land and Building valuations being undertaken by Jones Lang La Salle as at 30 June 2018.*

***4** *Rural sewerage systems at Riversdale Beach, Castlepoint and Tinui have not been split into treatment and reticulation components, but the value split is estimated at 29%/71% (treatment/retic).*

***5** *Vested Assets included land, roading, water, sewer & stormwater assets transferred to the Council from completion of a number of subdivisions including Stage 4 of Cashmere Oaks, Taranaki Street, The Plains, Solway Cres Stage II and III and Gimpson Stages One to Five. Also the Ascension sculpture was gifted to the Council.*

Notes to the Accounts **Note 12a**

PROPERTY PLANT & EQUIPMENT 2017

	Original Cost/ Valuation 30-Jun-16	Accum. Depreciation & Impairment 30-Jun-16	Carrying Amount 30-Jun-16	Current Year Additions	Impairment *3	Current Year Disposals *1	Current Year Transfers/ Adjustments *2	Current Year Depreciation	Current Year Revaluation	Original Cost/ Valuation 30-Jun-17	Accum. Depreciation & Impairment 30-Jun-17	Carrying Amount 30-Jun-17
Operational Assets												
Land	47,539,309	-	47,539,309	2,979,790	(850,000)					50,519,099	(850,000)	49,669,099
Buildings	37,876,918	(1,820,730)	36,056,189	677,182	(2,215,633)	(258,436)		(1,847,631)		38,266,682	(5,855,012)	32,411,671
Plant & vehicles	3,649,469	(2,117,006)	1,532,462	213,789		(12,223)		(255,030)		3,760,421	(2,281,422)	1,478,999
Equipment & furniture	4,759,006	(3,404,942)	1,354,064	436,888		(16,692)	4,880	(297,485)		5,142,554	(3,660,898)	1,481,656
Office equip (finance lease)	49,159	(41,464)	7,695	78,902		(599)		(25,204)		91,491	(30,697)	60,794
Library books	469,227	-	469,227	169,881		(16,865)		(147,805)	34,441	508,877	-	508,877
Work in progress	18,571	-	18,571	24,998			(4,880)			38,688	-	38,688
Total operational assets	94,361,659	(7,384,142)	86,977,516	4,581,431	(3,065,633)	(304,814)	-	(2,573,155)	34,441	98,327,813	(12,678,028)	85,649,785
Infrastructural Assets												
Land (under roads)	85,151,188	-	85,151,188	5,005				-	359	85,156,551	-	85,156,551
Roading network	428,934,447	(9,041,033)	419,893,414	4,272,769		(229,992)	356,228	(4,531,036)	8,445,374	428,206,755	-	428,206,756
Water treatment plant - Masterton	9,785,733	(814,899)	8,970,833	0		-		(406,685)	378,951	8,943,099	-	8,943,099
Water reticulation (incl rural supplies)	28,563,855	(1,521,052)	27,042,803	933,394		(61,800)	154,157	(766,233)	3,322,896	30,625,217	-	30,625,217
Sewerage treatment plant - Masterton	32,707,532	(1,158,706)	31,548,827	60,924				(578,347)	2,219,199	33,250,603	-	33,250,603
Sewerage reticulation - Masterton	29,226,348	(2,355,436)	26,870,912	752,566		(31,379)	133,391	(1,186,391)	3,503,124	30,042,223	0	30,042,223
Sewerage systems - rural *4	9,024,981	(452,162)	8,572,819	16,659		-		(229,383)	485,232	8,845,328	-	8,845,328
Stormwater assets	15,423,223	(567,549)	14,855,674	170,047		-		(287,538)	693,012	15,431,196	-	15,431,196
Flood protection & control works	4,234,349	(117,416)	4,116,934	0				(58,247)	6,735	4,065,422	-	4,065,422
Other infrastructure	4,195,000	(150,227)	4,044,773	0				(75,114)	754,393	4,724,052	-	4,724,052
Work in progress	643,776	-	643,776	751,574		-	(643,776)			751,574	-	751,574
Total infrastructural assets	647,890,433	(16,178,479)	631,711,954	6,962,937	0	(323,170)	(0)	(8,118,972)	19,809,273	650,042,021	0	650,042,023
Total Property, Plant & Equipment	**$ 742,252,091**	**($23,562,621)**	**$ 718,689,470**	**$ 11,544,368**	**($3,065,633)**	**($627,985)**	**($0)**	**($10,692,127)**	**$ 19,843,714**	**$ 748,369,834**	**($12,678,028)**	**$ 735,691,807**

There are no restrictions over the title of MDC's Plant, Property and Equipment assets, nor are any assets pledged as security for liabilities.

***1** *Disposals are reported net of accumulated depreciation.*

***2** *In the Transfers & Adjustments column $648,656 was transferred out of work in progress as detailed below:*

In operational, the Public WiFi projected was implemented.

In infrastructural assets, roading & footpath work included Jetty Road, Castlepoint; First St, Lansdowne; and Colombo Road footpath. There were two water main renewals and one sewer job.

***3** *The Town Hall and District Building value has been impaired on the basis of an engineering assessment placing it below the acceptable standard and the estimated cost to stenghten being uneconomic to proceed with.*

***4** *Rural sewerage systems at Riversdale Beach, Castlepoint and Tinui have not been split into treatment and reticulation components, but the value split is estimated at 29%/71% (treatment/retic).*

PROPERTY PLANT & EQUIPMENT - NOTES

Critical accounting estimates and assumptions

Estimating the fair value of land, buildings and infrastructure

The most recent valuation of land and buildings was performed by an independent registered valuer, Jones Lang LaSalle Ltd. The valuation is effective as at 30 June 2018. This resulted in an increase of $8.4 Million (17.1%) in fair value of Land Assets after taking account of additions and deletions during the same period . The value of Building Assets increased by $4.9 Million (15%) in depreciated replacement cost after taking account of additions and depreciation over the period.

Land (except land under roads) is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values. Any restrictions on the Council's ability to sell land would not normally impair the value of the land because the Council has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership. In 2017 the value of the land under the Town Hall and District Building included an impairment adjustment, allowing for the estimated cost of demolition of the buildings, reducing the land value from $890,000 to $40,000. The revaluation as at 30 June 2018 has seen an increase in the value to $310,000.

Land under roads was valued effective June 2003. On transition to NZ IFRS, MDC elected to use fair value of land under roads as at 30 June 2003 as deemed cost. There have been no events or changes in circumstances over the year that have required any adjustments for impairment.

Buildings - specialised buildings are valued at fair value using depreciated replacement cost because no reliable market data is available for such buildings. Straight-line depreciation has been applied in determining the depreciated replacement value of the asset.

Buildings - non-specialised buildings (e.g. residential and office buildings) are valued at fair value using market-based evidence. The Town Hall and a large part of the District Building have been determined to be below the safe earthquake standard and the cost of strengthening exceeds the book value (also see Note 33 Contingencies). In 2017 the impairment value write-down was taken to the revaluation reserve while a residual value remained, representing the value of the portion of the office building still in use. This part of the building was added in the 1980s and is above 33% of the earthquake code. The revaluation of the buildings as at 30 June 2018 has meant the Town Hall and the old Administration Building were revalued to a nil value with a value only placed on the part of the administration building still in use. The future of this part of the building is yet to be determined.

Library books - these are valued at depreciated replacement cost. They are valued annually, in-house using the inventory of book stock as recorded on the library system and the average cost of books purchased, by category.

Infrastructural assets - the most recent valuation of infrastructural assets was performed by Opus International Consultants Ltd, with an effective date of 30 June 2017.

Roading, water, sewerage and stormwater infrastructural assets are valued using the depreciated replacement cost method. Road formation, pavements, footpaths, bridges and retaining walls have been valued based on either unit area or unit volume bases. Water, sewer and stormwater assets have been valued based on either unit area or unit volume bases. There are a number of estimates and assumptions exercised when valuing infrastructural assets using this method, including:

* Replacement cost is the cost of replacing existing infrastructure using present day technology, but maintaining the originally designed level of service. Unit costs have been obtained from a variety of sources, including recent construction contracts, Opus's costing database, contractors, manufacturers and suppliers. On-cost factors have been allowed for all costs incidental to bringing the asset into working condition. Optimisation has been used in the context of provision of the same utility at a minimum overall cost. It has been assumed that current assets are considered to be of an optimal status (no surplus capacity).

* Depreciated Replacement Value is a function of how far a component is through its economic life. The economic life is the period of time beyond which it is economically worthwhile to replace rather than continue to repair or maintain. The economic life varies for each asset.

Critical judgements in applying accounting policies

Classification of property

The Council owns a number of properties held to provide housing to pensioners. The receipt of below market-based rental from these properties is incidental to holding them. The properties are held for service delivery objectives as part of the council's social housing policy. The properties are therefore accounted for as property, plant and equipment rather than rental property.

Notes to the Accounts **Note 14**

INTANGIBLE ASSETS

	$ 2017 Computer Software	$ 2017 Resource Consents	$ 2017 Total	$ 2018 Computer Software	$ 2018 Resource Consents	$ 2018 Total
Opening Original Cost	947,312	6,655,346	7,602,658	1,032,754	6,798,828	7,831,583
Opening Accum. Amortisation	(855,221)	(2,655,528)	(3,510,749)	(908,374)	(2,916,605)	(3,824,979)
Carrying Amount (start of year)	92,091	3,999,819	4,091,910	124,380	3,882,223	4,006,603
Additions	71,942	143,482	215,424	8,390	52,952	61,342
Disposals (net BV)	-	-	-	-	-	-
Amortisation Change	(53,153)	(261,078)	(314,231)	(53,539)	(263,062)	(316,601)
Transfers/Adjustments	13,500		13,500	-		-
Closing Original Cost	1,032,754	6,798,828	7,831,583	1,041,144	6,851,780	7,892,925
Closing Accum. Amortisation	(908,374)	(2,916,605)	(3,824,979)	(961,913)	(3,179,667)	(4,141,580)
Carrying Amount (end of year)	124,380	3,882,223	**$ 4,006,603**	79,231	3,672,113	**$ 3,751,344**
Work in progress	-	38,474	**$ 38,474**	-	73,871	**$ 73,871**
	124,380	3,920,697	**$ 4,045,077**	79,231	3,745,984	**$ 3,825,215**

There are no restrictions over the title of MDC's Intangible assets, nor are any assets pledged as security for liabilities.
Computer software is amortised over the assessed useful life of 4 years.
Resource consents are amortised over the number of years for which each consent has been granted. Those consents which have yet to be granted by GWRC are amortised over the number of years for which the consent has been applied for. In the case of the Homebush sewage treatment and disposal consent, the Council received a 25 year consent in 2009. The Council does hold easements over some of its assets where they affect private property, but the incomplete nature of the easement coverage means little reliance could be placed on the valuation of easements, hence no disclosure has been made.

Notes to the Accounts **Note 15**

FORESTRY ASSETS

	Actual 2018	Actual 2017
Opening balance 1 July	532,578	450,429
Gains/(losses) arising from changes in fair value	146,856	82,149
Decreases due to harvest		
Balance at 30 June	**$ 679,434**	**$ 532,578**

There are no restrictions over the title of MDC's forestry assets, nor are any assets pledged as security for liabilities.
The Council's investments in forestry total 60.2 ha and are spread across the district in relatively small areas of planting. These areas have been planted for one of two reasons: 1) the desire to best utilise what would otherwise be unproductive land and 2) for stabilisation of roadsides.

Registered valuers Woodnet Ltd (Stuart Orme) have valued the forestry assets as at 30 June 2018, in accordance with PBE IPSAS 27. A discount rate of 8% has been used to discount the present value of expected cash flows on forests greater than 5 years old. A compound rate of 3% has been used on younger stands. Notional land rental costs have been included for freehold land. The forests have been valued on a going concern basis and includes the value of the existing crops on a single rotation basis. Log prices are based on a 12 quarter average for the lower North Island.

Notes to the Accounts **Note 16**

INVESTMENT PROPERTY

	Actual 2018	Actual 2017
Opening balance 1 July	2,145,000	2,087,000
Acquisitions / (Disposals)	-	-
Fair value gains/(losses) on valuation	169,000	58,000
Balance at 30 June	**$ 2,314,000**	**$ 2,145,000**

MDC's investment properties are valued at fair value effective 30 June 2018. All investment properties were valued on open market evidence. The valuation was performed by Nigel Fenwick NZIV, of Jones Lang LaSalle in accordance with PBE IPSAS 16. The valuer notes that there is a paucity of comparable recent transactions within the Masterton District, but by going back to 2014 for sales evidence, his conclusion is that the market for investment land has increased after it had been relatively static for the two preceding years.

Further information about the revenue & expenses in relation to investment property as required per IPSAS 16.86 is listed below:

	2018	2017
Rental Revenue	116,198	35,332
Expenses from investment property generating Revenue	19,028	13,298
Expenses from investment property not generating Revenue	8,746	4,650

CAPITAL EXPENDITURE SUMMARY			2017/18	2017/18	Source of Funding			
Activity	Project		Plan	Actual	Rates	Reserves	Other	
Roading		*(**R** enewal/ **N** ew)*						
Roading - subsidised	Roading renewals - rural	*R*	2,472,000	2,105,412	862,327	43,000	1,200,085	*2
	Roading renewals - urban	*R*	755,000	654,772	281,552		373,220	*2
	Rural/Urban minor improvements	*N*	390,000	433,974	186,609		247,365	*2
	Upgrade to LED streetlighting	*N*	724,000	752,262		112,839	639,423	*2
	Cycleways	*N*	125,000	-				
Roading - non- subs.	Car park seal renewals & signage	*R*	80,000	6,847		6,847		
	Urban footpath renewals	*R*	309,000	52,470		52,470		
	CBD upgrade	*N*	593,000	179,498		179,498		
	Streetscape/neighbourhood upgrades	*N*	172,100	-				
	Land purchase roading strip	*N*	-	4,500		4,500		
Water Services								
Urban Water Tmt.	Water treatment plant equip. renewal	*R*	173,000	139,449		139,449		
	Water treatment - buildings & ground:	*R*	30,000	17,604		17,604		
Urban Water Retic.	Water reticulation - mains renewals	*R*	2,300,000	839,162		577,110	262,052	*1
	Water reticulation - connections	*R*	200,000	185,893		175,320	10,572	*3
Rural Water	Tinui water supply upgrade	*R*	19,000	11,940		11,940		
	Tauweru Water supply renewals	*R*		3,578		3,578		
	Opaki water race consent renewal	*R*	60,000					
	Opaki water race equipment	*N*	3,500					
	Castlepoint water supply equipment	*R*	33,500	20,004		20,004		
	Wainuioru water supplies upgrades	*R*	20,000	36,103		36,103		
Sewerage Services								
Urban Sewerage	Homebush plant upgrades	*R*	450,000	102,793			102,793	*1
	Homebush equipment upgrades	*R*	40,000	71,025		71,025		
	Sewerage retic. mains renewals	*R*	1,100,000	974,108		974,108		
	Sewer connections (new)	*R*	-	39,261		1,732	37,528	*3
Rural Sewerage	Riversdale Beach sewerage scheme	*R*	8,800	39,325			39,325	*1
	Castlepoint sewerage equipment	*R*	-	4,408		4,408		
Stormwater Services								
	Stormwater - renewals	*R*	200,000	115,135		115,135		
Solid Waste Services								
	Reuse Recovery Store	*N*	240,000	-				
	Transfer Station Roof & upgrades	*N*	400,000	15,580		4,078	11,502	*3
Community Facilities/Activities								
Parks & Reserves	Q. E. Park renewal project	*N*	619,050	44,784		44,784		
	Upgrade playgrounds	*R*	28,000	-		0		
	De-sludge QE park lake	*R*	30,000	-		0		
	Street trees additions & replacements	*N*	17,588	10,749		10,749		
	Henley Lake - intake & outlet	*N*	480,000	38,189			38,189	*1
	Henley Lake Toilet Upgrade	*R*	120,000	-		0		
	Henley - landscape development	*N*	5,000	-		0		
	Recreational trails	*N*	317,000	17,787		17,787		
	Chinese Pagoda	*N*	30,000	63,502		48,920	14,582	*3
	Parks & Open Spaces - Signage	*R*	10,000	-		0		
	Flow meter telemetry	*N*	-	9,428		9,428		
	McJorrow Park playground	*N*	-	39,510		39,510		
	Riversdale Footbridge	*R*	-	6,420		6,420		
	Netball facility	*R*	800,000	800,000		800,000		
	Cricket facility upgrade	*R*	385,000	23,878		23,878		
	Sportsfield buildings renewals	*R*	283,000	204,252		204,252		
	QE Park cricket turf replacement	*R*		6,471		6,471		
	Sports facilities upgrades	*N*	155,000	-				
	South Park upgrades	*R*	6,000	-				
	Castlepoint furniture renewals	*R*	10,000	-				
Recretion Centre	Outdoor pool upgrades	*R*	12,600	-				
	Plant & equipment	*R*	100,000	97,146		97,146		
Cemeteries	Cemetery renovation & extension	*N*	23,000	45,006		45,006		
	sub totals to carry forward to next page		$ 14,329,138	$ 8,212,224	$ 1,330,488	$ 3,905,099	$ 2,976,637	

CAPITAL EXPENDITURE SUMMARY

Activity	Project		2017/18 Plan	2017/18 Actual	Source of Funding: Rates	Reserves	Other	
	sub totals carried forward		$ 14,329,138	$ 8,212,224	$ 1,330,488	$ 3,905,099	$ 2,976,637	
Community Facilities/Activities contd.								
Library	Library book purchases	*R*	190,000	178,246		178,246		
	Computer & equipment upgrades	*R*	35,000	48,071		48,071		
	Library building & furniture upgrades	*R*	11,000	-				
	Library roof replacement	*R*	100,000	11,377		11,377		
	Library Learning Centre	*G*	180,000	-				
Archive	Archives equipment renewal	*N*	125,000	-				
District Building	District Building facilities & equip	*R*	20,000	8,193		8,193		
	Building upgrades	*R*	-	12,747		12,747		
Elderly Housing	Pensioner housing renewals	*R*	130,000	66,282		64,827	1,455	*3
	Insulation upgrades (Laurent Place)	*N*	20,000	9,808		9,808		
Other Property	Public conveniences - misc items	*R*	3,000	9,226		9,226		
	Castlepoint Toilet Upgrade	*R*	120,000	4,890		4,890		
	Rental & other property upgrades	*R*	114,000	50,252		50,252		
	Rural Hall relocation & demolition	*N*	45,750	-				
	Earthquake strengthen Council bldgs	*N*	4,500,000	-				
	Deposit on Waiata House purchase	*N*	-	400,000			400,000	*1
Airport	Runway reseal & remarking	*R*	160,000	-				
	Airport development & upgrades	*N*	30,000	11,428		11,428		
	Runway lights replacement	*R*	150,000	-				
Mawley Park	Mawley Park facility - renewals	*R*	20,000	10,794		10,794		
	Mawley Park facility - new assets	*N*	80,000	93,659			93,659	*1
Economic Devlpmt	CBD security cameras	*N*	20,000	31,545		22,185	9,360	*3
	Town Square - irrigation & trees	*N*	25,000	2,243		2,243		
	Street Signage	*N*	32,000	-				
	Christmas decorations	*N*	40,000	42,085		42,085		
	Ascension sculpture (vested)	*Vested*		300,000			300,000	*4
Regulatory Services								
Environ. Health	Testing equipment	*R*	10,200	11,834		11,834		
Emergency Mgmt	Emergency welfare centre	*N*	35,000	-				
Council vehicles	Vehicle replacements	*R*	80,000	89,968		89,968		
Animal Services	Animal control - equipment	*R*	21,500	14,285		14,285		
	Animal control - pound renewal/replac	*R*	35,000	-				
Internal Functions								
Corporate Serv.	Computer and office equip upgrades	*R*	89,000	62,623		62,623		
	GIS aerial photos & data capture	*R*	-	7,800		7,800		
	Website redevelopment	*N*	-	5,317		5,317		
	IT Council Meetings Info systems	*N*	35,000	-				
Roading Advisory	Survey Equipment	*R*	-	12,555		12,555		
	Capital Expenditure (Ex Vested Assets)		**$ 20,785,588**	**$ 9,707,453**	**$ 1,330,488**	**$ 4,595,854**	**$ 3,781,111**	
Vested Assets (acquired from subdivision)								
	Roads, water, sewer, stormwater	*Vested*		4,265,771			4,265,771	*4
	Total Capital Expenditure		**$ 20,785,588**	**$ 13,973,224**	**$ 1,330,488**	**$ 4,595,854**	**$ 8,046,882**	

***1** New external loan funding totals $0 and internal loans total $936,018
***2** NZ Transport Agency subsidies on roading capital and renewals expenditure totals $2,460,093
***3** External funding towards asset purchases $84,999
***4** Vested assets ex subdivision include; Roading $2,698,308; Water $443,792; Sewer $630,173, Stormwater $432,936 and Other Property Land $60,562. Sculpture $300,000

Capital Expenditure Analysis

	Plan	Actual
Asset Renewals	**11,476,150**	**7,163,052**
Asset Growth	**180,000**	**-**
New Assets (improve level of service)	**9,129,438**	**2,244,402**
Vested Assets	**-**	**4,565,771**
	$ 20,785,588	**$ 13,973,224**

Work in Progress

Property, plant and equipment in the course of construction by class of asset is detailed below:

	2018 $000	2017 $000
Water reticulation (incl rural supplies)	328	43
Sewerage reticulation - Masterton	-	544
Roading network	620	165
Stormwater	2	-
Buildings	541	39
Consents applied for but not yet granted	74	38
Total work in progress	**1,565**	**829**

Variance from Plan Commentary on capital expenditure variances from the Plan are detailed in Note 31.

RELATED PARTY TRANSACTIONS

During the year Councillors and staff of the Council were involved in minor transactions with the Council (such as payment of rates, trade waste charges and building consents). In addition, during the year the Council had dealings with a number of entities where there is a direct relationship between a Councillor or senior staff member. These have been considered related party transactions and are disclosed below for transparency purposes.

The transactions disclosed were effectively 'at arm's length'. The individuals involved were either not part of the decision-making process, or did not vote on the Council resolution where a decision affecting their interests was made.

As part of the annual plan process and grants funding decisions during the year, the Council may decide on grants to, or funding of organisations to which there is a related party relationship. The agendas at any meetings where these grants are decided always start off with the declaring of any potential conflicts of interest. The intention of this is that these parties do not unfairly influence the decision. For the sake of public information, the detail below clarifies the potentially more significant transactions and relationships.

Related party transactions disclosed:

* The Council has entered a contract to purchase the land and buildings known as Waiata House from Masterton Trust Lands Trust. Councillor's R Johnson and F Mailman are elected trustees of that Trust and took no part in the decision to purchase the property.
* From Oct 2016, Cr B Goodwin has been an elected trustee of the Trust House Foudation. Council has applied to and been granted funding from the Foundation for projects which include events and the library learning centre.
* Masterton Trust Lands Trust provides the Library with a grant for books. Cr R Johnson and F Mailman are trustees.
* Cr. C Peterson is a board member of New Pacific Studio and King Street Artworks. These organisations received grants from the Council of $2,000 and $5,000 respectively (2016/17 $2,000 & $5,000).
* Wairarapa Resource Centre was given a $150 grant ex the Mayor's Fund (2017 $3,000 community development grant). Cr C Peterson is a committee member, while Cr J. Hooker is a part-time employee.
* Wairarapa Balloon Society Inc. was given a $10,000 grant towards the annual balloon festival. Cr J. Hooker was the Chair until Sept 2017, Mr D. Paris (Manager Finance) was an office holder of the Society. (2016/17 $10,000)
* The Huri Huri Festival of Cycling was given an event grant of $5,000, via Wairarapa Bike Festival Charitable Trust, which is associated with Promote Communications Ltd, a company jointly owned by Mr S. Rossiter-Stead (Communications and Marketing Advisor until January 2018) and his wife. (2017 $10,000)
* Wellington Free Ambulance was given a $17,500 grant - Mr.S. Rossiter-Stead's (Communications & Marketing Advisor until January 2018) wife is a trustee of the entity (2015/16 $11,500).
* Wairarapa Chamber of Commerce was given grants of $5,000 and $7,500 for the Wai Won Awards and operational costs. Mr S. Rossiter-Stead's wife is an employee of that organisation (2016/17 $5,000).
* Synergy Consultants Ltd, owned by Cr J. Hooker is contracted to provide part time services for the planning and management of the EM/CD Welfare function and is a EM/CD alternate Controller.
* The Wairarapa Multi Sport Stadium Trust operates the facility at Cameron & Soldiers Memorial Park and has a Council appointed representative on their Trust. From Oct 2016 that was the Cr. J Dalziel. The Council granted $20,000 to the Trust in 2017/18 to assist with the costs of a summer concert (2016/17 $15,000).
* The Bring it to Colombo Trust was formed in 2016 with the express purpose to redevelop the Council-owned netball courts at Colombo Road, taking responsibility as a Community-led project. The large Council commitment to the project has seen the appointment of three Council members and one staff member as trustees. They are the Mayor, Lyn Paterson, Cr. G McClymont and (from Oct 2016) Cr R Johnson and the Mgr Community Facilities & Activities, Andrea Jackson. Council made decisions during the previous two years on the level of Council funding to go into the project. The facility was constructed in 2017/18 and the Council has contributed $800,000 and has agreed to a guarantee on a loan facility of up to $200,000.

Transactions with key management personnel		**2017/18**	**2016/17**
Councillors	Remuneration	$388,855	$383,308
	Number of members	14	14
Senior Management Team, including the Chief Executive			
	Remuneration	$1,209,816	$1,155,389
	Full-time equivalent members	7.2	7.2
	Total key management personnel remuneration	**$1,598,672**	**$1,538,698**
	Total full-time equivalent personnel	**21.2**	**21.2**

Due to the difficulty in determining the full-time equivalent for Councillors, the full-time equivalent is taken as the number of Councillors.

REMUNERATION - Elected Representatives

The Masterton District Council consists of a Mayor and ten councillors. The Mayor's honorarium and Councillors' remuneration pool are set by the Remuneration Authority. The allocation of the 'pool' is decided by the Council.
Two iwi representatives were appointed in August 2016 and there is a Whaitua rep appointed to that GWRC committee.

		2017/18	2016/17
Mayor	Lyn Patterson	95,524	95,074
Deputy Mayor	Graham McClymont	34,734	33,145
Councillor & task group chair	Gary Caffell	33,493	31,140
Councillor & committee chair	Jonathan Hooker	34,734	32,655
Councillor (& former TG chair)	Chris Peterson	24,810	25,447
Councillor	Brent Goodwin	24,810	24,395
Councillor	Simon O'Donoghue	24,810	24,395
Councillor	Frazer Mailman (since Oct'16)	24,810	17,378
Councillor	Bex Johnson (since Oct'16)	24,810	17,378
Councillor	John Dalziell (since Oct'16)	24,810	17,378
Councillor	Deborah Davidson (since Oct'16)	24,810	17,378
Councillor & task group chair	David Holmes (until Oct'16)	0	8,789
Councillor	Mark Harris (until Oct'16)	0	7,017
Councillor & task group chair	Phillipa Hannon (until Oct'16)	0	8,069
Councillor & task group chair	Doug Bracewell (until Oct'16)	0	8,069
Whaitua Representative		7,500	5,000
Iwi Representatives (x2)		9,200	10,600
		$ 388,855	$ 383,308

REMUNERATION - Chief Executive

The Chief Executive of the Masterton District Council is appointed under section 42 of the LG Act 2002.

	2017/18	2016/17
Dr Pim Borren's total salary paid, including benefits is:	$252,022	$240,000

REMUNERATION - Council employees

Total annual remuneration by band for employees as at 30 June:

2018		2017	
< $60,000	70	< $60,000	65
$60,000- $79,999	18	$60,000- $79,999	23
$80,000- $99,999	27	$80,000- $99,999	17
$100,000-$139,999	6	$100,000-$139,999	7
$140,000-$239,999	5	$140,000-$239,999	6
Total Employees*	126	Total Employees*	118
Total FTEs	102	Total FTEs	98

*(includes part time & casuals)

Total remuneration includes all financial and non-financial benefits provided to employees.
Where the number of employees in any band is 5 or fewer, the number for that band is combined with the next-highest band. At balance date the Council employed 80 (2017 = 79) full-time employees, with the balance of staff representing 22 (2017 = 19) full-time equivalent (FTE) employees.
A full-time employee is determined on the basis of a 40 hour working week.

SEVERANCE PAYMENTS - Council employees

For the year ended 30 June 2018, the Council made nil (2016/17 = 0) severance payments to employees totalling $0 (2017 $0).
The term severance payment includes non-monetary benefits but excludes salary, holiday pay, superannuation contributions and any other contractual entitlements to which the employee was entitled.

CREDITORS & OTHER PAYABLES

30 June 2017		$ 30 June 2018
4,529,874	Trade payables	4,524,378
236,811	Deposits & bonds	475,291
124,096	Agency rates collected - Greater Wellington Regional Council	130,062
891,160	Revenue received in advance	914,464
183,049	Community organisations - funds held in trust	164,645
$5,964,990		**$6,208,840**
	Exchange & Non-exchange transactions analysis	
	Payables and deferred revenue under exchange transactions:	
3,980,833	Trade payables and accrued expenses	3,985,639
533,579	Contract retentions	492,962
4,514,412		4,478,601
	Payables and deferred revenue under non-exchange transactions:	
15,462	Grants Payable	45,777
307,146	Bequests & funds held in Trust	294,708
1,127,970	Payments received in advance (incldg bonds)	1,389,755
1,450,578		1,730,240
$5,964,990	*Total payables and deferred revenue*	**$6,208,840**

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

Notes to the Accounts **Note 21**

EMPLOYEE BENEFIT LIABILITIES

30 June 2017			$ 30 June 2018
738,337	Staff holiday provision		774,442
162,455	Salaries & wages accrued		242,348
25,926	Councillor's honorariums payable		26,866
8,804	Staff sick leave provision		10,555
1,319	Staff alternative leave provision		1,219
140,958	Staff retirement gratuities		120,581
$1,077,799		Total Employee Benefit Liabilities	**$1,176,011**
1,009,593	Comprising:	Current	1,168,464
68,205		Non-current	7,546

The present value of staff retirement gratuities represents the discounted value of long service leave payable to five staff. The entitlement was 'grandfathered' in the 1990s, with the five staff having their entitlement frozen, except for salary movements. The discounted rate for future payments is 3.57% (last year 3.58%) while no salary inflation factor has been applied. The discounted rate has been applied to the best estimate of future cashflows. Any changes to these assumptions will affect the carrying amount of the liability.

Notes to the Accounts **Note 22**

DERIVATIVE FINANCIAL INSTRUMENTS

30 June 2017			$ Actual 30 June 2018
	Assets		
59,056	**Non-current**	Interest rate swaps - fair value	-
	Liabilities		
0	**Current**	Interest rate swaps - fair value	34,748
3,557,208	**Non-current**	Interest rate swaps - fair value	3,809,423
$3,557,208			**$3,844,171**

Fair value

The fair value of interest rate swaps have been determined by calculating the expected future cash flows under the terms of the swaps and discounting these values to present value. The input into the valuation model are from independently sourced market parameters such as interest rate yield curves. Most market parameters are implied from instrument prices. Movements in the value of the derivative instruments are shown through the Surplus/(Deficit) in the Statement of Comprehensive Revenue & Expenses, as per IPSAS 29 & 30.

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts for the Council were $60.4m (2017 $60.4m). Nine of these, with a nominal principal totalling $16m, were forward start date contracts (2017 Six with a total of $12m). At 30 June 18, the fixed interest rates of interest rate swaps varied from 2.865% to 5.8% (2017:3.313% to 5.8%).

PROVISIONS

30 June 2017		30 June 2018
$	**Landfill Aftercare Provision**	$
238,162	**Opening balance**	182,452
(60,946)	Amounts used during the year	(66,038)
(5,092)	Adjustments to provision*	48,496
10,328	Discount unwinding (Note 5)	10,948
$182,452	**Closing balance**	**$175,858**

Commentary

The Nursery Road landfill was closed for general refuse on 30th September 2006. An interim closure plan was accepted by the GWRC and a resource consent application has been lodged for the closure plan and on-going limited disposal of special wastes. MDC's responsibilities under the closure plan include progressive capping using cleanfill (as it is deposited) and some imported material. The liabilities for this work were recognised and allowed for over a 10 year time period to 2020.

***** In 2010/11 the resource consent, including a closure plan was finalised. The sums expended in 2017/18 were close to the level expected (for monitoring and adding cover material on the site). The capping work is now expected to be done over the next 4 years using cleanfill deposited at the site.

Provision for Financial Guarantees

NZ Local Government Funding Agency

Masterton District Council is a shareholder of the NZ Local Government Funding Agency Limited (NZLGFA). The NZLGFA was incorporated in December 2011 with the purpose of providing debt funding to local authorities in New Zealand and it has a credit rating from Standard and Poors of AA+.

Masterton District Council is one of 30 council shareholders of the NZLGFA, along with the NZ Government. In that regard it has uncalled capital of $100,000. When aggregated with uncalled capital of other shareholders, $20m is available in the event that an imminent default is identified. Also, together with the other shareholders, Masterton DC is a guarantor of all of NZLGFA's borrowings. At 30 June 2018, NZLGFA had lent $8.272 billion (2017: $7.945 billion). Financial reporting standards require Masterton District Council to recognise the guarantee liability at fair value. However, the Council has been unable to determine a sufficiently reliable fair value for the guarantee and therefore has not recognised a liability. The Council considers the risk of NZLGFA defaulting on repayment of interest or capital to be very low on the basis that:

* we are not aware of any local authority debt default events in New Zealand; and
* local government legislation would enable local authorities to levy a rate to recover sufficient funds to meet any debt obligations if further funds were required.

Community Organisations

MDC has provided banks with guarantees on the borrowings of community organisations. Currently there are two guarantees in place, which are listed below. MDC is obligated under these guarantees to pay the overdraft or debt if the community organisation defaults. The exercising of guarantees will be dependent on the financial stability of the community organisations, which will vary over time. A financial provision would be prudent to be carried if any one of these groups' guarantees is likely to be called upon. No provision is currently considered necessary.

	Value of Guarantee	Amount owing 30 June 2018	Amount owing 30 June 2017
Masterton Motorplex Inc.	300,000	207,573	238,622
Wairarapa Multi-Sport Stadium Trust Board	100,000	67,332	86,746
Bring It To Colombo Trust*			
	400,000	274,905	325,368

*The Council has resolved to provide a guarantee to the Trust of up to $200,000. The facility has yet to be set up.

30 June 2017		30 June 2018
$	**Total Provisions**	$
182,452	Landfill aftercare provision	175,858
0	Financial guarantees provision	0
$182,452	**Closing carrying value - Provisions**	**$175,858**
66,038	**Current**	50,472
116,414	**Non-current**	125,386
$182,452		**$175,858**

FINANCIAL LIABILITIES as at 30 June 2018

SUMMARY	$ 30 June 2017	$ 30 June 2018	$ Plan 2018
Secured (bank) loans	0	0	0
Secure Floating Note (FRN)	5,000,000	0	0
LGFA bonds	54,000,000	52,000,000	60,756,701
Finance leases	64,747	36,550	36,000
Internal loans	6,839,945	7,001,073	5,419,526
Sub total - all financial liabilities	65,904,692	59,037,623	66,212,227
Less current portion of external liabilities	(7,000,000)	(10,028,736)	(2,094,069)
Internal loans/investments reversed	(6,839,945)	(7,001,073)	(5,419,526)
Total non-current financial liabilities	**$52,064,747**	**$42,007,814**	**$58,698,632**

COST OF DEBT SERVICING 2017/18	$ Actual		$ Plan
Loan repayments (external)	7,028,197		1,887,997
Interest expense (external)	2,603,793		2,878,945
Cost of Debt Servicing (external)	**9,631,990**		**4,766,942**
Loan repayments (internal)	774,891		387,923
Interest expense (internal)	245,171		291,009
Cost of Debt Servicing (internal)	**1,020,061**		**678,932**
Treasury Policy Compliance		Policy Limits	
Net External Debt to Operating Revenues	**66.0%**	150%	**99.2%**
Interest (external) as % of operating revenue	**5.9%**	10%	**6.9%**
Interest (external) as % of total rates revenue	**9.4%**	15%	**10.4%**
Interest (internal & external) as % of total rates revenue	**10.3%**	20%	**11.4%**

MOVEMENTS IN TOTAL DEBT	$ Actual	$ Plan
Opening Balance 1 July 2017	**$65,904,693**	**$60,488,083**
Loan repayments	(7,803,088)	(2,275,920)
New borrowing (external, internal & finance leases)	936,018	8,000,064
Closing Balance 30 June 2018	**$59,037,623**	**$66,212,227**

MATURITY ANALYSIS

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

	30 Jun 2017	30 Jun 2018	
Repayments due in less than one year	7,000,000	10,000,000	Weighted average
Later than one year, less than five	8,528,518	28,000,000	interest on
Later than five years	43,471,482	14,000,000	external loans
	$59,000,000	**$52,000,000**	**4.97%**

ANALYSIS OF FINANCE LEASE LIABILITIES	Actual 2017	Actual 2018
Payable no later than one year	33,632	31,168
Later than one, not later than two years	31,168	10,388
Later than two, not later than five years	10,388	0
Future financing charges	(10,441)	(5,007)
	$64,747	**$36,549**
Representing lease liabilities - Current	33,632	31,168
- Non-current	31,115	5,382

Security: The Council has secured it's loans and debenture borrowing using a Debenture Trust Deed (DTD). Under the DTD the Council's rates revenue is offered as security and all lenders rank equally, with a trustee representing the lenders. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Term: Each LGFA bond has a term shorter than the intended term of the borrowing, but for the maturity analysis above, it has been assumed that they will be repaid over sanctioned terms and refinanced as they mature. The loans include two Cash Advance Facilities (CAFs) with $0 drawn and $10m undrawn. Interest rate swaps have been used to fix interest rates for terms ranging from 3months to 9.5 years.

Offset: A $5m FRN was repaid in July 17 from $5m drawn in advance.

Debentures: The Local Government Funding Agency (LGFA) bonds are used to fund capital projects. These bonds are floating rate, with swaps used to fix interest rates to comply with treasury policies.

Leases: The Council has entered into finance leases for a number of photocopiers and a tractor. The value of these assets is disclosed in Note 13. The finance leases can be renewed at MDC's option and MDC does have the option to purchase the assets at the end of the lease term. There are no restrictions placed on MDC by any of the finance leasing arrangements.

FINANCIAL LIABILITIES as at 30 June 2018

New Debt: The Council borrowed no money externally during the year.

Internal loans: $0.94m in new internal borrowing was used to fund 2017/18 capital projects.
Internal interest paid/earned totalled $245,170 and was charged on the average balance due. The interest rates charged averaged 3.50% for the year to 30 June 2018. The rates were based on the mid-point between what the Council could earn and what Council was paying on its external loans.

Schedule of External Loan & Finance Lease Movements by Groups of Activities
for the year ended 30 June 2018

External Interest $ 000's		Opening Balance $ 000's	New Borrowing $ 000's	Reduction $ 000's	Closing Balance $ 000's
6	Roading	135		(4)	131
124	Water	2,593	0	(75)	2,518
2,128	Sewerage Services	49,149	0	(6,524)	42,625
32	Stormwater	727	0	(151)	576
63	Solid Waste	1,339		(64)	1,275
251	Community Facilities/ Activities	5,122	0	(210)	4,912
2,604		59,065	-	(7,028)	52,037

Schedule of Internal Loan/Investment Movements by Groups of Activities
for the year ended 30 June 2018

Internal Interest $ 000's		Opening Balance $ 000's	New Borrowing $ 000's	Reduction $ 000's	Closing Balance $ 000's
23	Roading	655		(27)	628
8	Water	203	262	(6)	459
134	Sewerage Services	3,776	142	(102)	3,816
0	Stormwater	0		-	0
17	Solid Waste	491		(33)	458
63	Community Facilities/ Activities	1,715	532	(607)	1,640
245		6,840	936	(775)	7,001

EQUITY

RETAINED EARNINGS

30 June 2017		$ 30 June 2018
424,668,575	Opening Balance	424,574,774
4,617,518	Transfers From Special Funds & Reserves	6,458,166
(6,654,783)	Transfers (To) Special Funds & Reserves	(9,552,071)
232,722	Transfer to equity revaluation reserve on disposal assets	216,889
1,710,743	Surplus/(Deficit) for the year	6,477,455
$424,574,774	Closing Balance	**$428,175,213**

REVALUATION RESERVE

30 June 2017		Notes	Movements due to asset disposals & impairment	Revaluation Movements	30 June 2018
30,355,428	Land	*1		8,428,543	38,783,971
17,023,094	Buildings	*2	3,317	4,874,044	21,900,456
	Infrastructural Assets	*3			
3,707,759	Land (under roads)				3,707,759
164,116,367	Roading & footpath assets		(12,592)		164,103,775
15,622,155	Water supply - urban		(133,117)		15,489,038
416,306	Water supplies - rural		(974)		415,332
15,763,463	Sewerage system - urban		(115,383)		15,648,080
366,646	Sewerage systems - rural		(1,167)		365,479
3,045,910	Stormwater assets		(3,095)		3,042,815
1,254,123	Flood Protection & Control Works				1,254,123
2,535,746	Other infrastructure assets				2,535,746
(54,488)	Financial assets value change	*4	46,122	(3,886)	(12,252)
$ 254,152,504	via comprehensive revenue		**($216,889)**	**$ 13,298,701**	**$ 267,234,317**

Analysis of Movements

*1 *Land was revalued as at 30 June 2018 by Jones Lang LaSalle resulting in a $8.4 Million (17.1%) increase in in fair value after taking account of addtions and deletions during the same period.*

*2 *Building assets were revalued by Jones Lang La Salle as at 30 June 2018 resulting in $4.9 million (15%) increase in depreciated replacement cost (DRC) over 3 years, after taking account of additions and depreciation for the same period.*

Revalued portion of Buildings disposals:	Cricket Wicket replaced	$ 3,317

*3 *Revalued portion of infrastructural assets disposed/replaced included the following:*

Roading assets:	- kerb & channel, footpaths, signs, culverts, bridges	($12,592)
Water assets:	- water reticulation mains & connections	($134,091)
Sewerage assets:	- sewer reticulation, manholes & connections	($116,549)
Stormwater assets:	- stormwater reticulation	($3,095)

*4 *Revalued portion of investments maturing included the following:*

Telstra Bond	$ 35,322
Rabobank	$ 14,000
ANZ Perpetual Bond	($3,200)

FINANCIAL INSTRUMENTS

Financial instrument categories

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

	$000 30 June 2018	$000 30 June 2017
Financial Assets		
Fair value through profit & loss		
Fund manager - cash and cash equivalents	0	0
Fund manager - current financial assets	0	0
Fund manager - non-current financial assets	7,966	7,620
	7,966	7,620
Cash Deposits, Receivables & Community Loans		
Debtors and other receivables	4,965	3,479
Cash and cash equivalents	9,505	4,840
Bank deposits - current financial assets	4,281	10,519
Bank deposits - non current financial assets	0	500
	18,751	19,339
Fair value through comprehensive revenue & expense		
Derivative financial instrument assets	0	59
Corporate bonds - current	161	501
Corporate bonds - non-current	811	1,841
Unlisted shares	312	316
	1,284	2,717
Financial Liabilities		
Fair value through comprehensive revenue & expense		
Derivative financial instrument liabilities	3,844	3,557
Financial liabilities at amortised cost		
Trade and other payables	6,209	5,965
Borrowings - secured loans	0	0
- LGFA bonds	52,000	54,000
- Secure Floating Note (FRN)	0	5,000
	58,209	64,965

FINANCIAL INSTRUMENT RISKS

Masterton District Council (MDC) has a Treasury Management Policy in place to manage the risks associated with financial instruments. MDC is risk averse and seeks to minimise exposure from its treasury activities. MDC has established Council approved Liability Management and Investment policies. These policies do not allow any transactions that are speculative in nature to be entered into.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. MDC is exposed to equity securities price risk on its investments, which are classified as financial assets held at fair value through equity and fair value through P&L. This price risk arises due to market movements in tradeable securities. This price risk is managed by diversification of MDC's investment portfolio in accordance with the limits set out in MDC's Investment policy.

MDC holds shares (equity instruments) in NZ Local Government Insurance Corporation, Airtel Ltd and NZ Local Government Funding Agency, none of which are publicly traded. Change in value is calculated by calculating MDC's share of the reported value of the entity's equity.

Currency risk

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

Interest rate risk

The weighted average interest rate that the MDC's investments are earning at 30 June 2018 is 4.16% (last year 2.19%) and on MDC's borrowings (as shown in Note 24) weighted average interest rate is 4.97% (last year 4.63%).

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowing issued at fixed rates exposes the MDC to fair value interest rate risk. MDC's Liability Management Policy outlines the minimum and maximum level of borrowing (55% and 90%) that is to be subject to fixed interest. Floating to fixed interest rate swaps have been entered into to hedge the fair value interest rate risk arising where MDC has borrowed at floating rates.

In addition, investments at fixed interest rates expose the MDC to fair value interest rate risk. If interest rates on investments at 30 June 2018 had fluctuated by plus or minus 1%, the effect would have been to decrease/increase the fair value through P&L and/or equity reserve by $227,200 (2017 $258,200).

If interest rates on borrowings at 30 June 2018 had fluctuated by plus or minus 1%, the effect would be to decrease/increase the surplus/(deficit) in future periods by up to $520,400 (2017 $590,600) as a result of higher/lower interest expense on borrowings.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose MDC to cash flow interest rate risk.

MDC manages its cash flow interest rate risk on borrowings by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings at floating rates and swaps them into fixed rates that are generally lower than those available if MDC borrowed at fixed rates directly. Under the interest rate swaps, MDC agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Credit risk

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

Due to the timing of its cash inflows and outflows, the MDC invests surplus cash into term deposits. MDC also holds reserve funds that are invested in a number of financial instruments, according to criteria in the Investment Policy. These investments can give rise to a credit risk. MDC invests funds only in deposits with registered banks, local authority stock and corporate bonds of BBB credit rating or better, and its Investment Policy limits the amount of credit exposure to any one institution or organisation and the percentage of the portfolio that can be invested in less than A rated instruments. Investments in other Local Authorities are secured by charges over rates. One investment fell below the BBB credit rating during the year and was still held at year end. This policy breach was reported to the Council.

MDC has no significant concentrations of credit risk in its general debtor assets as it has a large number of credit customers, mainly ratepayers, and MDC has powers under the Local Government (Rating) Act 2002 to recover outstanding debts from ratepayers.

Liquidity risk

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

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

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

MDC is a shareholder in the NZ LGFA and has $52 million from them at 30 June 2018. There are two cash advance facilities with Westpac and ANZ. The maximum amount that could be drawn down using these facilities during 2017/18 was $10m (2017 $10m). The intent of using these type of facilities is two-fold: 1) to assist meeting cashflow requirements on capital projects prior to conversion to longer term debt, and 2) to enable floating-to-fixed interest rate risk management instruments to be used. As at 30June 2018 no money had been drawn against the CAFs (2017 $0m).

The maturity profile of MDC's interest bearing investments is disclosed in Note 11 with a split between cash, deposits of less than 3 months, financial assets of less than 12 months and financial assets with terms greater than 12 months. The table below shows the financial assets exposed to credit risk and the credit ratings of the investments.

Note 26a

Maximum exposure to credit risk		$000	$000
		30 June 2018	30 June 2017
Cash at bank and term deposits		13,786	15,859
Debtors and other receivables		4,965	3,479
Derivative financial instrument assets		0	59
Local authority, LGFA and government stock		914	898
Corporate bonds/discounted securities/SOEs		8,024	9,064
		27,689	29,360
Credit quality of financial assets			
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings (if available) or to historical information about counterparty default rates:			
Counterparties credit ratings			
Cash at bank and term deposits	AA-	12,155	14,290
	Not Rated	1,631	1,569
Total cash at bank and term deposits		13,786	15,859
Government and LGFA Stock			
Government stock	AA	0	0
LGFA	AA+	914	898
Local authority stock	A	0	0
Total Government and LGFA Stock		914	898
Listed bonds	AAA	691	661
	AA	6,859	6,561
	A- to AA-	0	0
	A+	0	0
	A	416	899
	A1 & A1+	0	0
	BB+ to BBB+	59	943
Total listed bonds		8,024	9,064
Derivative financial instrument assets			
	AA-	0	59
Counterparties without credit ratings			
Debtors and other receivables		4,965	3,479
		4,965	3,479

Debtors and other receivables mainly arise from MDC's statutory functions, therefore there are no procedures in place to monitor or report the credit quality of debtors with reference to internal or external credit ratings.

Contractual maturity of financial liabilities

Note 24 contains a table which discloses the relevant maturity groupings of MDC's term liabilities. The table on the next page analyses all MDC's financial liabilities based on the remaining period from the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at the balance date. The amounts disclosed are the undiscounted cash flows and include interest payments.

The table also includes MDC's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

Note 26b

Contractual maturity analysis of financial liabilities	Carrying amount $000	Contractual cash flows $000	Less than 1 year $000	1 -5 years $000	More than 5 years $000
As at 30 June 2017					
Creditors and other payables	5,965	5,965	5,965		
Net settled derivative liabilities*	3,557	11,612	1,914	6,651	3,047
Commited cash advances	0	0	0	0	
Secure Floating Note (FRN)	5,000	5,014	5,014		
LGFA bonds	54,000	62,360	2,726	37,148	22,486
Finance leases	65	65	34	31	
	68,587	85,017	15,653	43,830	25,534
As at 30 June 2018					
Creditors and other payables	6,209	6,209	6,209		
Net settled derivative liabilities*	3,844	12,206	1,970	6,191	4,045
Commited cash advances	0	0	0	0	
Secure Floating Note (FRN)	0	0	0		
LGFA bonds	52,000	54,075	10,436	25,400	18,239
Finance leases	37	37	31	6	
	62,089	72,527	18,646	31,597	22,284

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

SENSITIVITY ANALYSIS

The table below illustrates the potential effect on the surplus or deficit and equity (excluding accumulated funds) for reasonably possible market movements, with all other variables held constant, based on the Council's financial instrument exposures at balance date.

Note 26c

Sensitivity Analysis	2018 000's				2017 $000's			
	-100bps		+100bps		-100bps		+100bps	
Interest Rate Risk	Surplus	Other Equity	Surplus	Other Equity	Surplus	Other Equity	Surplus	Other Equity
Financial Assets								
Cash & cash equivalents	(95)		95		(48)		48	
Other financial assets[1]	322	-	(322)	-	308	-	(308)	-
Other financial assets[2]		51		(51)		104		(104)
Derivatives[3]	-		333		(59)		437	
Financial Liabilities								
Term Debt	520		(520)		590		(590)	
Derivatives[3]	(2,284)		1,786		(2,386)		1,823	
Total Sensitivity	(1,537)	51	1,372	(51)	(1,595)	104	1,411	(104)
Foreign Exchange Risk	Minimal - foreign exchange transactions are limited to some library book purchases.							
Equity Price Risk	Nil - there are no listed shares within financial assets.							

1. Financial assets whose fair value change is shown through Surplus/(Deficit)
2. Financial assets whose fair value change is shown through Comprehensive Revenue & Expense
3. Derivatives (interest rate swaps) fair value change is shown through Surplus/(Deficit) (not hedge accounted)

CAPITAL MANAGEMENT

The Council's capital is its equity (or ratepayers' funds), which comprise retained earnings, revaluation reserves and special funds and reserves. Equity is represented by net assets.

The Local Government Act 2002 [the Act] requires the Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayer's funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the Act and applied by the Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the Council's assets and not expecting them to meet the full cost of long term assets that will benefit ratepayers in future generations. Additionally, the Council has in place asset management plans for major classes of assets detailing renewal and maintenance programmes, to ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.

The Act requires the Council to make adequate and effective provision in its Long Term Plan (LTP) and in its annual plan (where applicable) to meet the expenditure needs identified in those plans. And the Act sets out the factors that the Council is required to consider when determining the most appropriate sources of funding for each of its activities. The sources and levels of funding are set out in the funding and financial policies in the Council's LTP.

MDC has the following types of Council-created Special Funds and Reserves:

- Reserves representing accumulating asset replacement provisions;
- Reserves representing developer contributions towards assets & infrastructure;
- General purpose reserves originating from asset sales and carried forward funding;
- Restricted reserves intended for special purpose assets or originating from a bequest.

Reserves for asset replacement are used where there is a discrete asset for which renewal or replacement expenditure is required to be met over and above annual revenue.

Developer contributions taken under the District Plan are held in reserves and applied to asset development projects, giving effect to the intent of the District Plan, to help fund the impacts of growth.

Interest is added to reserve fund balances as per the Council policy of protecting the reserve funds against inflation while maximising the interest return for use on Council development projects. Full interest is allocated to bequest and special purpose asset reserves. Deductions from reserves are made based on Council's Annual Plan decisions on the funding source for a range of expenditure.

Purpose and Application of Special Funds & Reserves

Plant & Equipment Depreciation Funds
These funds are built up from depreciation on plant and equipment and are used to fund replacements.

General Capital Reserves
These funds have been set aside from the sale of assets, the most significant of which was the Wairarapa Electricity shares sold in 1996. Forestry sale proceeds are added to this reserve. Funds can be utilised for new asset purchases and to fund one-off Council projects and grants.

Investment Interest Fund
These funds are generated by receiving the proceeds of interest earnings on investments, after allocating interest at the rate of inflation to all other special funds balances. The funds are applied to offset debt servicing costs on specific projects including the CBD upgrading, Chapel St stormwater line and Castlepoint seawall.

Reserves & Development Funds
These funds represent reserves and development contributions that are generated from the District Plan provisions for financial contributions on development and subdivision. The funds can only be applied to the purpose for which they were taken i.e. development of assets on reserves and general district development.

Buildings Depreciation Funds
The Council has a series of specific depreciation reserve accounts for assets such as Housing for the Elderly, the District Building, Masterton Recreation Centre and parks & reserves buildings. Depreciation funds on these assets are accumulated in these funds and used for renewal expenditure as required.

Roading, Bridges & Flood Damage Funds
Most roading renewal expenditure is funded from rates and NZTA subsidies, but some funding for Council's share of bridge renewals and street furniture is being built up in this fund. Roading contributions taken as per the District Plan financial contributions are accumulated in this fund and a separate fund for responding to road flood damage is also part of this group. Use of these funds can be for roading and bridge renewals, upgrades and flood damage.

Urban Infrastructure Depreciation Funds
Depreciation on urban infrastructural assets is accumulated in this fund and applied to renewal of those assets. Infrastructure contributions taken as per the District Plan financial contributions are accumulated in this fund and utilised on renewing and upgrading the network assets.

Miscellaneous Funds
These funds are made up of surpluses and deficits of various distinct entities under Council's control. Separate balances are maintained for a number of rural water and sewerage supplies and the Dog Control carry forward surpluses. A separate Special Funds account represents a balance of funds carried forward. They are generally rated for specific items, but not spent. The sums are identified at year end and carried forward so they can be applied to the expenditure for which they were raised. The Council has also utilised, or borrowed from these funds to advance projects and repay back to the fund, e.g. Wairarapa Combined District Plan project.

MOVEMENTS IN SPECIAL FUNDS & RESERVES - 2017/18

	Opening Balance	Transfers Out	Transfers In	Closing Balance	Plan
Plant & Equipment Funds	1,699,252	(391,958)	485,351	1,792,645	1,495,469
General Capital Funds	3,352,441	(1,284,513)	478,261	2,546,189	2,477,567
Investment Interest Fund	(134,082)	(492,867)	627,209	260	343,659
Reserves & Development Funds	948,363	(283,420)	537,569	1,202,512	278,710
Building Depreciation Funds	7,289,139	(1,002,083)	1,463,960	7,751,016	5,265,474
Roading, Bridges & Flood Damage	5,395,124	(215,156)	1,351,204	6,531,172	5,873,757
Urban Infrastructural Depreciation	3,316,434	(1,973,821)	3,302,010	4,644,623	3,454,448
Miscellaneous Funds	2,052,875	(814,348)	1,306,507	2,545,034	1,510,438
Total	**$23,919,547**	**($6,458,166)**	**$9,552,071**	**$27,013,451**	**$20,699,521**

Analysis of Transfers 'OUT' of Funds & Reserves	Actual 2017/18	Plan 2017/18
Funding of Capital Expenditure from special funds & reserves	4,595,854	8,369,844
Funding of Operating Expenditure from special funds & reserves	1,862,312	1,395,500
	6,458,166	**9,765,344**
Analysis of Transfers 'IN' to Funds & Reserves		
Reserves & Development Contributions received	537,569	205,000
Infrastructure & Roading Contributions received	1,547,907	237,000
Carry forward funding for on-going project commitments	1,181,441	143,629
Interest earned and retained in special funds	4,000	4,000
Interest earned and allocated to Investment Interest fund	627,209	676,000
Sub Total	3,898,127	1,265,629
Depreciation funded into asset replacement reserves funds	5,157,483	5,154,795
Total of Transfers into funds from Operations	**9,055,610**	**6,420,424**
Proceeds from sale of plant & equipment assets	18,200	
Proceeds from sale of land & building assets (including forestry harvested)	478,261	0
Total Transfers into funds from Asset Sales	**496,461**	**0**
	9,552,071	**6,420,424**

Explanation of variances from Plan:

The balance of Special Funds & Reserves, at $27.0 million, is $6.3 million or 30.5% more than planned.

Plant & Equipment Funds - 19.9% more than Plan

Not all the equipment replacement budget was spent and more depreciation has flowed in than planned.

General Capital Funds - 2.8% more than Plan

A $700k contribution to the netball upgrade project came from this fund in 2017/18. Funds returned from the sale of a portion of land on Lees Pakaraka Road were used to repay the loan raised for that property purchase.

Investment Interest Fund - $343k less than planned

Prior year interest on investments was less than expected, so the opening balance deficit was not planned.

Reserves & Development Funds - $923k more than Plan

Expenditure from this fund was not as much as planned (CBD project and QE Park rejunvenation).

Building Depreciation Funds - 47.2% more than Plan, $2.5 million

Only $1m of $3.3m planned expenditure from this fund was needed as a number of projects (eg airport reseal) were not progressed within the year.

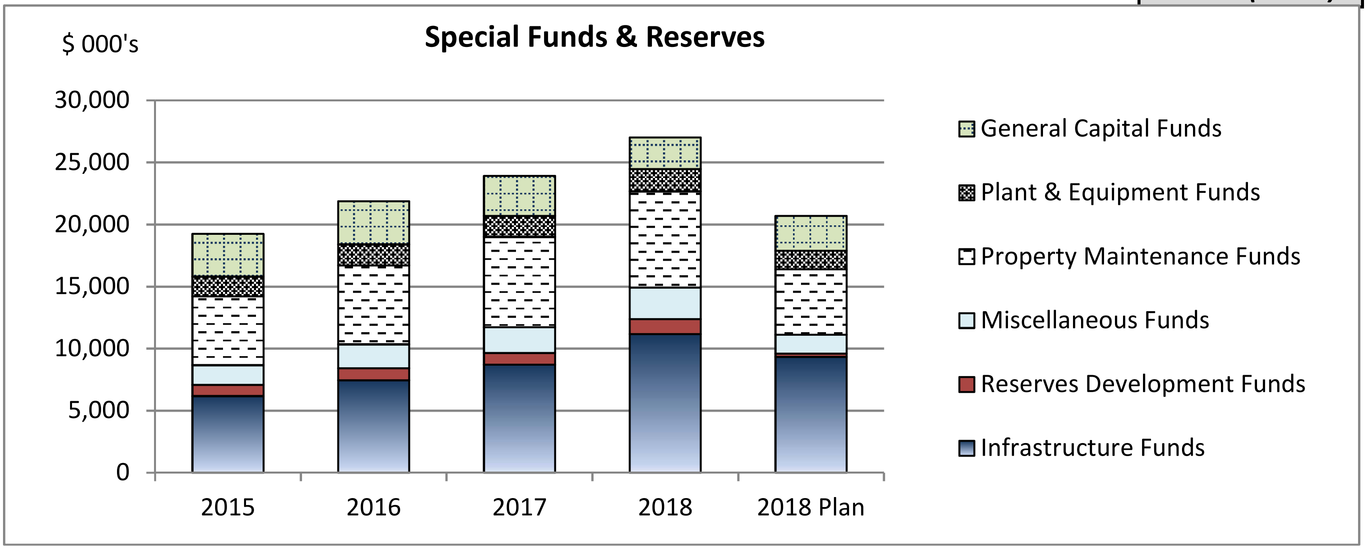
Infrastructural Assets Funds

Roading funds are 11.2% more than planned, some $657k, due the footpath renewal programme not being completed, a higher NZTA subsidy on the streetlight upgrades and higher contributions from developers. Urban infrastructure fund $1.2m more than planned. Nearly $2m was applied to fund renewals, $0.2m less than planned, while contributions from developers were $0.9m more than planned.

Miscellaneous Funds

These funds have ended the year $1.0m above the planned level due to carrying forward more unspent project and surplus funding than planned.

Note 28 (contd)



Notes to the Accounts

Note 29

$ 2016/17	RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH INFLOW FROM OPERATING ACTIVITIES	$ 2017/18
$ 1,710,743	**Operating Surplus / (Deficit)**	**$ 6,477,455**
	- Add (less) non-cash items	
11,006,358	Depreciation and amortisation	11,274,627
-	Vested asset gains	(4,565,771)
(82,149)	(Gains)/losses in fair value of biological assets (forestry)	(146,856)
(58,000)	(Gains)/losses in fair value of investment property	(169,000)
(30,616)	Other non-cash items	(43,802)
	- Add (less) items classified as investing or financing	
526,693	(Gains)/losses on disposal of property, plant & equipment	673,720
(1,759,029)	(Gains)/losses on change in fair value of financial assets/liabilities	346,019
	- Add (less) movements in working capital items	
(38,448)	(Increase)/decrease in receivables	(1,474,998)
(52,431)	(Increase)/decrease in prepayments	(10,743)
(102,483)	(Increase)/decrease in Inventories	125,048
600,405	Increase/(decrease) accounts payable	(125,423)
(12,741)	Increase/(decrease) in employee entitlements	98,212
115,000	Increase/(decrease) in other current liabilities	421,630
$ 11,823,302	**Net Cash Inflow from Operating Activities**	**$ 12,880,118**

RATING POLICIES REPORT

RATES REMISSIONS

The cost of the Council's Rates Remission Policy is summarised below.

Rates remissions were given on:

	2017/18 No.	2017/18 $		2016/17 No.	2016/17 $
Community halls, volunteer & charitable groups	64	85,974		62	79,152
Sporting, arts and cultural use	23	39,424		24	45,417
Land protected for conservation or heritage purposes	78	12,314		75	9,637
Rate penalty remissions*	10,401	237,855	*	9,714	226,321
Uniform charges on non-contiguous units	6	2,173		6	2,115
Urban land with rural use	8	7,227		7	3,371
Total (as per Note 3)	10,580	$384,967		9,888	$366,014

* Note: The majority of these penalty remissions were given to properties which had a direct debit (DD) in place to clear the instalment by the end of the quarter. At the penalty date they had a balance due on which an automatic penalty has been calculated, then remitted. 10,401 is the number of transactions, and these relate to penalty remissions on 3,037 properties. The increase from the previous year, both in terms of volume and and value, is a reflection of the growth in people paying by way of DD and in particular, choosing to pay on a weekly, fortnightly or monthly basis.

No estimate has been attempted to establish the value of rates revenue which would have been chargeable on those properties which the Rating Act 2002 makes non-rateable. If those properties had been rateable the Council would have still collected the same total rates to fund its activities and the rates-in-the-$ would have been less, effectively spreading the rates required over more properties and other ratepayers' rates less.

RATES POSTPONEMENTS - Subdivision Developments

Under the Council policy on Rates Postponements for subdivision developments, zero (2017 = 0) ratepayers have received the benefit of being allowed to postpone 50% of the rates on unsold sections.

- Postponements for Hardship or Against Equity

In 2017/18, no properties (2016/17 = 0) requested or were allowed to postpone rates based on the Council's policy for postponement under extreme financial circumstances, or for postponement against equity on the homes of elderly ratepayers.

Notes to the Accounts **Note 31**

PLAN COMPARISON & BUDGET VARIATIONS

Treasury Policy

	Policy Limit	2017/18 Actual	2017/18 Plan	2016/17 Actual
Net External Debt* as % of Operating revenue	*150%*	**66.0%**	99.2%	82.6%
Interest expense (external) as % of Op revenue	*10%*	**5.9%**	6.9%	6.6%
Interest expense as % of Rates revenue	*15%*	**9.4%**	10.4%	9.7%
Interest (external & internal) as % Rates revenue	*20%*	**10.3%**	11.4%	10.8%
Long Term Debt (external) per capita		**$2,115**	$2,502	$2,401

* *Net External Debt is defined as Financial Liabilities (including current), less current and term Financial Assets and Cash*

PLAN COMPARISON & BUDGET VARIATIONS

Major Variations from Plan

Explanations for major variations in the Financial Statements from the Council's 2017/18 Annual Plan are as follows:

Statement of Comprehensive Revenue & Expense

The accounting surplus of $6.48m compares to the planned figure of $0.35m deficit, but after excluding Other Gains & Losses and Vested Assets, there was a net overall surplus of **$2.57m**

Total Operating Revenue of $48.81m is more than plan by ***$6.94*** *m* **16.6%**

* Revenue recognised but not budgeted includes gains from vested assets of $4.57m and valuation gains $0.36m
* Financial contributions of $2.185m were more than planned by $1.64m or nearly 4 times planned.
* Subsidies & grants were 3.9% or $0.2m less than planned due to subsidised roading expenditure being less than planned. A small amount of reneals work was not being able to be completed due to contractor availability.
* Other operating revenue of $8.03m was $0.53m (7.0%) more than planned, with the biggest proportion of the variance coming from waste transfer station gate fees and building services fees ahead of the level planned.
* Finance revenue of $0.764m was close to planned.

Personnel Costs are more than plan by ***($0.23)*** *m* **(2.9)%**

* This variance has arisen from some salaries having increased by more than the Plan allowed for, the addition of the employee benefit of income protection insurance and an increase in the value of annual leave liability.

Other Expenses are less than plan by ***$0.14*** *m* **0.7%**

* Roading operating costs were very close to plan at $0.07m less or 99.3% of plan spent.
* Cost savings were made in the Recreation Centre where electricity was taken over by the contractor.
* Costs were more than planned for Mawley Park and Building Services, but these higher costs were offset by additional income.
* In Governance costs, the MDC share of the amalgamation poll were the principle reason for higher expenditure.
* In the corporate area, some promotional, consultation and publication costs exceeded the planned levels.

Finance costs were less than plan by ***$2.61*** *m* **9.2%**

* Lower than planned average interest rates and not needing to borrow for all planned projects resulted in savings.

Depreciation & amortisation is close to plan ***$0.13*** *m* **1.2%**

Other Losses more than planned by ***($1.12)*** *m*

* Other losses were not allowed for in the Plan or LTP. These include writing off residual value of assets renewed during the year ($0.77m) and the loss from writing down cash flow hedges (swaps) ($0.35m).
* Land and buildings assets were revalued as at 30 June 2018 and resulted in a $13.3m increase (16.2%)

Statement of Financial Position as at 30 June 2018

* Current assets of $19.1m include holding of more than usual on short term deposit for Waiata House settlement.
* Also, more short term investments are held as the flat yeild curve has not justified using longer term deposits.
* The Annual Plan allowed for $20.8m of capital expenditure, but only $9.4m was spent and $4.5 of vested assets were added. The less than planned asset value at year end is offset by less debt.
* In Current liabilities creditors are close to plan expectations while employee liabilities are 12.3% higher. Included in current financial liabilities is a $10m bond maturity due in March 2019. This was not allowed for in the plan.
* Non-current Financial liabilities are less than planned due some of the capital expenditure that was planned to be loan funded was not progressed during the year (eg water trunk main and solid waste transfer station upgrade).

Statement of Movements in Equity

* Overall the Council's Equity is $9.8m (1.4%) more than anticipated in the Plan. This is largely from the much larger surplus achieved than was planned.
* Special funds and reserves are $6.3m (30.5%) more than planned due to less drawing on depreciation funds for for renewal work, greater flows into funds from developer contributions and the surplus funding carried forward.

Statement of Cashflows

* Cash from operating activities was very close to plan, ie only $0.13m more (1.0%).
* No external borrowing was required. The repayment of a $5m bond was met from funds already borrowed in the prior year. The Plan's cashflow statement did not reflect the repayment of this bond.

PLAN COMPARISON & BUDGET VARIATIONS

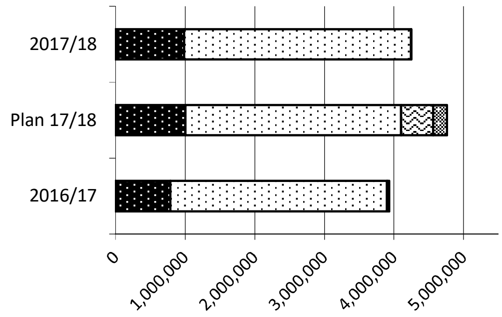
Capital Expenditure

* Roading renewals, including the streetlight upgrades to LEDs, were $3.95m versus Plan of $4.34m. The difference comes from contract savings and a kerbing job that has been deferred due to contractor unavailability.
* Urban footpath renewals work was planned at $309k but only $52k could be completed, again due to the successful contractor being unable to complete the work in the financial year.
* The CBD Upgrade (Town Centre Project) includes consultation and concept designs, but made less progress than expected, so expenditure on detailed design work has rolled intop 2018/19.
* A portion of the Streetscape & Neighbourhood upgrades budget was allocated to the McJorrow Park playground and barbeque facility (and reported against a separate line item in Note 17).
* Water reticulation renewals planned included $1.45m for trunk mains. This work has been reconsidered as part of asset management planning and been rescheduled to future years in the 2018/19 LTP.
* At the Homebush sewerage treatment plant, the plan allowed for development of further land disposal areas. This work has commmenced but has been at a lower scale that anticipated in the Plan.
* Solid waste capital projects have been 'on hold' pending development of the LTP. Covering the closed landfill has been on-going using clean fill material, with those costs expensed rather than capitalised.
* A number of Community Facilities capital projects have been delayed due to resource consent issues and contractor availability. These include the QE Park renewal project (contract scheduled to start Jan 2019), the Henley Lake intake upgrade (consent delays), the building renewals projects for sportfields, public toilets and Henley Lake have all made progress through planning stages, but the work is yet to be completed. The provision for cycleways has yet to be spent as the Council wanted more work done on the concepts and scope of what will be delivered.
* The Plan provision for earthquake strengthening Council buildings has not been spent. The costs of strengthening the Town Hall were considered too high and other options are being explored and were consulted on in the LTP. The funding ($4.0m) has effectively been allocated to the purchase of Waiata House from Masterton Trust Lands Trust, although only a 10% deposit has been paid as at 30 June 2018.
* Vested Assets include the Ascension sculpture (nominal value $300,000) and the infrastructural assets provided by developers ($4.266m).

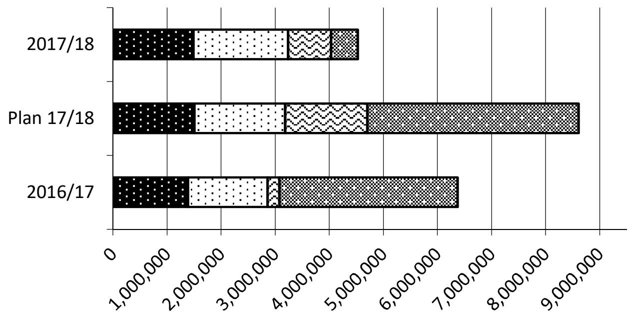
Funding Comparisons by Activity

Rates Other revenue Reserves Loans

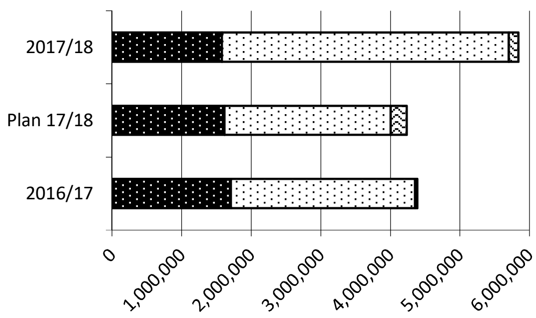
Solid Waste Services



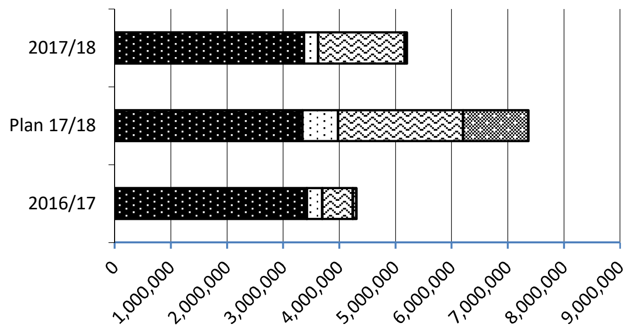
Property Mgmt (including Mawley Park)



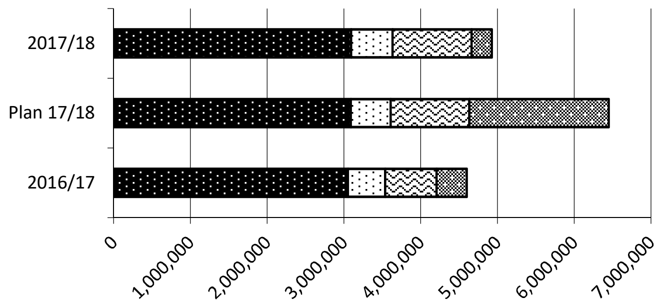
Regulatory Services



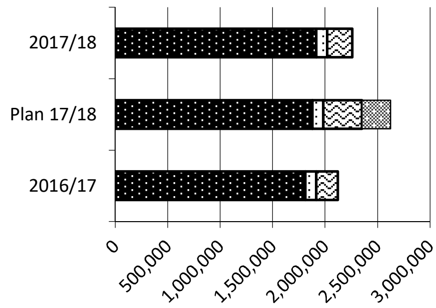
Parks & Recreation



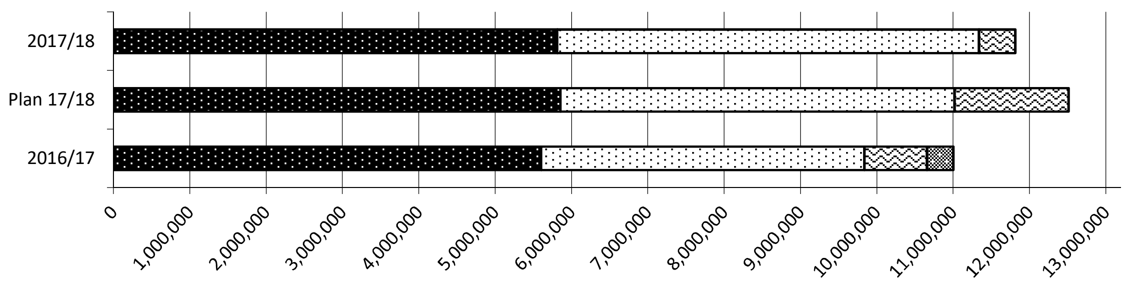
Water Supplies



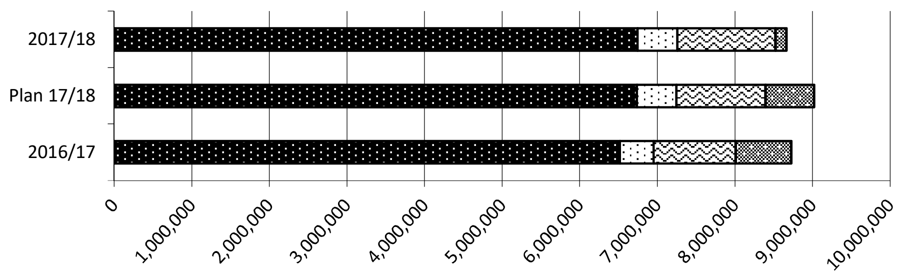
Library & Archives



Roading



Sewerage Services



Note: Funding excludes Income from Vested Assets

STATEMENT OF COMMITMENTS AND CONTINGENCIES

As at 30 June 2018

This statement provides information about the funds that the Council is committed to spending on major projects and discloses information on contingent liabilities.

Capital Commitments

Activity	2018 No. Of Contracts	2018 $	2017 $
Roading	7	2,405,109	174,023
Water Services	6	351,477	227,274
Sewerage Services	3	339,407	163,019
Solid Waste Services	0	0	0
Community Facilities - construction	2	897,991	0
Community Facilities - property purchase	1	3,600,000	0
	19	7,593,984	564,316

Capital commitments represent capital expenditure contracted for at balance date, but not yet incurred.
There are 19 significant construction contracts in progress at 30 June 2018 (2017 = 9). These were:

* Contracts for Roadmarking Services, Footpaths Renewals, Urban kerbing and road rehabilitaion where works were delayed due to the availability of contractors.
* Three sewer renewal contracts were committed but not complete. These relate to Renall Street, Kurupuni St and Villa Street sewer mains.
* Six water services contracts have commitments, four were partially completed and two have not started. The partially completed projects relate to High Street, Renall St, Hacker\Colombo Streets and Hessey Street. Projects at Solway Street and Stamford Place had not commenced.
* Contracts for two Community Services projects with a value of $897,991 were let at the end of the financial year. Work on the projects for the strengthening of the memorial Park grandstand ($170,826) and the Lake of remberance at QEII park ($727,165) had not commanced as at 30 June 2018.
* The Council has signed a contract to purchase the land and buildings at 27 Lincoln Road, known as Waiata House. The purchase price is $4.0m and a 10% deposit has been paid. Settlement has been delayed as the vendors, Masterton Trust Lands Trust, complete seismic strengthening works on the building. Possession date is expected to be in December 2018.

Contract Commitments

There were a number of professional and maintenance contracts commitments in operation at 30 June 2018.

Professional services contracts commitments have been made for wastwater, roading and community facilities. These are invoiced based on scheduled rates or on an hourly basis.
Maintenance contract commitments has been made for roading, services, parks, and solid waste.

In addition, there are facilities management contract commitments for the Recreation Centre and Mawley Park.

Operating Lease Commitments (as a lessee)

Council leases property in the normal course of its business. Six of these leases have non-cancellable terms; the Wairarapa Archive, the Genealogy Centre at 79 Queen Street, the old ANZ Bank at 161 Queen Street, the two floors in the old Public Trust building and the offices above the Hannah's shop. The earthquake risk identified on parts of the main Council building has meant relocating staff to other rented buildings.
Future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

	2018	2017
Not later than one year	220,498	233,956
Later than one year and not later than five years	314,533	70,174
Later than five years	0	0
Total Non-cancellable operating leases	$535,031	$304,130

There are no restrictions placed on the Council by any of the leasing arrangements.

STATEMENT OF COMMITMENTS AND CONTINGENCIES
As at 30 June 2018

Operating Lease Commitments (as a lessor)

In the course of it's business Council has a number of leases in place. Residential tenancies are not included as they have two weeks to one month notice periods respectively. The non-cancellable leases include 21 for grazing (2017, 16), 14 sporting groups (including a mix of ground & building rentals) (2017,14), 23 airport sites (2017, 23) and 16 other properties (2017, 16). 12 of these leases expire in the next 12 months (2017, 12), 33 within five years (2017, 31) and 12 have a term greater than five years (2017, 12). A number of other leases are in the process of being renewed or are on year by year renewals. These future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	2018	2017
Not later than one year	378,984	379,730
Later than one year and not later than five years	490,195	592,923
Later than five years	96,471	87,752
Total Non-cancellable operating leases	$965,650	$1,060,405

No contingent rents have been recognised during the period.

Contingencies

Town Hall & District Building - Earthquake Prone Impairment

Comprehensive assessments of the earthquake rating of the Town Hall & District Building were received from a qualified structural engineer during 2016 and as a result of being below code, the older parts of the buildings were closed to the public and most Council staff relocated to alternate premises. A written report which provided remediation and strengthening options has been received and costed. The estimated cost of the work is between four and five times the value of the buildings. At the 30 June 2018 the Council had consulted (via it's LTP) on broad options for the future of the buildings. The outcome of the LTP consultation was that the Council will proceed with building a new Civic Centre and will consider options including utilising the current town hall site and retaining the current building's facade. During the year an office building adjacent to the Council building (Waiata House) has been purchased. Settlement has yet to take place as the vendor completes remedial work.

Weather-tight buildings

The Council is not aware of any residential properties with potential unresolved weather-tightness issues within the District. In relation to non-residential buildings, in April 2013 the Ministry of Education (MOE) initiated High Court proceedings against Carter Holt Harvey (CHH) and others alleging inherent defects in the cladding sheets and cladding systems manufactured and prepared by CHH. Subsequently, in December 2016, CHH commenced third party proceedings against 48 Councils, including MDC alleging a breach of duty in the processing of building consents, undertaking building inspections and issuing Code of Compliance Certificates. The Councils have applied for orders setting aside and striking out CHH's claims against them. The MOE's claim against CHH is for 833 school buildings, 2 of which are located with Masterton District. At present there is insufficient information to conclude on potential liability and claim quantum, if any.

Contaminated Sites

The Council is aware of the existence of three sites within the Masterton urban boundary which have some level of contamination as a result of the operation of former gas works. The Council is meeting its obligations with respect to disclosure about these sites pursuant to the Resource Management Act and has commissioned studies into the levels of contamination and continues to undertake monitoring as required.

The former gas works site in Bentley Street is owned by the Council and may need some remediation in the future. The investigations to date indicate some limited off-site migration of a number of contaminants. This is not considered significant as the groundwater is not utilised in the area and the plumes are generally very limited in extent. Council is currently working with the Greater Wellington Regional Council as a resource consent for this site is in place and involves on-going monitoring costs.

The Council purchased, for a nominal sum, a piece of land on the corner of Church St and Colombo Road. The site has some sub-soil contamination and subsidence problems and will be used for passive recreation. One other site is in part Council ownership, part private. Studies have been commissioned by Council to establish that the level of contamination is not causing any threat to the current occupiers, but has accepted no liability for the site and is working with the property owners and insurers to resolve any issues.

Local Government Funding Agency - Guarantee

As stated in Note 23 (Provisions) and Note 26a (Financial Instrument Risks), the Council is a shareholding guarantor of the LGFA which has a credit rating of AA+. The Council holds $0.1m value of shares and $0.1m uncalled capital. That brings with it obligations in terms of the guarantee liability which has been disclosed in these Notes. The Council has been unable to determine a sufficiently reliable and fair value for the guarantee and therefore has not recognised a liability or contingency value.

STATEMENT OF COMMITMENTS AND CONTINGENCIES
As at 30 June 2018

Court proceedings

The Council has been named as second defendant in High Court proceedings brought by Masterton Trust Lands Trust (MTLT). The matter relates to 4 separate buildings where the first defendent, Kevin O'Conner & Associates is alleged to have not designed the buildings to meet earthquake standards. The Council, as second defendant, is alleged to have breached the duty of care in processing building consents, undertaking building inspections and issuing Code of Compliance Certificates. The third defendant is the engineering firm who provided the Council with peer reviews of the engineering designs of three of the buildings. The Council's insurers (Civic Liability Pool) have appointed lawyers, Heaney & Partners to act for the Council in defence of the claim. Parties have filed and served statements of defence and the legal process is proceeding. As at the 30th June 2018, there is no indication of the liklihood of the Council's defence being successful or otherwise, so no financial provision has been made.

The Council has also been named as second defendant in two High Court proceedings brought by Masterton Trust Lands Trust (MTLT) in relation to the building known as Waiata House. The first matter relates to the first defendant, Kevin O'Conner & Associates being alleged to have not designed the building to meet earthquake standards. The Council is second defendant as per the other four claims described above. The second Waiata House proceeding relates to alleged building defects discovered in Waiata House during a strengthening construction process. The first defendant is the architect who oversaw the work and the third defendant is the construction company who undertook the work. The Council's insurers (Civic Liability Pool) have yet to accept the claim as there are aspects of weathertightness alleged and the insurance policy specifically excludes claims for weathertightness. Lawyers, Heaney & Partners have been appointed by the Council to act in defence of the claim. Parties have filed and served statements of defence and the legal process is proceeding, but will be delayed until the completion of the remediation work on Waiata House (likely to be December 2018). The Council will continue to seek a change of stance from Civic Liability Pool in order to have the claim accepted for insurance cover. As at the 30th June 2018, there is no indication of the liklihood of the Council's defence being successful or otherwise, so no financial provision has been made. Legal costs relating to the claim will be expensed as incurred.

Contingent Assets - carbon credits

The Council owns land and forestry assets that were planted prior to 1990. These forested areas are eligible for carbon credits under the Government's emissions trading scheme (ETS). An account for NZU carbon credits has been setup in the Council's name and 79 ha of pre-1990 forestry has initially been confirmed as eligible for carbon credits. A value has been assigned in these accounts for those credits, but their value remains subject to the market price of traded NZUs (refer to note 11).

There were no other contingent assets.

Notes to the Accounts **Note 34**

EVENTS AFTER BALANCE DATE

There have been no events after balance date that have had a material bearing on the financial statements.

AUDIT & COMPLIANCE
He Arotake Pūtea me te Tūtohu Ture

STATEMENT OF COMPLIANCE AND RESPONSIBILITY
Tauāki Tūtohu Ture me te Takohanga

COMPLIANCE

The Council and management of Masterton District Council certify that all the statutory requirements of the Local Government Act 2002, including the Local Government (Financial Reporting and Prudence) Regulations 2014, regarding financial management and borrowing have been complied with.

RESPONSIBILITY

The Council and management of Masterton District Council accept responsibility for the preparation of the annual Financial Statements, Statements of Service Performance, reporting as per the regulations and the judgements used in them.

The Council and management of Masterton District Council accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the financial statements, the statements of service performance and reporting as per the regulations.

In the opinion of the Council and management of Masterton District Council, the annual Financial Statements, Statements of Service Performance and reporting as per the regulations for the year ended 30 June 2018, fairly reflect the financial position and operations of Masterton District Council.

....	....	....
Lyn Patterson	Kathryn Ross	David Paris
Mayor	Chief Executive	Manager Finance

Date: 31 October 2018

INDEPENDENT AUDITOR'S REPORT

Audit New Zealand
Mana Arotake Aotearoa

He Pūrongo Arotake Pūtea

TO THE READERS OF MASTERTON DISTRICT COUNCIL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

The Auditor General is the auditor of Masterton District Council (the District Council). The Auditor General has appointed me, John Whittal, using the staff and resources of Audit New Zealand, to report on the information in the District Council's annual report that we are required to audit under the Local Government Act 2002 (the Act). We refer to this information as "the audited information" in our report.

We are also required to report on:

- whether the District Council has complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- the completeness and accuracy of the District Council's disclosures about its performance against benchmarks that are required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

We refer to this information as "the disclosure requirements" in our report.

We completed our work on 31 October 2018. This is the date on which we give our report.

OPINION ON THE AUDITED INFORMATION

In our opinion:

- the financial statements on pages 116 to 166:
  - » present fairly, in all material respects:
    - the District Council's financial position as at 30 June 2018;
    - the results of its operations and cash flows for the year ended on that date; and
  - » comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards;
- the funding impact statement on page 104, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the District Council's annual plan;
- the statement of service performance on pages 16 to 95:
  - » presents fairly, in all material respects, the District Council's levels of service for each group of activities for the year ended 30 June 2018, including:
    - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved;
    - the reasons for any significant variation between the levels of service achieved and the intended levels of service; and
  - » complies with generally accepted accounting practice in New Zealand; and

- the statement about capital expenditure for each group of activities on pages 23 to 95, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the District Council's annual plan; and
- the funding impact statement for each group of activities on pages 104 to 114, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the District Council's Long term plan.

REPORT ON THE DISCLOSURE REQUIREMENTS

We report that the District Council has:

- complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence Regulations 2014) on pages 98 to 102, which represent a complete list of required disclosures and accurately reflects the information drawn from the District Council's audited information and, where applicable, the District Council's long term plan and annual plans.

BASIS FOR OUR OPINION ON THE AUDITED INFORMATION

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. We describe our responsibilities under those standards further in the "Responsibilities of the auditor for the audited information" section of this report.

We have fulfilled our responsibilities in accordance with the Auditor General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the audited information.

RESPONSIBILITIES OF THE COUNCIL FOR THE AUDITED INFORMATION

The Council is responsible for meeting all legal requirements that apply to its annual report.

The Council's responsibilities arise under the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014.

The Council is responsible for such internal control as it determines is necessary to enable it to prepare the information we audit that is free from material misstatement, whether due to fraud or error.

In preparing the information we audit the Council is responsible for assessing its ability to continue as a going concern. The Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to amalgamate or cease all of the functions of the District Council or there is no realistic alternative but to do so.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDITED INFORMATION

Our objectives are to obtain reasonable assurance about whether the audited information, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of this audited information.

For the budget information reported in the audited information, our procedures were limited to checking that the budget information agreed to the District Council's annual plan.

We did not evaluate the security and controls over the electronic publication of the audited information.

As part of an audit in accordance with the Auditor General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the audited information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District Council's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.
- We determine the appropriateness of the reported intended levels of service in the statement of service performance, as a reasonable basis for assessing the levels of service achieved and reported by the District Council.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Council and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the District Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the audited information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the District Council to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the audited information, including the disclosures, and whether the audited information represents, where applicable, the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER INFORMATION

The Council is responsible for the other information included in the annual report. The other information comprises the information included on pages 4 to 15 and 168 but does not include the audited information and the disclosure requirements.

Our opinion on the audited information and our report on the disclosure requirements do not cover the other information.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the audited information and the disclosure requirements, or our knowledge obtained during our work, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the District Council in accordance with the independence requirements of the Auditor General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to our audit of the audited information and our report on the disclosure requirements, we have audited the District Council's 2018-28 long term plan, and performed a limited assurance engagement related to the District Council's debenture trust deed. Other than these engagements, we have no relationship with, or interests in, the District Council.

John Whittal
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

MASTERTON
DISTRICT COUNCIL
TE KAUNIHERA Ā-ROHE O WHAKAORIORI

PHONE

06 370 6300

8am - 5pm

EMAIL

mdc@mstn.govt.nz

CALL INTO

Masterton District Council
161 Queen Street, Masterton
8am - 4.30pm

WRITE TO

Masterton District Council
PO Box 444, Masterton 5840

WWW.MSTN.GOVT.NZ