

4. FINANCIAL STATEMENTS

4.1. Statement of compliance

The Council of the South Waikato District hereby confirms that all statutory requirements in relation to the annual report, as outlined in the Local Government Act 2002, have been complied with.



Jenny Shattock QSM JP
MAYOR
4 October 2018



Ben Smit
ACTING CHIEF EXECUTIVE
4 October 2018

4.2. Financial statements

Statement of comprehensive revenue and expenses

For the year ended 30 June 2018				
	Note	Actual	Budget	Actual
	No.	2018	2018	2017
		\$000	\$000	\$000
Revenue				
Rates, excluding targeted water supply rates	4	24,659	24,630	23,649
Fees, charges, and targeted rates for water supply		4,147	3,633	3,825
Development and financial contributions		96	21	124
Subsidies and grants	5	6,045	3,257	3,284
Finance income	6	475	770	445
Other revenue	7	2,186	785	1,779
Total revenue	3	37,608	33,096	33,106
Expenditure				
Employee benefits expense	8	9,101	9,837	9,009
Depreciation and amortisation expense	15/16	7,036	7,599	6,891
Finance costs	6	602	736	647
Other expenses	9	17,308	14,666	15,038
Total expenditure		34,047	32,838	31,585
Surplus/(Deficit)		3,561	258	1,521
Other comprehensive revenue and expense				
Gain/loss in Asset Revaluation Reserve	21	5,680	7,276	22,659
Gain/loss in Investment Revaluation Reserve	21	468	-	100
Total other comprehensive revenue and expense		6,148	7,276	22,759
Total comprehensive revenue and expense		9,709	7,534	24,280

These Financial Statements should be read in conjunction with the accounting policies and notes on pages 77 to 119

Statement of changes in equity

	Note No.	Restricted Reserves \$000	Council Created Reserves \$000	Property Revaluation Reserves \$000	Investment Revaluation Reserves \$000	Retained Earnings \$000	Total \$000
Balance as at 30 June 2016		15,840	3,456	222,897	1,067	145,384	388,644
Net profit for the year	21	-	-	-	-	1,521	1,521
Transfers to retained earnings on disposal		-	-	(730)	-	730	-
Transfers to General Equity		4,519	559	-	-	(5,078)	-
Transfers from General Equity		(2,933)	(1,484)	-	-	4,417	-
Other comprehensive revenue and expense							
Gain/loss in Asset Revaluation Reserve	21	-	-	22,659	-	-	22,659
Gain/loss in Investment Revaluation Reserve	21	-	-	-	100	-	100
Total comprehensive revenue and expense		1,586	(925)	21,929	100	1,590	24,280
Balance at 30 June 2017		17,426	2,531	244,826	1,167	146,974	412,924
Net profit for the year	21	-	-	-	-	3,561	3,561
Transfers to retained earnings on disposal		-	-	(943)	-	943	-
Transfers to General Equity		4,208	1,226	-	-	(5,434)	-
Transfers from General Equity		(4,096)	(1,313)	-	-	5,409	-
Other comprehensive revenue and expense							
Gain/loss in Asset Revaluation Reserve	21	-	-	5,680	-	-	5,680
Gain/loss in Investment Revaluation Reserve	21	-	-	-	468	-	468
Total comprehensive revenue and expense		112	(87)	4,737	468	4,479	9,709
Balance at 30 June 2018		17,538	2,444	249,563	1,635	151,453	422,633

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Statement of financial position

	Note No.	Actual 2018 \$000	Budget 2018 \$000	Actual 2017 \$000
Equity				
Retained earnings	21	151,453	146,643	146,974
Other reserves	21	271,180	249,618	265,950
Total equity		422,633	396,261	412,924
Assets				
Current assets				
Cash and cash equivalents	10	5,142	4,791	7,277
Receivables from non-exchange transactions	11	2,037	2,685	1,918
Receivables from exchange transactions	11	1,518	-	1,183
Inventories	12	189	219	203
Other financial assets	13	-	-	2
Current assets held for sale	14	1,118	-	981
Total current assets		10,004	7,695	11,564
Non-current assets				
Property, plant and equipment	15	414,622	395,430	405,447
Other financial assets	13	19,924	12,022	14,078
Non-current assets held for sale	14	87	-	228
Intangible assets	16	298	2	136
Total non-current assets		434,931	407,454	419,889
Total assets		444,935	415,149	431,453
Liabilities				
Current liabilities				
Payables and deferred revenue from non-exchange transactions	17	1,303	3,605	1,243
Payables and deferred revenue from exchange transactions	17	3,618	-	2,847
Employee benefit obligations	19	1,058	978	993
Borrowings	20	1,188	880	904
Provision for landfill closure	18	15	209	18
Trust accounts	17	2	-	1
Total current liabilities		7,184	5,672	6,006
Non-current liabilities				
Provision for landfill closure	18	913	626	738
Borrowings	20	14,033	12,440	11,663
Employee benefit obligations	19	172	150	122
Total non-current liabilities		15,118	13,216	12,523
Total liabilities		22,302	18,888	18,529
Net assets		422,633	396,261	412,924

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Statement of cashflows

	Note No.	Actual 2018 \$000	Budget 2018 \$000	Actual 2017 \$000
Cash flow from operating activities				
<i>Cash was provided from:</i>				
Rates		24,446	24,630	24,088
Subsidies and grants		5,522	3,257	3,125
Fees and charges		4,241	3,633	3,688
Other income		1,352	21	1,288
Interest received		475	770	445
Dividend received		263	-	337
		<u>36,299</u>	<u>32,311</u>	<u>32,971</u>
<i>Cash was applied to:</i>				
Interest paid		601	736	569
Net GST paid		1,541	-	1,854
Payment to suppliers and employees		22,549	24,503	21,597
		<u>24,691</u>	<u>25,239</u>	<u>24,020</u>
Net cash inflows/(outflows) from operating activities	22	11,608	7,072	8,951
Cash flow from investing activities				
<i>Cash provided from:</i>				
Proceeds from investments		-	800	466
Property, plant and equipment sales		30	-	457
		<u>30</u>	<u>800</u>	<u>923</u>
<i>Cash was applied to:</i>				
Purchase of investments		5,378	-	-
Purchase of property, plant and equipment		11,049	8,137	5,972
		<u>16,427</u>	<u>8,137</u>	<u>5,972</u>
Net cash inflows/(outflows) from investing activities		(16,397)	(7,337)	(5,049)
Cash flow from financing activities				
<i>Cash was provided from:</i>				
Loans raised		3,791	248	-
		<u>3,791</u>	<u>248</u>	<u>-</u>
<i>Cash was applied to:</i>				
Loans repaid		1,137	935	609
		<u>1,137</u>	<u>935</u>	<u>609</u>
Net cash inflows/(outflows) from financing activities		2,654	(687)	(609)
Net increase/(decrease) in cash and cash equivalents		(2,135)	(952)	3,293
Cash and cash equivalents at the beginning of the year		7,277	5,743	3,984
Cash and cash equivalents at the end of the year	10	5,142	4,791	7,277

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Funding Impact Statement - whole of Council

	Annual Plan 2017 \$000's	Actual 2017 \$000's	Annual Plan 2018 \$000's	Actual 2018 \$000's
SOURCES OF OPERATING FUNDING				
General Rates, Uniform Annual General Charges, rates penalties	17,227	17,465	17,859	18,047
Targeted rates	6,235	6,739	6,535	7,190
Subsidies and grants for operating purposes	1,388	1,638	1,448	3,901
Fees and charges	3,344	4,206	3,902	4,599
Interest and dividends from investments	770	877	770	754
Local authorities fuel tax, fines, infringement fees, and other receipts	288	320	296	404
TOTAL OPERATING FUNDING (A)	29,252	31,245	30,810	34,895
APPLICATION OF OPERATING FUNDING				
Payments to staff and suppliers	26,151	24,368	26,503	25,019
Finance costs	1,197	569	1,028	827
Other operating funding applications	1,412	1,702	1,406	1,278
TOTAL APPLICATIONS OF OPERATING FUNDING (B)	28,760	26,639	28,937	27,124
SURPLUS (DEFICIT) OF OPERATING FUNDING (A-B)	492	4,606	1,873	7,771
SOURCES OF CAPITAL FUNDING				
Subsidies and grants for capital expenditure	1,609	1,682	1,729	2,203
Development and financial contributions	21	124	21	96
Increase (decrease) in debt	(428)	(1,053)	(406)	353
Gross proceeds from sale of assets	-	-	-	-
Lump sum contributions	-	-	-	-
Other dedicated capital funding	-	-	-	-
TOTAL SOURCES OF CAPITAL FUNDING (C)	1,202	753	1,344	2,652
APPLICATION OF CAPITAL FUNDING				
Capital expenditure:				
• to meet additional demand	-	-	-	-
• to improve the level of services	2,419	1,785	3,460	6,931
• to replace existing assets	6,010	4,888	4,781	5,044
Increase (decrease) in reserves	(4,371)	(3,047)	(4,094)	(2,450)
Increase (decrease) in investments	(2,364)	1,733	(930)	898
TOTAL APPLICATIONS OF CAPITAL FUNDING (D)	1,694	5,359	3,217	10,423
SURPLUS (DEFICIT) OF CAPITAL FUNDING (C-D)	(492)	(4,606)	(1,873)	(7,771)
FUNDING BALANCE ((A-B)+(C-D))	-	-	-	-

4.3. Notes to the financial statements

1. Statement of accounting policies

Reporting entity

The South Waikato District Council (Council) is a territorial authority governed by the Local Government Act 2002 and is domiciled in New Zealand.

The primary objective of Council is to provide services and social benefits to the community rather than making a financial return. Accordingly, Council has designated itself as a public benefit entity for the purposes of financial reporting. The financial statements of the Council are for the year ended 30 June 2018. The financial statements were authorised for issue by the Councillors on 4 October 2018.

Basis of preparation

Statement of compliance

The financial statements of the Council have been prepared in accordance with the requirements of the Local Government Act 2002, which include the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

The financial statements have been prepared in accordance with NZ GAAP and they comply with Tier 1 Public Benefit Entity (PBE) Standards.

Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluations of land and buildings, certain infrastructural assets, and certain financial instruments (including derivative instruments).

Functional and presentation currency

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

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

Changes in accounting policies

There has been no changes in accounting policies.

Significant accounting policies

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Council and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services in the normal course of business, net of discounts and sales related taxes. The following specific recognition criteria must also be met before revenue is recognised.

Rates

Rates are set annually by a resolution from Council and relate to a financial year. All ratepayers are invoiced within the financial year to which the rates have been set. Rates revenue is recognised when payable. Rates charged to Council properties are excluded from rates income in the profit or loss.

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

Government grants

Government grants are recognised when:

- claimed, for work completed on previously approved programmes
- eligibility has been established by the grantor.

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

Provision of services

Revenue from the provision of services (fees and charges) are recognised as income when the obligation to pay, by reference to the stage of completion of the transaction at balance date, arises.

Interest and dividends

Interest income is recognised as it accrues using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument.

Dividends are recognised as revenue when the right to receive payment have been established.

Vested assets

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

Financial contributions borrowing costs

Financial contributions are recognised as revenue when the Council provides, or is able to provide, the services for which the contribution was charged. Otherwise, the financial contributions are recognised as liabilities until such time as the Council provides, or is able to provide, the service.

All 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 the Council has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Council and the approval has been communicated to the applicant.

Cost allocation policy

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities based on cost drivers and related activity/usage information. Direct costs are those costs directly attributable to a specific activity. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific significant activity.

Cost drivers for allocation of indirect costs

The cost of internal services not directly charged to activities are allocated as support costs using appropriate cost drivers such as actual usage, staff numbers and floor area.

Non-current assets held for sale

Non-current assets are classified as held for sale if the carrying amount will be recovered through a sale rather than continuing use. This condition is met only when the sale is highly probable and the asset is available for sale in its present condition. Council must be committed to the sale, and a completed sale is expected within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of the asset's 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 profit or loss.

Any increase in fair value, less costs to sell, are recognised in profit or loss up to the level of any impairment losses that have been previously recognised.

Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale.

Property, plant and equipment

Critical accounting estimates and assumptions

Operational assets

These are tangible assets and include land, buildings and improvements, motor vehicles, the South Waikato Indoor Pools and associated equipment, and the library collection.

Infrastructural assets

These are fixed utility systems that provide a continuing service to the community and are not generally regarded as tradable. They include:

- all property, plant and equipment associated with water supply, wastewater, storm water and waste disposal, including the land that they are located upon
- all roads, service lanes, footpaths, street lights, car parks and associated street furniture
- all public toilets and restrooms, public halls and the land they are situated on.

Restricted assets

These assets cannot be disposed of because of legal or other restrictions and provide a benefit or service to the community. They include:

- all property (excluding South Waikato Indoor Pools) associated with recreation, scenic, historic purposes, esplanade and local purpose reserves, including the reserve land
- all cemeteries
- all land contained within road reserves.

Measurement at recognition

All items of property, plant and equipment that qualify for recognition as assets are initially measured at cost. An item of property, plant and equipment is recognised as an asset only if it is probable that any future economic benefits or service potential associated with them will flow to Council and the cost of the item can be measured reliably. 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.

Measurement after recognition

Property, plant and equipment are shown at cost or revalued amount, less accumulated depreciation and impairment losses. Those asset classes that are revalued are generally valued on a three year rotational basis to ensure revalued assets are carried at a value that is not materially different from fair value. All revaluations are either performed by independent and qualified valuers or in-house and peer-reviewed by independent and qualified valuers. All other asset classes are carried at depreciated historical cost.

Heritage assets

Valuation is at fair value as determined from market-based evidence. The most recent valuation performed by Webb Galleries was as at 30 June 2009.

Library collection

Valuation is at cost less accumulated depreciation and any accumulated impairment losses.

Motor vehicles, plant and equipment, furniture and fittings

Valuation is at cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings

Land and buildings including land underneath roads were revalued effective 30 June 2018 by Telfer Young, Registered Valuers and Property Consultants, Rotorua, at current market value.

Land

Land has been valued based on its current zoning, making allowance for any recent changes and designations effective from the new Operative Plan which took over in 2015. Comparable sales have been analysed from a wide range of land sales and applied dependent on the location, use and zoning of the property. Adjustments have been made for contour, size and other factors.

Where a property is designated, adjustment for the lifting of the designation has been made.

Where a property is zoned Reserve, these assets have been valued on an underlying zoning basis. From this has been deducted the base valued as Rural, and to the difference applied, a change of change which is added back to the base value to arrive at the Reserve value. This is the normally accepted method for the valuation of Reserve land.

Specialised Buildings

Where there is no reliable market data available for such specialised buildings, the valuations have been prepared on a Depreciated Replacement Cost Approach. The replacement cost of the assets is adjusted, where required, for optimisation due to over-design or surplus capacity. The replacement cost is derived from analysis of costing information held on the valuer's files, costing information derived from the market place, and costing information provided by Quantity Surveyors and other building experts. Construction costs vary dramatically dependent on the building.

Non Specialised Buildings

Non-specialised buildings are those where there are known and active markets e.g. residential houses, office buildings, industrial workshops, warehouses and residential flats. These have been valued at fair value using market based sales evidence.

Parks and Reserves

Parks and reserves assets were revalued effective 30 June 2018 at depreciated replacement value. The revaluation was undertaken using an external consultant, Robert Berghuis, Senior Valuer from Beca Projects NZ Limited. The external consultant has an extensive knowledge base and background in parks and reserves asset management.

The external consultant reviewed the useful lives and replacement cost unit values on Council's fixed assets register. The replacement cost unit values were updated to current market values by using, either:

- available current contract-supplier unit rates for equivalent asset types (giving the highest level of confidence) or
- the 2015 asset values/purchase cost adjusted for industry-specific inflation indices to represent estimated replacement costs for modern equivalent asset (MEA) components as at 30 June 2018 (giving a high level of confidence).

As part of the revaluation process, where assets that continue to be in commission are found to have a remaining life of nil (on Council's fixed assets register), an adjusted remaining useful life of 2.5% of the original base life has been made.

Land under roads

The valuation methodology used for land underneath roads is the assessment of the value based upon an indicated value of the land adjoining the roads. Rural and urban roads have been separated and the average land value for adjoining land for each separate division applies. In some cases, a discount has been applied to the land value.

Landfill

Landfill cell development, pipes and pumps are valued at cost less accumulated depreciation and any impairment costs.

Street furniture

Street furniture is valued at cost less accumulated depreciation and any impairment costs.

Roads, footpaths, streetlights, large culverts and bridges

Roads, footpaths, streetlights, large culverts and bridges were revalued effective 30 June 2017 by professionally qualified in-house staff, and peer reviewed by Opus International Consultants Limited, Auckland at optimised depreciated replacement value. Each asset component was valued taking into account its remaining useful life.

The valuation was performed in accordance with the International Accountancy Standard (IAS 16) modified to New Zealand requirements (IPSAS 17), and with New Zealand Local Authority Asset Management Practice, New Zealand Infrastructure Asset Management Manual (NZIAMM) and Valuations/Depreciation Guidelines. The RAMM valuation module has been used to complete the valuation.

The SWDC transport assets as at 2017 have been valued on a replacement cost basis in accordance with accepted New Zealand accounting practices.

Replacement cost is the cost of building the existing infrastructure using present day technology, but maintaining the originally designed level of service, assuming current technology ensures that no value results from the additional cost of outdated and expensive methods of construction. Maintaining the original level of service ensures that the existing asset with all its faults is valued, not the currently desirable alternative.

Replacement cost was calculated by multiplying asset quantities by unit cost rates factored to allow for other direct costs such as professional fees.

Unit rates are obtained from a variety of sources, including the following:

- Recent maintenance contracts for SWDC;
- Recent capital works undertaken for SWDC

Costs have been used which reflect the increase difficulties and constraints of undertaking construction, maintenance and renewal work simultaneously with continued operation of the infrastructure networks. Operational constraints include access, delivery, safety, security, material handling and storage, traffic control and hours available for construction work.

The unit cost rates used for valuing the SWDC assets reflect an average cost rate for local construction.

Paper roads with a total length of 151.378km are recorded at land value.

Wastewater, stormwater and water

Wastewater, stormwater disposal and water supply property, plant and equipment were revalued on 30 June 2016 by professionally qualified in-house staff, and peer reviewed by Beca Projects NZ Limited at optimised depreciated replacement value.

The underground reticulation pipework was also revalued on 30 June 2016 by professionally qualified in-house staff, and peer reviewed by Beca Projects NZ Limited, at optimised depreciated replacement value.

These assets have been valued by the Optimised Depreciated Replacement Cost approach reflecting factors such as technical obsolescence, over engineering and surplus capacity where these have been specifically identified by the asset manager. Assets that have reached the end of their base life (design life) have been inspected, a condition based assessment carried out and a decision to replace an asset or defer replacement made based on the condition assessment. Allowance has been made for the costs of bringing the asset into working condition for its intended use and these costs include engineering fees and resource consent costs.

These assets were revalued in the Assetfinda database using replacement unit costs based on actual costs from recent contracts and where required applied an inflation adjustment.

Costs incurred in obtaining any resource consents are capitalised as part of the asset to which they relate. If a resource consent application is declined then all capitalised costs are written off.

Accounting for revaluations

Council accounts for revaluations on property, plant and equipment on a class of asset basis.

The results of revaluing are recognised in other comprehensive income and accumulated as a separate component of equity in the asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed through profit or loss. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in profit or loss will be recognised first in profit or loss up to the amount previously expensed and then credited to other comprehensive income.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis at rates that reflect their estimated useful lives.

Depreciation is charged to write off the cost or valuation of assets, other than land and properties under construction and road formation cost, over their estimated useful lives. The depreciation rates are applied at a component level and are dependent on the remaining useful life of each component. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Operational and restricted assets

Heritage assets	Not depreciated
Land	Not depreciated
Buildings	40 - 100 years
Plant and equipment	5 - 30 years
Swimming pools	40 - 100 years
Motor vehicles	5 years
Computer equipment and furniture	3 - 10 years
Library equipment	5 - 10 years

Infrastructural assets

Roading Network

Top surface - rural	1 - 18 years
Top surface – urban	1 – 22 years
Pavement – rural	40 - 70 years
Pavement - urban	40 - 99 years
Culverts	25 - 80 years
Footpaths	10 - 80 years
Kerbs	80 years
Signs	6- 9 years
Streetlights and poles	25 - 70 years
Bridges	78 - 118 years
Land (including land under roads)	Not depreciated

Waste

Landfills, pipes and pumps	7 - 100 years
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Wastewater Systems

Manholes	80 years
Treatment plant	5 - 80 years

Stormwater Systems

Reticulated pipework	50 - 90 years
Manholes and cesspits	90 years
Detention dams	60 years

Water Supply

Reticulated pipework	55 - 95 years
Valves and hydrants	80 years
Pump stations	Up to 100 years (dependent on componentry)
Storage tanks	25 - 80 years
Infrastructural buildings	40 - 100 years
Street furniture	3 - 10 years

Impairment

All assets, current and non-current, are tested annually for indicators of impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is the 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 an entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

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 in other comprehensive income. Where that results in a debit balance in other comprehensive income, the balance is recognised in profit or loss.

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

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 the class of asset was previously recognised in profit or loss, a reversal of the impairment loss is also recognised in profit or loss.

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in profit or loss.

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 profit or loss. When revalued assets are sold, the amounts included in the asset revaluation reserves in respect of those assets are transferred to general equity.

Subsequent cost

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 Council and the cost can be measured reliably.

Assets under construction

Capital works under construction are valued at cost. The total cost of the project is transferred to the relevant asset class on its completion and then depreciated.

Vested assets

Certain infrastructure assets have been vested in Council and are recognised in profit or loss at fair value. These assets have been valued based on the actual quantities of infrastructure components vested and the current 'in the ground' cost of providing identical services. Vested assets include roads, the Talking Poles, pavement art, the Tokoroa town clock, the airport tower, Tokoroa Skateboard Park, and various culverts and water pipes. On initial recognition the fair value of vested assets is recognised in profit or loss. Subsequent to this vested assets are revalued together with other property, plant and equipment, and surpluses or deficits arising on revaluation are treated in the same way as other property, plant and equipment.

Rental property

Rental property is included in property, plant and equipment in accordance with PBE IPSAS, as the rental property is held to provide a social service rather than for rental income, capital appreciation or both.

Intangible assets

Computer software

Acquired computer software is capitalised on the basis of the cost incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software are recognised as expense when incurred.

Carbon credits

Purchased carbon credits are recognised at cost on acquisition. They are not amortised, but are instead tested for impairment annually. They are derecognised when they are used to satisfy carbon emission obligations.

Easements

No value is attached to easements due to the difficulty in establishing their original cost or fair value.

Amortisation of intangible assets

The carrying amount of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in profit or loss. The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software	3 – 7 years
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Financial instruments

Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Investments are initially measured at fair value plus transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value

Financial assets in this category are either financial assets held for trading or financial assets designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future or

- it is a part of an identified portfolio of financial instruments that the Council manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss includes any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 13.

These consist of forward foreign exchange contracts that are assets. Council uses these derivative financial instruments to hedge exposure to foreign exchange fluctuations. However, as permitted by PBE IPSAS 29, Council does not employ hedge accounting techniques in its accounting for derivative financial instruments. After initial measurement these assets are measured at fair value. Any gain or loss arising from a change in the fair value is recognised in profit or loss. Council does not currently hold any of these investments.

Financial assets at fair value through profit or loss

These consist of forward foreign exchange contracts that are assets. Council uses these derivative financial instruments to hedge exposure to foreign exchange fluctuations. However, as permitted by PBE IPSAS 29, Council does not employ hedge accounting techniques in its accounting for derivative financial instruments. After initial measurement these assets are measured at fair value. Any gain or loss arising from a change in the fair value is recognised in profit or loss.

Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that Council's management has the positive intention and ability to hold to maturity. These investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective interest basis. Currently Council does not hold any assets in this category.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Loans and receivables are classified as trade and other receivables in the balance sheet and include rates receivable, accrued income and New Zealand Transport Agency subsidies receivable.

Available for sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Certain shares held by Council are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 13. Gains and losses arising from changes in fair value are recognised directly in the investment revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the Investment revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised separately in profit or loss in the statement of comprehensive income when Council's right to receive payment is established.

These include bonds and shares, the investment in Local Authority Shared Services Limited and Local Government Civic Assurance. If these assets are traded in an active market they are measured at their fair value using quoted market prices at the balance sheet date. The quoted market price used is the current bid price. If the financial assets are not traded in an active market, their fair value is determined using valuation techniques. Council uses a variety of valuation methods and makes assumptions based on market conditions existing at each balance date. Of the remaining financial assets, if quoted market prices of similar financial assets in the market are not available, other techniques such as discounted expected cash flows are utilized to determine their fair value, or otherwise cost is used.

Impairment of financial assets

At each balance sheet date Council 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 profit or loss.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a

result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available for sale and financial lease receivables, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty or
- Default or delinquency in interest or principal payments.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities including debt instruments issued by Council are classified according to the substance of the contractual arrangements entered into.

The accounting policies adopted for specific financial liabilities are as follows:

- Bank borrowings

Interest bearing bank loans are initially measured at fair value net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method.

- Debt instruments

Council issues bonds from time to time to raise funds. These are initially measured at fair value net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method.

- Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

Derivative financial instruments

These are mainly forward foreign exchange contracts. These are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates. Any gain or loss is recognised in profit or loss immediately.

Council activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. Council uses derivative financial instruments (primarily foreign currency forward contracts) to mitigate its risks associated with foreign currency fluctuations which relate to certain firm commitments and forecasted transactions. The significant interest rate risk arises from bank loans.

The use of financial derivatives is governed by Council's policies as approved by Council resolution, and which provide written principles on the use of financial derivatives consistent with Council's risk management strategy. Council does not use derivative financial instruments for speculative purposes.

Investments in Council controlled organisations

Council has an interest (2.7%) in a Council Controlled Organisation (CCO), Local Authority Shared Services Limited. Council has no significant influence on operational or financial policies.

As this investment is not traded on an active market and quoted market prices of similar financial assets are not available, the fair value cannot be measured reliably. The investment is therefore measured at cost.

Inventories

Inventories held for distribution or consumption in the provision of services are measured at the lower of cost or current replacement cost. The cost to these inventories is assigned by using the weighted average cost formula. The write down from cost to current replacement cost is recognised in profit or loss.

Foreign currencies

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of transaction.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the period. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits, and other short-term highly liquid investments with original maturities of three month or less from the date of acquisition.

Goods and services tax (GST)

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

Employee benefits

Short-term employee entitlements

Employee benefits expected 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, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

A liability for sick leave is recognised to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlement 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 it will be used by staff to cover those future absences.

Long-term entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave have been calculated on actuarial basis using the service of professional actuaries. The actuarial calculations are based on an assumed salary increase of 3.5% (2017: 3.5%) per annum and a discount rate between 1.78% and 4.75% (2017: 1.97% - 4.75%) per annum. The discount rate is derived from the forward rates on NZ Government Bonds over recent periods. It's also assumed that all employees will retire at the age of 65 and will resign in accordance with the withdrawal rate assumption taken from the Treasury Circular 1998/15. Any actuarial gain or loss resulting from re-measurement of these liabilities is recognised in profit or loss.

Employees appointed to the staff prior to 31 December 1989 who retire from Council with not less than ten years continuous service are eligible for retirement leave. Employees appointed to the staff prior to 1 April 1992 are eligible for long service leave.

Presentation of employee entitlements

Sick leave, annual leave, vested long service leave and non-vested long service leave, and retirement gratuities expected to be settled within 12 months of balance date, are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

Defined contribution scheme

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in profit or loss.

Public equity

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

- general equity (retained earnings)
- restricted reserves
- Council-created reserves
- property revaluation reserves
- investment revaluation reserves.

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

General equity (retained earnings)

General equity refers to reserves that do not fall into any of the four categories below.

Restricted reserves

Restricted reserves are those reserves subject to specific conditions accepted as binding by the Council and which may not be revised by Council without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specific purposes or if certain specified conditions are met. The reserves represent balances held from the collection of targeted rates and charges on activities that are funded from targeted rating or those same activities funding depreciation.

Council created reserves

Council-created reserves are a part of the accumulated balance and are established at the will of Council. Council may alter them without reference to any third party or the Courts. Transfers to and from these reserves are at the discretion of Council.

Property revaluation reserves

Revaluation reserves arise from certain asset classes being revalued.

Investment revaluation reserve

The investment revaluation reserve contains cumulative unrealised gains and losses in investments classified as 'available for sale' in accordance with PBE IPSAS 29.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases

Council as lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term.

Council as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Provisions

Council recognises a provision for future expenditure of uncertain amount when there is a present obligation (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 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.

Landfill post-closure provision

Council, as operator of the Tokoroa and Putāruru landfills, has a legal obligation under its resource consent, to provide on-going maintenance and monitoring services at the landfill site after closure. A provision for closure and post-closure costs is recognised as a liability when the obligation for closure and post-closure expenses arises.

A calculation of these future costs has been discounted and is measured based on the present value of future cash flows expected to be incurred, taking into account future events, including new legal requirements and known improvements in technology. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to Council. Amounts provided for landfill closure and post-closure are capitalised in the landfill asset where they give rise to future economic benefit to be obtained. Components of the capitalised landfill asset are depreciated over their useful lives.

Financial guarantee contracts

A financial guarantee contract is a contract that requires Council 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 disclosed as contingent liabilities. The amount of these contingent liabilities is equal to the loan balances guaranteed.

Critical judgements and estimations

The preparation of financial statements in conformance with PBE IPSAS requires judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditures.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revisions affect both current and future periods.

Management has made the following judgments and estimations that have the most significant effect on the amounts recognised in the financial statements:

Property, plant and equipment

As the Council is a Public Benefit Entity, property plant and equipment are valued at depreciated replacement cost that is based on an estimate of either fair value or current gross replacement costs of improvement less allowances for physical deterioration and optimisation for obsolescence and relevant surplus capacity. There are certain assets such as wastewater or stormwater related assets which may be affected by changes in the measurement of qualitative standards which could affect the results of future periods.

The depreciation method used reflects the service potential of assets and is reviewed each year to ensure that there is no under maintenance of assets which could affect the results of future periods.

Classification of investments

Council has designated all its bond investments as 'available for sale', rather than 'held to maturity', although they all have specific maturity dates. This was due to significant disposals within this class of financial asset before maturity in previous financial years. Therefore, unrealised gains and losses on these investments are recognised as a movement in other comprehensive income. The carrying amount of the available for sale financial assets is disclosed in the notes to the financial report.

Long service leave provisions

Key assumptions concerning the future have been made in the actuarial calculation of long service leave and retiring leave. These are disclosed in the notes to the financial report.

Landfill closure and post-closure provision

Assumptions about the future have been made in the calculation of the landfill closure and post closure cost provisions. These are disclosed in the notes to the financial report.

2. Cost of services

	Actual 2018 \$000	Budget 2018 \$000	Actual 2017 \$000
REVENUE			
Revenue From Significant Activities			
Economic and community development	150	142	157
Facilities, property and amenities	899	762	955
Governance and Corporate	1,172	717	546
Leisure Services	569	333	300
Solid Waste and Recycling	2,498	2,254	2,376
Stormwater	687	680	425
Transport and Rooding	6,075	3,134	3,462
Wastewater	3,378	3,253	2,874
Water Supply	2,784	2,555	2,666
Environment-regulatory services	1,096	1,006	1,029
Environment-resource management and planning	222	110	161
Environment-emergency management	6	(1)	3
Total Service Statement Revenue	19,536	14,945	14,954
General Revenue	18,072	18,151	18,152
TOTAL REVENUE	37,608	33,096	33,106
EXPENDITURE			
Expenditure From Significant Activities			
Economic and community development	2,099	2,326	2,006
Facilities, property and amenities	1,806	2,187	1,613
Governance and Corporate	3,479	2,373	3,317
Leisure Services	4,918	5,230	4,531
Solid Waste and Recycling	3,397	2,763	2,504
Stormwater	767	717	650
Transport and Rooding	7,582	7,725	7,716
Wastewater	3,671	3,477	3,251
Water Supply	3,107	2,648	2,925
Environment-regulatory services	2,013	2,191	1,963
Environment-resource management and planning	1,018	927	835
Environment-emergency management	190	274	274
Total Service Statement Expenditure	34,047	32,838	31,585
NET SURPLUS BEFORE TAX	3,561	258	1,521

3. Exchange/non-exchange revenue

	Actual 2018 \$000	Budget 2018 \$000	Actual 2017 \$000
Revenue from exchange transactions			
Fees and user charges including targeted rates for water supply	4,147	3,633	3,825
Total revenue from exchange transactions	4,147	3,633	3,825
Revenue from non-exchange transactions			
Development contributions	96	21	124
Subsidies and grants	6,045	3,257	3,284
Interest revenue	475	770	445
Other revenue	1,615	785	1,656
Rates	24,659	24,630	23,649
Vested assets	571	-	123
Total revenue from non-exchange transactions	33,461	29,463	29,281
Total revenue	37,608	33,096	33,106

4. Rates revenue

	Actual 2018 \$000	Actual 2017 \$000
General Rates	17,724	17,127
Targeted rates attributable to activities		
Water	2,169	2,088
Waste water	3,337	3,050
Stormwater	686	611
Solid waste	814	811
Business Promotion	135	132
Public Halls	28	28
District Governance	20	20
Rates penalties	324	337
Rates charged on Council properties	(578)	(555)
Total rates, excluding targeted water supply rates	24,659	23,649

Council's rates policy allows Council to remit rates on churches, marae, play centres, schools and other community or sporting organisations. There are also remissions on protected land or in certain cases where land is being commercially developed.

In accordance with the Local Government (Rating) Act 2002, certain properties cannot be rated for general rates. This includes schools, places of religious worship, public gardens and reserves. These non-rateable properties, where applicable, may be subject to targeted rates in respect of wastewater, water and refuse. Non-rateable land does not constitute a remission under council rates remission policy.

5. Subsidies and grants

	Actual 2018 \$000	Actual 2017 \$000
New Zealand Transport Agency roading subsidies	5,887	3,162
Grants and donations for the SW Sport and Events Centre	31	32
National Waste Levy	91	89
Sundry other	36	1
	6,045	3,284

There are no unfulfilled conditions and other contingencies attached to subsidies and grants (2017: nil).

6. Finance income and finance costs

	Actual 2018 \$000	Actual 2017 \$000
Finance Income		
Interest Income		
- Call account	105	96
- Available for Sale bonds	370	349
Total Finance Income	475	445
Finance Cost		
Interest cost		
- Interest on bank borrowings	602	647
Total Finance Costs	602	647

7. Other revenue

	Actual 2018 \$000	Actual 2017 \$000
Dividends	263	337
Petrol tax	167	164
Vested assets	571	123
Other	1,185	1,155
	2,186	1,779

8. Employee benefit expenses

Defined benefit retirement leave provision

At the time of retirement from the Council, including early retirement on medical grounds, every employee who has completed not less than ten years current continuous service will be entitled to retirement leave. The amount of the leave entitlement payable will be calculated at the rate of one week's leave for each year of current continuous service, with a maximum of 26 weeks. Any employee who was appointed to the staff of Council after December 31, 1989 will not be entitled to any retirement leave. If any eligible employee dies whilst in the service of the Council, the Council will pay in lieu to his or her estate. No retirement leave entitlement will accrue to an employee who resigns, is dismissed or made redundant.

	Actual 2018 \$000	Actual 2017 \$000
The principal assumptions used for the purpose of the actuarial valuations were as follows:		
Discount rate	1.78%-4.75%	1.97%-4.75%
Expected rate of salary increase	3.5%	3.5%
Retirement age for all employees	65	65
Amounts recognised in the balance sheet in respect of the defined benefit retirement plan are as follows:		
Present value of unfunded obligation	137	131
Net liability recognised in the balance sheet	137	131
Comprising:		
Current	22	22
Non-current	115	109
Total employee benefit obligations	137	131
Amounts recognised in the income statement in respect of the defined benefit retirement plan are as follows:		
Current service cost	3	4
Interest cost	3	2
Actuarial gains/(losses)	(55)	(54)
Total	(49)	(48)
The charge for the year is included in the employee benefits expense in the income statement.		
Changes in the present value of the defined benefit obligation are as follows:		
Opening defined benefit obligation	111	159
Current service cost	3	4
Interest cost	3	2
Actuarial gains/(losses)	(55)	(54)
Less: benefits paid	-	-
Closing defined benefit obligation	62	111

Long service compensated leave

Every employee who has completed a period of 15, 20 and 25 years' current continuous service who was employed prior to 1 April 1992 is entitled to a special holiday of two weeks, three weeks and four weeks respectively.

Every employee who was employed on or after 1 July 2003 who is under coverage of the Officers' (Public Service Association) Collective Employment Agreement and who has completed a period of 10, 15 and 20 years' current continuous service will be entitled to a special holiday of one week at each of those anniversaries. This clause will not apply to employees who have, or will, become entitled in terms of the previous clause.

	Actual 2018 \$000	Actual 2017 \$000
The present value of long service compensated leave	29	50
Comprising:		
Current	16	37
Non-current	13	13
Total employee benefit obligations	29	50
Amounts recognised in the profit or loss in respect of Council's long service compensated leave and salaries are as follows:		
Salaries	9,110	9,018
Current service cost	2	2
Interest cost	1	1
Actuarial (gains)/ losses	(12)	(12)
Past service cost	-	-
Total	9,101	9,009
The charge for the year is included in the employee benefits expense in the profit or loss.		
Changes in the present value of long service compensated leave are as follows:		
Opening long service compensated leave obligation	45	54
Current service cost	2	2
Interest cost	1	1
Past service cost	-	-
Less: benefits paid	-	-
Actuarial (gains)/losses	(12)	(12)
Closing long service compensated leave obligation	36	45
Total employee benefits expense recognised in the profit or loss	9,101	9,009
Current portion of employee benefit obligations recognised in the balance sheet.	1,058	993
Non-current portion of employee benefit obligations recognised in the balance sheet.	172	122

Severance Payments

During the year to 30 June 2018 there was 1 severance payment made of \$28,890 to an employee of the South Waikato District Council (2017: nil).

9. Other expenses

	Actual 2018 \$000	Actual 2017 \$000
Audit Fees-audit of financial statements	137	133
Audit Fees-audit of Long Term Plan	106	-
Impairment of receivables	43	30
Rates Remissions	188	190
Councilors Remuneration (including meeting allowances)	397	377
Insurance	248	212
Subscriptions, fees and contribution to other organisations	202	66
Legal and settlement fees	49	82
Donations and grants	95	98
Economic and Community fund grants	793	749
Community contracts	94	556
Inventories consumed	(2)	(1)
Losses on disposal of property, plant and equipment	1,074	590
Repairs and maintenance	3,820	3,774
Energy	1,029	957
Other operating expenses	9,035	7,225
Total	17,308	15,038

10. Cash and cash equivalents

	Actual 2018 \$000	Actual 2017 \$000
Cash at bank and in hand	13	12
Cash investments in Restricted reserves	257	3,226
Call accounts	4,872	4,039
Total cash and cash equivalents	5,142	7,277

The carrying amount of short-term deposits with maturity dates of three months or less approximates their fair value. The weighted average effective interest rate for cash and cash equivalents is 1.25% (2017 1.5%).

Cash investments in restricted reserves represents the cash portion of the value of the Asset Replacement Reserves invested by BNZ Private Bank.

11. Trade and other receivables

	Actual 2018 \$000	Actual 2017 \$000
Rates receivable	1,550	1,530
Metered water	25	29
Sundry debtors	1,165	1,159
Prepayments	209	257
Accrued revenue	802	279
Related party receivables	-	-
	3,751	3,254
Less: Provision for Impairment of receivables	196	153
Total trade and other receivables	3,555	3,101

Receivables from non-exchange transactions include outstanding amounts for rates, grants, infringements, and fees and charges that are partly subsidised by rates	2,037	1,918
Receivables from exchange transactions include outstanding amounts for commercial sales and fees and charges that have not been subsidised by rates	1,518	1,183

The carrying amount of trade and other receivables approximates their fair value. A provision for receivables is established when there is objective evidence that Council 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 rate method. This provision has been determined by reference to past default experience. Council holds no collateral as security or other credit enhancements over receivables that are either past due or impaired.

The age of rates receivables overdue but not impaired are as follows:

	Actual 2018 \$000	Actual 2017 \$000
Arrears (> 1 year)	531	494
Current (< 1 year)	810	851
Penalties	209	187
Carrying amount	1,550	1,532
Movements in the provision for impairment of receivables are as follows:		
At 1 July	153	147
Increase/(decrease) in provisions made during the year	43	31
Receivables written off during the year	-	(25)
At 30 June	196	153

12. Inventories

	Actual 2018 \$000	Actual 2017 \$000
Reticulation repairs stock	167	170
Other stock	22	33
Total	189	203

13. Other financial assets

	Actual 2018 \$000	Actual 2017 \$000
Current portion		
Available for Sale Financial Assets:		
Corporate bonds, deposits and other fixed interests	-	-
Loans and receivables		
Putaruru Squash Rackets Club	-	2
Tokoroa Kart Club	-	-
Withholding tax on income	-	-
Total current portion	-	2
Non-Current portion		
Available for Sale Financial Assets:		
Corporate bonds, deposits and other fixed interests	10,622	8,101
Overseas share portfolio	8,171	5,029
Shared Valuation Database Systems	43	43
NZ Local Government Insurance Corporation Limited	44	45
Loans and receivables		
Heat Swap paying providers	1,044	860
Total non-current portion	19,924	14,078

Fair value

The fair value of loans and receivables has been determined using cash flows discounted at a rate based on the South Waikato District Council's borrowing rate - 2018 Nil (2017: 5.00%). The fair value approximates the carrying amount stated above.

The shares in NZ Local Government Insurance Corporation Limited, and Shared Valuation Database Systems are unlisted. The fair value of these unlisted shares has not been disclosed for these instruments because their fair value cannot be measured reliably. It cannot be reliably measured due to a lack of an active market and a lack of appropriate cashflow projection information for NZ Local Government Insurance Corporation Limited.

Shared Valuation Database Systems shares cannot be reliably measured due to the lack of an active market and reliable revenue stream information. Council does not intend to dispose of the unlisted shares.

Impairment

No impairment provisions were made for other financial assets

14. Assets held for sale

	Actual 2018 \$000	Actual 2017 \$000
Current		
Local Purpose Reserve etc; Parts of James Higgins Park	232	178
Depot – Patetere Street – Tirau	661	588
Moffat Rd Tokoroa Airport	225	215
	1,118	981
Non -Current		
Tokoroa Depot - Kauri St	-	121
Putāruru Smallbore Rifle Club land only	37	24
42 Thompson Street Tokoroa	50	31
57 Arapuni Street – Putāruru	-	52
	87	228
Total	1,205	1,209

Council has approved the sale of these properties and they are currently available for sale. The completion date of the properties listed under current is expected to be by 30 June 2019. The properties listed under non-current have been available for sale for more than a year, and there has been little interest shown in these properties. It is unlikely that they will be sold by 30 June 2019.

The accumulated property revaluation reserve recognised in equity for these properties at 30 June 2018 is \$1,047,116 (2017:\$ 885,000).

15. Property, plant and equipment

Asset Class	Cost/revaluation 1 July 2017 \$000	Accumulated depreciation & impairment charges 1 July 2017 \$000	Carrying amount 1 July 2017 \$000	Current year addition \$000	Vested Assets \$000	Current year disposal \$000	Revaluation surplus \$000	Current year depreciation charges \$000	Depreciation write-off on disposals \$000	Cost/revaluation 30 June 2018 \$000	Accumulated depreciation and impairment charges 30 June 2018	Carrying amount 30 June 2018 \$000
Operational assets												
<i>Heritage assets</i>	145	-	145	-	-	-	-	-	-	145	-	145
Library collection	1,386	(969)	417	102	-	(146)	-	(104)	129	1,342	(944)	398
Buildings	16,533	(575)	15,958	-	-	(321)	2,806	(309)	-	18,135	(1)	18,134
Furniture & fittings	1,536	(1,106)	430	662	-	(78)	-	(107)	78	2,120	(1,135)	985
Equipment	4,866	(4,181)	685	318	-	(144)	-	(202)	141	5,040	(4,242)	798
Land	2,755	(5)	2,750	1,520	-	(50)	824	-	-	5,049	(5)	5,044
Motor vehicles	1,251	(559)	692	108	-	(113)	-	(170)	91	1,246	(638)	608
Other major plant	658	(348)	310	56	-	-	-	(42)	-	714	(390)	324
Total operational assets	29,130	(7,743)	21,387	2,766	-	(852)	3,630	(934)	439	33,791	(7,355)	26,436
Infrastructural assets												
Bridges	7,810	(1)	7,809	218	-	-	-	(208)	-	8,028	(209)	7,819
Culverts	5,852	-	5,852	183	20	(13)	-	(139)	1	6,042	(138)	5,904
Buildings	4,237	(163)	4,074	15	-	-	358	(86)	-	4,361	-	4,361
Land	5,011	-	5,011	-	-	-	327	-	-	5,338	-	5,338
Landfill	4,997	(2,812)	2,185	41	-	-	-	(179)	-	5,038	(2,991)	2,047
Pipes	13	(3)	10	-	-	-	-	-	-	13	(3)	10
Pumps	267	(267)	-	-	-	-	-	-	-	267	(267)	-
Roads and footpaths	240,513	(5)	240,508	3,082	-	(270)	-	(2,584)	27	243,325	(2,562)	240,763
<i>Sewerage:</i>												
Treatment plant and facilities	13,774	(492)	13,282	43	1	(23)	-	(461)	10	13,795	(943)	12,852
Other (includes reticulation)	16,328	(532)	15,796	56	135	(7)	-	(533)	-	16,512	(1,065)	15,447
Street furniture	550	(517)	33	14	-	-	-	(10)	-	564	(527)	37
Streetlights	3,155	(82)	3,073	2,386	-	(712)	-	(135)	51	4,829	(166)	4,663
Stormwater system	21,725	(516)	21,209	8	354	(1)	-	(466)	-	22,086	(982)	21,104
<i>Water systems</i>												
Treatment plant and facilities	6,700	(297)	6,403	350	1	(16)	-	(284)	2	7,035	(579)	6,456
Other (includes reticulation)	18,779	(592)	18,187	107	33	(48)	-	(596)	-	18,871	(1,188)	17,683
Total infrastructural assets	349,711	(6,279)	343,432	6,503	544	(1,090)	685	(5,681)	91	356,104	(11,620)	344,484
Restricted assets												
Parks & reserves	3,098	(557)	2,541	243	28	(1)	233	(273)	1	2,772	-	2,772
Restricted buildings	2,913	(109)	2,804	-	-	-	86	(60)	-	2,830	-	2,830
Restricted land	33,661	(3)	33,658	80	-	(11)	840	-	-	34,571	(4)	34,567
Total restricted assets	39,672	(669)	39,003	323	28	(12)	1,159	(333)	1	40,173	(4)	40,169
Capital work in progress	1,625	-	1,625	2,211	-	(303)	-	-	-	3,533	-	3,533
Total All Assets	420,138	(14,691)	405,447	11,803	572	(2,257)	5,474	(6,948)	531	433,601	(18,979)	414,622

Description	Cost/Revaluation 1 July 2016 \$000	Accumulated Depreciation and Impairment Charges	Transfer to assets held for sale 1 July 2016 \$000	Carrying Amount 1 July 2016 \$000	Current Year Additions \$000	Vested Assets \$000	Current Year Disposals \$000	Revaluation Surplus \$000	Current Year Depreciation \$000	Depreciation Write offs on Disposals \$000	Cost/Revaluation 30 June 2017 \$000	Accumulated Depreciation and Impairment Charges 30 June 2017	Carrying Amount 30 June 2017 \$000
Operational Assets													
<i>Heritage assets</i>	144	-	-	144	-	1	-	-	-	-	145	-	145
Library collection	1,335	(921)	-	414	123	-	(73)	-	(110)	63	1,386	(969)	417
Buildings	16,317	(255)	-	16,062	186	-	-	-	(290)	-	16,533	(575)	15,958
Furniture & fittings	1,440	(1,037)	-	403	95	-	-	-	(68)	-	1,536	(1,106)	430
Equipment	4,569	(4,014)	-	555	354	-	(57)	-	(205)	38	4,866	(4,181)	685
Land	2,548	(4)	-	2,544	207	-	-	-	(1)	-	2,755	(5)	2,750
Motor vehicles	1,396	(732)	-	664	331	-	(476)	-	(192)	365	1,251	(559)	692
Other major plant	602	(307)	-	295	56	-	-	-	(41)	-	658	(348)	310
Total Operational Assets	28,351	(7,270)	-	21,081	1,352	1	(606)	-	(907)	466	29,130	(7,743)	21,387
Infrastructural assets													
Bridges	7,707	(361)	-	7,346	-	-	-	647	(184)	-	7,810	(1)	7,809
Culverts	6,134	(274)	-	5,860	333	-	(23)	(188)	(135)	5	5,852	-	5,852
Buildings	3,999	(81)	-	3,918	239	-	-	-	(83)	-	4,237	(163)	4,074
Land	4,716	-	-	4,716	295	-	-	-	-	-	5,011	-	5,011
Landfill	4,916	(2,638)	-	2,278	81	-	-	-	(174)	-	4,997	(2,812)	2,185
Pipes	13	(3)	-	10	-	-	-	-	(0)	-	13	(3)	10
Pumps	267	(267)	-	-	-	-	-	-	-	-	267	(267)	-
Roads and footpaths	225,598	(5,033)	(278)	220,287	3,246	30	(561)	19,742	(2,444)	208	240,513	(5)	240,508
Treatment plant and facilities	13,594	(3)	-	13,591	260	-	(80)	-	(495)	6	13,774	(492)	13,282
Other (includes reticulation)	16,262	(0)	-	16,262	54	12	-	-	(532)	-	16,328	(532)	15,796
Street furniture	550	(497)	-	53	-	-	-	-	(20)	-	550	(517)	33
Streetlights	2,537	(253)	-	2,284	199	34	-	678	(122)	-	3,155	(82)	3,073
Stormwater system	21,687	(52)	-	21,635	24	14	(1)	-	(463)	0	21,725	(516)	21,209
Treatment plant and facilities	6,353	-	-	6,353	400	-	(53)	-	(299)	2	6,700	(297)	6,403
Other (includes reticulation)	18,590	2	-	18,592	239	15	(65)	-	(596)	2	18,779	(592)	18,187
Total Infrastructural Assets	332,923	(9,460)	(278)	323,185	5,370	105	(783)	20,879	(5,547)	223	349,711	(6,279)	343,432
Restricted assets													
Parks & reserves	2,888	(273)	-	2,615	216	4	(10)	-	(286)	2	3,098	(557)	2,541
Restricted buildings	2,777	(55)	-	2,722	193	-	(56)	-	(56)	1	2,913	(109)	2,804
Restricted land	33,195	(3)	-	33,192	576	15	(125)	-	(0)	-	33,661	(3)	33,658
Total Restricted Assets	38,860	(331)	-	38,529	985	19	(191)	-	(342)	3	39,672	(669)	39,003
Capital work in progress	2,207	-	-	2,207	(582)	-	-	-	-	-	1,625	-	1,625
Total All Assets	402,341	(17,061)	(278)	385,002	7,125	125	(1,580)	20,879	(6,796)	692	420,138	(14,691)	405,447

The net carrying amount of property, plant and equipment held under a finance lease is \$Nil; (2017 \$Nil). No impairment losses have been recognised in infrastructural assets due to damage or rapid wear and tear. No compensation has been received from insurance claims for damage to motor vehicles and equipment (2017 \$Nil). The closing balance of the revaluation reserve is \$249,563,000 (2017 \$244,826,000).

Network infrastructure	Most recent estimate of replacement	
	cost \$000	Date of estimate
Roads and Footpaths	256,995	30/06/2017
Wastewater	-	
Treatment plant and facilities	22,461	30/05/2016
Other	41,964	30/05/2016
Water systems	-	
Treatment plant and facilities	12,109	30/05/2016
Other	44,525	30/05/2016
Stormwater system	40,563	30/05/2016

Depreciation and amortisation expense by group of activity

	Actual 2018 \$000	Actual 2017 \$000
Transport and roading	3,100	2,918
Recreation and facilities	1,042	1,011
Water supply	917	947
Stormwater	467	463
Wastewater	997	1,030
Solid waste and recycling	197	194
Regulatory	42	45
Environment - emergency management	16	20
Governance and corporate	258	263
Total	7,036	6,891

16. Intangible assets

	Actual 2018 \$000	Actual 2017 \$000
Computer Software		
Cost	2,503	2,427
Accumulated amortisation and impairment	(2,381)	(2,286)
Opening carrying amount	122	141
Additions/(disposals)	111	76
Additional assets classified as intangible assets	-	-
Accumulated amortisation charge on additional assets	-	-
Amortisation charge	(86)	(95)
Closing carrying amount	147	122
Carbon credits		
Cost	14	14
Accumulated amortisation and impairment	-	-
Opening carrying amount	14	14
Additions/(disposals)	137	-
Amortisation charge	-	-
Closing carrying amount	151	14
Total closing carrying amounts	298	136

The intangible assets included above have finite useful lives of between 3-4 years, over which the assets are amortised. These assets are amortised on a straight line basis. The amortisation charge for the year is included in the depreciation and amortisation expense line of the Statement of Comprehensive Revenue and Expense.

Carbon credits

Council has previously acquired carbon credits for the purpose of meeting its obligations under the Emissions Trading Scheme for carbon emissions from its landfill operations. Council is required to forfeit carbon credits for emissions following the end of each calendar year.

17. Trade and other payables

Trade and other payables are non-interest bearing and are normally settled on the 20th of the following month basis. Therefore, the carrying amount of trade and other payables approximates their fair value. Furthermore, the carrying amount of trust accounts approximates their fair value.

	Actual 2018 \$000	Actual 2017 \$000
Sundry Creditors	3,201	2,127
Accrued expenses	252	259
Income received in advance	1,468	1,704
Total	4,921	4,090
Payables and deferred revenue under non-exchange transactions	1,303	1,243
Payables and deferred revenue under exchange transactions	3,618	2,847
Trust Accounts	2	1

18. Landfill provisions

	Actual 2018 \$000	Actual 2017 \$000
Opening balance	756	841
Additional provision made during the year	8	80
Amounts used during the year	(7)	(87)
Unused amount reversed during the year	-	-
Discount unwinding	171	(78)
Total landfill provision	928	756
Presented by:		
Current provision	15	18
Non-current provision	913	738
Total landfill provision	928	756

Council operates its Tokoroa landfill under various resource consent conditions. Council has responsibility, under the resource consent, to provide ongoing maintenance and monitoring of the landfill after the site is closed. The Tīrau landfill site has been permanently closed and the surface of the site capped to resource consent standards. There are closure and post-closure responsibilities such as the following:

Closure responsibilities

Include final cover application and vegetation, incremental drainage control features, completing facilities for leachate collection and monitoring, water quality monitoring and gas recovery and monitoring.

Post closure responsibilities

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

Capacity of the site

Final capping at Tokoroa is programmed for 2023. The remaining capacity of the site (refuse, clean fill and cover) is approximately 35,000 cubic metres (2017: 48,724 cubic metres). Estimates of life have been made by Council's Engineers, based on historical volume information. The cash out flows for landfill post closure are expected to occur between 2004 and 2054. The long term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated, taking into account technology, and is discounted using forward rates of 1.78%-4.75% (2017: forward rates of 1.97%-4.75%) as provided by the New Zealand Treasury.

19. Employment benefit obligations

	Actual 2018 \$000	Actual 2017 \$000
Accrued pay	326	162
Annual Leave	699	735
Long service leave	29	50
Retirement gratuities	137	131
Sick leave	39	37
Total employee benefit liabilities	1,230	1,115
Comprising		
Current	1,058	993
Non-current	172	122
Total employee benefit liabilities	1,230	1,115

20. Borrowing

	Actual 2018 \$000	Actual 2017 \$000
Current portion	1,188	904
Non-current portion	14,033	11,663
Total borrowings	15,221	12,567
<i>Made up of:</i>		
Pensioner housing	271	288
CBD Infrastructure loan	442	339
Landfill site development loan	372	402
Putaruru service centre	389	419
Putaruru landfill closure	197	212
Putaruru transfer station	172	185
Roading	2,184	2,356
Timber museum	302	321
Fibre optic cable connection	160	173
Toilets	1,347	1,427
Swimming pools	717	768
Sportsgrounds	165	176
Warm homes	465	573
District plan	454	561
Heat swap	998	820
Airport	82	84
Recycling centre facility	735	759
Wastewater	550	611
Property	1,773	233
Public halls	9	10
Cemeteries	155	162
Parks and reserves	1,341	1,314
Christmas/LED lights	128	41
Other loans	1,813	333
Total borrowings	15,221	12,567

Council's source of external borrowing at 30 June 2018 is a customised average rate term loan (CARL) with a limit of \$17m (2017: \$6m). Within the facility are two fixed rate funding agreements of \$2.5m each. The total of the approved facilities is \$17m (2017: \$15m).

Security

Council loans are secured over targeted and general rates revenue of the district by Deed of Charge in favour of the Bank of New Zealand. Council 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 council's Long Term Plan. There were no changes to the Liability Management Policy during the period.

21. Equity

	Actual 2018 \$000	Actual 2017 \$000
Retained earnings		
Opening Balance	146,974	145,384
Net surplus/(deficit) for the year	3,561	1,521
<i>Transfers (to)/from:</i>		
Property Revaluation Reserves	943	730
Restricted Reserves	(112)	(1,586)
Council Created Reserves	87	925
Closing balance	151,453	146,974
Other Reserves		
Asset Replacement and Restricted Reserves		
Opening Balance	17,426	15,840
Transfers to General Equity	4,208	4,519
Transfers from General Equity	(4,096)	(2,933)
Closing balance	17,538	17,426
Council Created Reserves		
Opening Balance	2,531	3,456
Transfers to General Equity	1,226	559
Transfers from General Equity	(1,313)	(1,484)
Closing balance	2,444	2,531
Property Revaluation Reserves		
Opening Balance as previously reported	244,826	222,897
Increase/(decrease) in revaluation	5,680	22,659
Transfers to retained earnings on disposal	(943)	(730)
Closing balance	249,563	244,826
<i>Represented by:</i>		
Land (Restricted)	23,995	22,182
Land (Operational)	3,622	3,352
Buildings (Infrastructural)	740	383
Buildings (Operational)	6,066	3,272
Building (Restricted)	548	464
Parks and Reserves	1,323	1,091
Roading	178,052	178,813
Sewerage	11,514	11,519
Stormwater	8,927	8,928
Water	14,776	14,822
	249,563	244,826
Investment Revaluation Reserve		
Opening Balance	1,167	1,067
Valuation gains/(losses) taken to equity	468	100
Closing balance	1,635	1,167
Total other reserves	271,180	265,950

Movement of Council created, restricted and depreciation reserves

	Actual 1 July 2017 \$000	Transfers in \$000	Transfers out \$000	Actual 30 June 2018 \$000
Council Created Reserves				
Pensioner Housing	155	42	(144)	53
SWDC asset purchase	(224)	-	(84)	(308)
South Waikato Economic Development	1,523	636	(922)	1,237
Roading reserve extra NZTA subsidy	-	202	-	202
SW Economic Develop Trust	108	-	(69)	39
Riverside access	412	5	-	417
Financial contributions - reserves	39	13	-	52
Financial contributions - roading	146	64	(35)	175
National waste levy	181	39	(20)	200
Financial contributions - stormwater	3	2	(3)	2
Financial contributions - water	5	-	(4)	1
Financial contributions - wastewater	5	-	(5)	-
Mayoral grants reserve	-	-	-	-
Forestry/Airport reserve	178	223	(12)	389
Land purchase reserve	-	-	(15)	(15)
Total Council Created Reserves	2,531	1,226	(1,313)	2,444
Restricted Reserves				
Water	110	-	(736)	(626)
Wastewater	(198)	-	(99)	(297)
Stormwater	(196)	-	(282)	(478)
Refuse collection	(5)	-	(47)	(52)
Upper Atiamuri Hall	(14)	-	(14)	(28)
Puketurua Hall	6	-	(8)	(2)
Waotu Hall	2	-	(6)	(4)
Lichfield Hall	(13)	-	(21)	(34)
Arapuni Hall	17	-	(11)	6
Tapapa Hall	35	-	(27)	8
Piarere Hall	-	-	-	-
Tirau Community Board	5	-	(2)	3
Tokoroa CBD	15	7	-	22
Putāruru Promotion (CCTV)	6	-	(1)	5
Putāruru CBD	17	12	-	29
District Recycling	(225)	59	-	(166)
Total Restricted Reserves	(438)	78	(1,254)	(1,614)
Asset Replacement Reserves				
General	234	100	(30)	304
Water	2,750	1,067	(565)	3,252
Wastewater	5,405	1,288	(467)	6,226
Stormwater	4,912	675	(104)	5,483
Refuse disposal	1,054	78	(175)	957
The Plaza	(10)	8	-	(2)
Vehicles	342	161	(243)	260
Toilets	169	45	(86)	128
Sport and events centre	470	95	-	565
Sportsgrounds	80	151	(128)	103
Parks and reserves	612	229	(791)	50
Cemeteries	46	17	(4)	59
Libraries	(42)	10	(32)	(64)
Pools	79	81	(88)	72
Bridges	502	21	-	523
General properties	188	35	(88)	135
Trade training centre	45	2	(8)	39
Putāruru CCTV	20	1	-	21
Tokoroa CCTV	24	2	-	26
Information Services	867	48	(33)	882
District Recycling	117	16	-	133
Total Asset Replacement Reserves	17,864	4,130	(2,842)	19,152
Total Asset Replacement and Restricted Reserves	17,426	4,208	(4,096)	17,538

Purpose of reserve

Pensioner housing: Manage the surpluses and deficits from the pensioner housing activity, when more or less rental is collected than is required to fund the annual expenditure of the pensioner houses.

SWDC asset purchase: Hold the proceeds from the sale of assets until they are applied to purchase other assets.

South Waikato Economic Development Fund: Council expressed in its Long Term Plan 2006-2016 that Council would take a leadership decision to establish a South Waikato Development Fund of \$4.5 million. The fund would support developments that the community considered are needed across the district. It was specifically established to develop facilities and amenities of strategic value to the district that would otherwise require financing through rate funding; enhance local employment opportunities and economic growth; and attract and retain residents by making the district a more desirable place to live.

Roading reserve extra NZTA Subsidy: This reserve was created from additional subsidy provided from NZTA in 17/18 for work relating to the 16/17 year. The reserve will be used to fund part of the roading programmes in 18/19.

SW Economic Development Trust: This reserve is committed to fund trade training initiatives.

Riverside access: Manage sale of proceeds from certain stopped roads. This is to be used for opening up areas to public access in the South Waikato district.

Financial contributions: To manage financial contributions levied from the development of subdivisions until this funding is used for the development of related activities.

National waste levy: Manage the funds received from government relating to the national waste levy levied.

Restricted (targeted rate) reserves: Targeted rate reserves are used to manage the surpluses and deficits of specific targeted activities such as water, stormwater, wastewater and halls that arise when more or less rates revenue is collected to fund the annual expenditure of that activity. This ensures that rates collected from a certain group of targeted rate payers can only be used for the benefit of that group.

Asset replacement reserves: These accumulate funds from rates and are used for the future capital funding for the replacement of assets. Each major activity group e.g. water, roading, waste water, storm water, solid waste, has their own depreciation reserve so that the funds from each can be applied to the appropriate activity's capital expenditure.

Asset replacement reserve – general rating activities: This reserve accumulates funded depreciation and is used to fund replacement capital expenditure for general rated activities.

22. Reconciliation of net cash flow to operating surplus/(deficit)

	Actual 2018 \$000	Actual 2017 \$000
Net surplus before tax	3,561	1,521
<i>Add/(deduct) non-cash items</i>		
Depreciation and amortisation of plant, property and equipment	7,036	6,890
Assets vested in Council	(571)	(123)
Loss on sale of property, plant and equipment	1,074	590
<i>Add/(deduct) movements in working capital items</i>		
Trade and other receivables	(453)	(362)
Trade and other payables	831	436
Inventories	14	16
Trust accounts	1	(4)
Employee benefits	115	(13)
Net cash inflow/(outflow) from operating activities	11,608	8,951

23. Capital commitments and contingencies

Capital commitments represent capital expenditure contracted for at balance date but not yet earned:

	Actual 2018 \$000	Actual 2017 \$000
CCTV Upgrades	8	-
Network Hardware Upgrade	31	-
Telephone Systems Hardware	-	16
Domain / Harris Service Relocation	-	23
Total	39	39

Contingent Liabilities

Guarantees

As at 30 June 2018 the South Waikato District Council was acting as a guarantor for a loan of \$4,747 advanced by ANZ National Bank Limited to the Tokoroa Kart Club Incorporated (2017: \$12,958)

Responsibility for shortfall for mutual liability

Up until 30 June 2012, the South Waikato District Council was a member of the New Zealand Mutual Liability RiskPool.

The New Zealand Mutual Liability RiskPool had been the key mechanism for the sector to protect itself against public liability and professional indemnity claims over the past fifteen years.

In 2012 Council received advice from RiskPool that payments of weather tightness claims on behalf of members were at a level that had resulted in deficits for the fund. These deficits would require calls on members under the mutual fund rules to meet the funding shortfalls. The mutual fund's rules also require the South Waikato District Council to share in the funding of shortfalls, for those years the Council has been a member of Riskpool (even after it has exited the mutual fund).

There remains the potential for further currently unquantified obligations/calls on Council. There is considerable uncertainty about any future claims and Council is uncertain if there will be additional obligations.

Carter Holt Harvey

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 South Waikato District Council alleging a breach of duty in the processing of building consents, undertaking building inspections and issuing Code 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, 11 of which are located within the South Waikato district across 7 schools. At present there is insufficient information to conclude on potential liability and claim quantum, if any.

24. Remuneration

Chief Executive

During the year ended 30 June 2018 the Council's Chief Executive was remunerated as follows:

	Actual 2018 \$000	Actual 2017 \$000
Craig Hobbs		
Base Salary	240	234
Vehicle (market value plus FBT)	19	19
Kiwisaver Employer's Contribution	7	7
Total	266	260

For the year ended 30 June 2018, the total annual cost including fringe benefit tax to the South Waikato District Council of the remuneration package being received by the Chief Executive is calculated at \$ 266,384 (2017:\$ 260,484).

Key Management Personnel

Key management personnel includes the Mayor, Councillors, the Chief Executive and other senior management of Council.

	Actual 2018 \$000	Actual 2017 \$000
Salaries and other short term employee benefits	1,511	1,469
Post employment benefits	-	-
Other long term benefits	-	-
Termination benefits	-	-
	1,511	1,469

Council employees

The total annual remuneration by band for employees as at 30 June are:

	Actual 2018 \$000	Actual 2017 \$000
< \$60,000	85	110
\$60,000 - \$79,000	25	19
\$80,000 - \$99,000	19	19
\$100,000 - \$119,000	8	5
\$120,000 - \$259,000	5	5
Total employees	142	158

Total remuneration includes non-financial benefits provided to employees.

At balance date, the Council employed 115 full-time employees (2017: 109), with the balance of staff representing 9.3 (2017: 37) full-time equivalent employees. A full-time employee is determined on the basis of a 37.5-hour working week.

25. Councillor Remuneration

Elected representatives

The following monetary and non-monetary remuneration was paid to Councillors and Community Board representatives during the year. Monetary remuneration excludes payment of non-taxable allowances which are considered reimbursement of actual expenses incurred.

	Actual 2018 \$000	Actual 2017 \$000
Mayor and Councillors		
Neil Sinclair (Mayor)*	-	28
Jenny Shattock (Mayor)*	90	71
Herman Van Rooijen	26	27
Anne Edmeades	-	8
Adrienne Bell	29	29
Jeff Gash	34	32
Bill Machen	26	25
Marin Glucina	26	25
Tua Numanga	-	8
Terry Magill	-	8
Thomas Lee	26	25
Peter Schulte	26	17
Gray Baldwin	31	21
Aroma Ngapo-Lipscombe	26	17
Wendy Cook	26	17
Total Councillors	366	358
Community Board Members		
Nora Martelletti	-	1
Clive Collingwood	3	3
Cassandra Robinson	6	6
Derek Keesing	3	3
Sharon Burling - Claridge	3	2
Total Community Board members	15	15

* Jenny Shattock replaced Neil Sinclair as Mayor after the elections in October 2016

26. Financial instruments

Financial instrument categories

	Note	Actual 2018 \$000	Actual 2017 \$000
Financial assets			
Loans and receivables			
Cash and cash equivalents	10	5,142	7,277
Trade and other receivables	11	3,555	3,101
Other financial assets:			
Sundry loans	13	1,044	860
Total loans and receivables		9,741	11,238
Available for sale financial assets			
Other financial assets:			
Bonds, deposits and other fixed interests	13	10,622	8,101
Unlisted shares	13	87	87
Listed shares	13	8,171	5,029
Total available for sale financial assets		18,880	13,217
Financial liabilities			
Financial liabilities at amortised cost			
Trade and other payables	17	4,921	4,090
Trust Accounts	17	2	1
Secured loans	20	15,221	12,567
Total financial liabilities at amortised cost		20,144	16,658

Fair values hierarchy disclosures

For those instruments recognised at fair value in the balance sheet, fair values are determined according to the following hierarchy.

Quoted market price (level 1) – financial instruments with quoted prices for identical instruments in active markets

Valuation technique using observable inputs (level 2) – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in active markets and financial instruments valued using models where all significant inputs are observable

Valuation techniques with significant non-observable inputs (level 3) – financial instruments valued using models where one or more significant inputs are not observables.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.

	Total \$000	Quoted Market Price \$000 Level 1	Observable inputs \$000 Level 2	Significant non- observable inputs \$000 Level 3
30 June 2018				
<i>Financial assets</i>				
General Funds				
Bank security bonds (AA-)	3,256	3,256	-	-
Corporate bonds (BBB+ to AA-)	5,661	5,661	-	-
Local Government bonds (A to AA)	-	-	-	-
NZ Government Bonds (AA+)	-	-	-	-
International bonds (not rated)	9,875	9,875	-	-
30 June 2017				
<i>Financial assets</i>				
General Funds				
Bank security bonds (AA-)	3,303	3,303	-	-
Corporate bonds (BBB+ to AA-)	6,023	6,023	-	-
Local Government bonds (A to AA)	253	253	-	-
NZ Government Bonds (AA+)	204	204	-	-
International bonds (not rated)	3,348	3,348	-	-

There were no transfers between the different levels of the fair value hierarchy.

Financial instrument risks

Council has a series of policies to manage the risks associated with financial instruments. The South Waikato District Council is risk averse and seeks to minimise exposure from its treasury activities. Council has established approved Liability Management and Investment policies which have been adopted as part of Council's Long Term Plan 2015-25.

These policies do not allow any transactions that are speculative in nature to be entered into.

Market Risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Council is exposed to price risk on its equity and bond investments, which are classified as available for-sale-financial assets.

The price risk is managed by diversification of Council investment portfolio in accordance with the limits set out in Council Investment policy.

Currency Risk

Currency risk is the risk that cash flows relating to certain forecast transactions or firm commitments will fluctuate.

Council is managing this risk through forward foreign exchange contracts.

Interest Rate Risk

The interest rates on investments and borrowings are disclosed in note 13.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in market interest rates. Borrowing and investment at fixed interest rates expose Council to fair value interest rate risk. Council manages its interest rate exposure by restricting the gross interest of all external borrowing to 10% of total revenues and to 15% of Council's operating revenue. Council can also use interest rate

derivatives such as interest rate swaps and options to manage interest rate risks when the need arises. Interest rates on borrowings are subject to quarterly repricing.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of financial instruments will fluctuate because of changes in floating interest rates and borrowings. Council is exposed to cash flow interest rate risk on cash and cash equivalents.

Sensitivity analysis

The table below illustrates the potential profit or loss and equity (excluding retained earnings) impact for reasonably possible market movement, with all other variables held constant, based on Council's financial instruments exposures at the balance date. The particular sensitivities chosen for the analysis reflect the actual movements that occurred in the relevant immediately preceding financial year.

	Note	2018 \$000		2017 \$000	
		Profit	Other Equity	Profit	Other Equity
Interest Rate Risk					
Financial assets					
NZ fixed interest bonds	a	-	30	(30)	32
Financial liabilities					
Borrowings	b	38	(38)	31	(31)
Foreign Exchange Risk					
Financial assets					
International fixed interest bonds	c	21	(21)	7	(7)
International equity	d	29	(29)	10	(10)
International Cash					
US dollar denominated cash	e	-	-	-	-
AUS dollar denominated cash		-	-	14	(14)
Equity Price Risk					
Financial assets					
NZ Equity investments	f	-	113	(113)	97
NZ Property investments	g	-	10	(10)	57
International Equity investments	h	-	285	(285)	97

Explanation of sensitivity analysis

Financial assets

a - General funds fixed interest bonds

A total of \$6,088,692 (2017: \$6,342,348) invested in local bonds is classified as available for sale financial assets. A movement in interest rates of plus or minus 0.5% in 2017-18 would have had an impact of +/- \$30,000 (2017: \$32,000) on the fair value of the asset and the investment revaluation reserve.

b - Borrowings

A total of \$15,221,000 (2017: \$12,567,000) is classified as long term borrowings. A movement of plus or minus 0.25% in interest rates in 2017-18 would have had an impact of +/--\$38,000 (2017: \$31,000) on the profit or loss.

c - International fixed interest bonds

A total of \$4,170,799 (2017: \$1,405,390) is classified as available for sale financial assets. A movement of plus or minus 0.5% in the US exchange in 2017-18 would have had an impact of \$21,000 (2017: \$7,000) on the fair value of the asset and the investment revaluation reserve.

d - International equity

A total of \$5,705,584 (2017: \$1,942,169) is classified as available for sale financial assets. A movement of plus or minus 0.5% in the US exchange rate in 2017-18 would have had an impact of \$29,000 (2017: \$10,000) on the fair value of the asset and the investment revaluation reserve.

e - International cash

A total of \$0 (2017: \$140,489) was cash held in US & AU dollars, and classified as available for sale financial assets. A movement of plus or minus 10% in the exchange rate in 2017-18 would have had an impact of \$0 (2017: \$14,000) on the fair value of the asset and the investment revaluation reserve.

f - NZ equity investments

A total of \$2,258,806 (2017: \$1,937,485) invested in listed local shares classified as available for sale financial assets. A movement of plus or minus 5% in share prices in 2017-18 would have had an impact of \$113,000 (2017: \$97,000) on the fair value of the asset and the investment revaluation reserve.

g - NZ property investments

A total of \$206,788 (2017: \$1,149,773) invested in the New Zealand property equity market is classified as available for sale financial assets. A movement of plus or minus 5% in the New Zealand property share prices in 2017-18 would have had an impact of \$10,000 (2017: \$57,000) on the fair value of the asset and the investment revaluation reserve.

h - International equity investments

A total of \$5,705,584 (2017: \$1,942,169) invested in overseas shares is classified as available for sale financial assets. A movement of plus or minus 5% in share prices in 2017-18 would have had an impact of \$285,000 (2017: \$97,000) on the fair value of the asset and the investment revaluation reserve.

Credit risk

Credit risk is the risk that a third party will default on its obligations to Council, causing Council to incur a loss. Council has no significant concentration of credit risk, as it has a large number of credit customers, mainly ratepayers, and Council has powers under the Local Government (Rating) Act 2002 to recover outstanding debts from ratepayers. Investments are also well diversified across a wide range of companies and industries. Accordingly, Council does not require any collateral or security to support these financial instruments. The maximum exposure to credit risk is equal to the carrying amount of all financial assets.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired are assessed by reference to Standard and Poor's or other recognised credit ratings, or historical information about counterparty default rates:

	Actual 2018 \$000	Actual 2017 \$000
Cash and cash equivalents:		
Cash and short term deposits (AA to BBB)	5,142	7,277
Total cash and cash equivalents	5,142	7,277
General Funds:		
Sundry corporate and government securities (AA- to AA)	5,661	6,023
Bank security bonds (AA+ to AAA)	3,256	3,303
Local Government Bonds (A to AA)	-	253
NZ Government Bonds (AA+)	-	204
International Bonds (Not rated)	9,875	3,348
Total general fund bonds	18,792	13,131

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

Council has no significant concentration of credit risk in relation to trade and other receivables, as it has a large number of credit customers (mainly ratepayers) and Council has powers under the Local Government (Rating) Act 2002 to recover outstanding debts from ratepayers.

Liquidity risk

Management of liquidity risk

Liquidity risk is the risk that Council will encounter difficulty raising funds to meet commitments as they fall due. Prudent liquidity management implies maintaining sufficient cash in the form of bank current accounts and demand deposits. In meeting its liquidity requirements, Council avoids concentration of debt maturity dates with the maximum level of debt repayable in any one year to no more than 3% of total public equity. The maturity analysis of the Council's interest bearing investments is disclosed in Note 13.

Liquidity and market risk

Interest rates ranged from 0.53% to 1.54% (0.55% to 1.5% for 2017). Council policy restricts loan principal outstanding to the value of the District's annual rate revenue and the interest cost to 15% of the annual rates revenue. Loan principal outstanding was 62% of the annual rates revenue (2017: 53%). Total interest costs represented 2.4% of the annual rates revenue (2017: 2.5%).

Fair Value

Contractual maturity analysis of financial liabilities:

	Weighted average interest rate	Carrying amount \$000	Contractual cash flows \$000	Less than 1 year \$000	2-5 years \$000	>5 years \$000
30 June 2018						
Trade and other payables		4,669	4,669	4,669	-	-
Borrowings	3.85%	15,221	21,762	1,930	7,044	12,788
Trust Accounts		1	1	1	-	-
Financial guarantees	3.50%	5	5	5	-	-
Total		19,895	26,437	6,605	7,044	12,788
30 June 2017						
Trade and other payables		3,831	3,831	3,831	-	-
Borrowings	4.52%	12,567	19,400	1,509	5,833	12,058
Trust Accounts		5	5	5	-	-
Financial guarantees	3.50%	33	33	33	-	-
Total		16,436	23,269	5,378	5,833	12,058

Trade and other payables do not have a weighted average interest rate due to them being settled on the 20th of each month.

27. Operating lease as lessor

Council leases its operational properties under operating leases. The majority of these leases have a non-cancellable term that ranges between one and thirty years. The future aggregate minimum lease payments to be collected under non-cancellable leases are as follows:

	Actual 2018 \$000	Actual 2017 \$000
Not later than one year	70	44
Later than one year and not later than five years	148	113
Later than five years	316	326
Total non-cancellable operating leases	534	483

No contingent rents have been recognised in the profit and loss during the period (2017: \$nil).

28. Insurance contracts

South Waikato District Council is part of a Regional collective of local authorities for insurance purposes. Through the collective economies of scale Council has access to the best process and cover.

As at the end of the financial year, Council had the following insurance cover in place:

Material damage excluding fire - \$150,000,000

Material damage fire only - \$30,000,000

Council's Material Damage cover is based on a Maximum Probable Loss model (MPL) which means that its assets are insured for the value of the largest probable loss that could result from a disaster in the South Waikato. Council is insured within a \$150 million primary layer which is shared between the Regional

collective. A separate policy is in place which is shared by the Regional collective which provides cover of up to \$125 million for damage that is caused by fire, or fire following a natural disaster.

Commercial motor vehicles \$954,191

Motor insurance up to the market value of each individual vehicle.

Infrastructure \$94,597,706

Based on risk engineering and loss modelling for the Waikato hazard scape a \$95.9 million shared loss limit is in place with the Regional collective. Insurance is to the level of 40% in anticipation of 60% contribution from central government in the event of a disaster.

Business interruption

A shared \$10 million Additional Increased Cost of Working limit with the Regional collective and provides cover for consequential loss through the physical damage to any property used by Council. There is also an additional \$2.5 million claim preparation costs cover associated with this contract.

Professional indemnity \$50,000,000

Public liability \$50,000,000

29. Major budget variations

Statement of comprehensive revenue and expense

Fees and charges are \$363,000 more than budgeted. This is due to \$197,000 additional revenue from Solid Waste (mainly from Landfill charges), \$148,000 from building and planning consents and \$18,000 additional revenue from Tokoroa pool admissions.

Subsidies and Grants are \$2.788m more than budgeted. This is due to \$2.836m additional NZTA subsidy funding relating to the LED lighting programme and additional subsidy received for work completed in 16/17, and \$21,000 from donations, koha and additional Waikato Regional Council subsidies.

Other revenue is \$1.401m higher than budgeted. This is due to \$571,000 of vested asset income for service infrastructure, an unbudgeted grant of \$100,000 from Trust Waikato for the skatepark, \$437,000 from Business Unit chargeouts to capital projects, \$262,000 from dividends, and \$68,000 income from the sale of the trees at Amisfield.

Other expenses were higher than budgeted by \$2.642m. This is due to \$1.07m of a loss on disposal of assets, \$639,000 of additional consultancy work required for growth modelling, service projects and remedial work, and \$771,000 of operational expenditure in services. Most of the \$771,000 related to additional operational costs at the landfill due to higher volume, and Health and Safety requirements.

Statement of Financial Position

Current assets are \$2.3m higher than expected due to an increase in receivables and current assets held for sale which was not budgeted for.

Property Plant and Equipment is \$19.2m more than expected due to the revaluation in buildings and land, higher than expected purchases of assets across the board and the increase in vested assets to council.

Statement of Cashflows

Payments to suppliers and employees was under budgeted in year 3 of the LTP. Cash applied to purchase of investments was not budgeted for in the annual plan.

30. Capital management

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

The Local Government Act 2002 (the Act) requires the Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently, and in a manner that promotes the current and future interests of the community. 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 rate payers 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. 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.

The South Waikato District Council has the following reserves:

- reserves for different areas of benefit
- self-insurance reserves
- trust reserves
- other reserves.

Reserves for different areas of benefit are used where there is a discrete set of rate or levy payers as distinct from the general rate. Any surplus or deficit relating to these separate areas of benefit is applied to the specific reserves.

Trust reserves are set up where Council has been donated funds that are restricted for particular purposes. Interest is added to trust reserves where applicable and deductions are made where funds have been used for the purpose they were donated.

Other reserves are created to set aside funding from general rates for future expenditure on specific projects or activities as approved by Council.

Council categorises self-insurance reserves and other reserves as "Council Created Reserves", while the others are categorised as "Restricted Reserves" (refer Note 21).

31. Events after balance date

No significant events have occurred between balance date and the signing of the financial statements.

32. Comparative Figures

Comparative figures included in the financial statements relate to the financial year ended 30 June 2017. Where Necessary these figures have been reclassified on a basis consistent with current disclosure for the year ended 30 June 2018.