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DUNEDIN CITY COUNCIL – Statement of Financial Performance for the year ended 30 June 2005

	Note	CORE COUNCIL			CONSOLIDATED	
		Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Revenue						
Rates	1	68,654	68,173	67,264	68,654	67,264
Revenue of continuing activities	1	89,705	70,791	74,494	192,697	182,006
Total operating revenue	1	158,359	138,964	141,758	261,351	249,270
Expenditure						
Expenditure of continuing activities		139,674	132,398	136,105	233,588	226,963
Total operating expenditure	2,3	139,674	132,398	136,105	233,588	226,963
Operating surplus/(deficit)		18,685	6,566	5,653	27,763	22,307
Operating surplus/(deficit) before taxation		18,685	6,566	5,653	27,763	22,307
Less taxation	4	0	0	0	11,821	11,825
Operating Surplus/(deficit) after taxation		18,685	6,566	5,653	15,942	10,482
Share of retained surpluses in associated companies	10	(5)	0	(26)	(5)	414
Net surplus/(deficit)		18,680	6,566	5,627	15,937	10,896

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

DUNEDIN CITY COUNCIL – Statement of Movements in Equity for the year ended 30 June 2005

	Note	CORE COUNCIL			CONSOLIDATED	
		Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Equity at the beginning of the year		1,832,180	1,640,164	1,636,590	1,936,377	1,730,100
Additional Assets		6,592	0	0	6,592	0
Asset revaluation and adjustments		49,692	0	189,963	95,153	195,375
Net surplus/(deficit)		18,680	6,566	5,627	15,937	10,896
Total recognised revenue and expenses for the year		74,964	6,566	195,590	117,682	206,271
Movements in minority interest		0	0	0	0	6
Equity at the end of the year	5	1,907,144	1,646,730	1,832,180	2,054,059	1,936,377

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

DUNEDIN CITY COUNCIL – Statement of Financial Position as at 30 June 2005

	Note	CORE COUNCIL			CONSOLIDATED	
		Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Current assets						
Cash at bank		2,137	0	567	2,237	567
Deposits	6	1,382	0	5,499	2,482	6,043
Investments	10	15,215	14,607	17,428	15,270	17,428
Accounts receivable	7	16,083	13,184	11,828	22,916	19,977
Taxation refund receivable		0	0	0	(125)	1,349
Inventories	9	828	0	780	8,247	5,914
Prepayments		480	0	515	1,098	793
Total current assets		36,125	27,791	36,617	52,125	52,071
Non-current assets						
Investments	10	38,426	55,269	31,727	59,065	44,775
Loans and advances	11	113,821	103,377	114,095	10,444	10,718
Goodwill					738	844
Property, plant and equipment	13	1,809,689	1,585,346	1,724,594	2,250,005	2,113,016
Total non-current assets		1,961,936	1,743,992	1,870,416	2,320,252	2,169,353
Total assets		1,998,061	1,771,783	1,907,033	2,372,377	2,221,424
Current liabilities						
Bank overdraft		0	0	0	0	0
Short term loans		0	0	2,000	7,073	5,198
Accounts payable	8	20,635	21,505	20,137	25,420	25,312
Accrued expenditure	8	4,844	1,985	3,807	8,733	7,705
Current portion of term loans	12	3,002	4,336	2,099	3	3
Total current liabilities		28,481	27,826	28,043	41,229	38,218
Non-current liabilities						
Term loans	12	56,653	95,729	40,762	213,220	187,568
Other non-current liabilities	12	5,783	1,498	6,048	6,896	7,001
Deferred taxation	4	0	0	0	56,973	52,260
Total Non-current liabilities		62,436	97,227	46,810	277,089	246,829
Equity	5	1,907,144	1,646,730	1,832,180	2,054,059	1,936,377
Total liabilities and equity		1,998,061	1,771,783	1,907,033	2,372,377	2,221,424

DUNEDIN CITY COUNCIL – Statement of Cash Flows for the year ended 30 June 2005

	CORE COUNCIL			CONSOLIDATED	
	Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Cash flow from operating activities					
<i>Cash was provided from operating activities</i>					
Rates	68,986	68,173	67,259	68,986	67,259
Other revenue	51,926	50,912	51,249	176,545	177,204
Interest received	8,318	11,380	8,585	949	2,373
Dividend received	19,000	8,500	9,201	689	1,678
	148,230	138,965	136,294	247,169	248,514
<i>Cash was applied to:</i>					
Suppliers and employees	(100,231)	(98,521)	(98,690)	(168,773)	(167,542)
Interest paid	(4,147)	(4,662)	(1,966)	(13,369)	(11,686)
Taxation paid	0	0	0	(5,010)	(4,823)
Net GST paid	(416)	0	115	(711)	(144)
	(104,794)	(103,183)	(100,541)	(187,863)	(184,195)
Net cash inflow(outflow) from operating	43,436	35,782	35,753	59,306	64,319
Cash flow from investing activities					
<i>Cash was provided from investing activities</i>					
Sale of assets	4,192	655	5,856	4,926	7,533
Reduction in loans and advances	269	0	538	269	0
Decrease in investments	0	11,613	0	34	538
	4,461	12,268	6,394	5,229	8,071
<i>Cash was applied to:</i>					
Increase in loans and advances	0	(500)	0	0	0
Landfill aftercare expenditure	(577)	0	0	(577)	0
Increase in investments	(979)	(6,083)	(1,578)	(8,411)	(1,968)
Capital expenditure	(63,682)	(88,670)	(51,207)	(84,380)	(82,596)
	(65,238)	(95,253)	(52,785)	(93,368)	(84,564)
Net cash inflow(outflow) from investing	(60,777)	(82,985)	(46,391)	(88,139)	(76,493)
Cash flow from financing activities					
<i>Cash was provided from financing activities</i>					
Loans raised	29,347	44,804	14,684	27,410	16,880
Repayment of advance	0	1,928	0	0	0
	29,347	46,732	14,684	27,410	16,880
<i>Cash was applied to:</i>					
Loans repaid	(12,553)	(3,430)	(2,206)	(468)	(1,808)
	(12,553)	(3,430)	(2,206)	(468)	(1,808)
Net cash inflow/(outflow) from financing	16,794	43,302	12,478	26,942	15,072

DUNEDIN CITY COUNCIL – Statement of Cash Flows for the year ended 30 June 2005

	CORE COUNCIL			CONSOLIDATED		
	Note	Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Net increase/(decrease) in cash held		(547)	(3,901)	1,840	(1,891)	2,898
Foreign exchange movement						
Opening cash balance		4,066	1916	2,226	6,610	3,712
Closing cash balance		3,519	(1,985)	4,066	4,719	6,610
Reconciliation of cash balances						
Short Term Loans		0	0	(2,000)	0	0
Deposits		1,382	0	5,499	2,482	6,043
Cash and Bank		2,137	(1,985)	567	2,237	547
		3,519	(1,985)	4,066	4,719	6,610

RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	CORE COUNCIL			CONSOLIDATED		
		Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Operating surplus (deficit)		18,680	6,566	5,627	15,937	10,896
<i>Movements in working capital items</i>						
Increase/(decrease) in accounts payable		446	0	1,812	(219)	2,330
(Increase)/decrease in accounts receivable		(4,427)		358	(5,415)	(779)
(Increase)/decrease in inventories		(51)		266	(2,336)	(1,173)
(Increase)/decrease in prepayments		35		(219)	(305)	(170)
Increase/(decrease) in other current liabilities		1,201		378	2,034	1,502
Increase/(decrease) in after care provision		211		4,602	211	4,602
Add back taxation adjustments		0		0	6,198	6,994
Add/(less) non cash adjustments		0		0	106	312
Depreciation		33,563	29,216	28,799	47,625	44,182
Cost of bush/forestry loans interest		0		0	1,868	1,812
Loss on sale of assets		0		(3,910)	245	121
Profit on sale of assets		0		0	(186)	(3,910)
Unrealised loss/(gain) on equities		(3,507)		(1,986)	(3,507)	(1,986)
Vested assets		(2,710)		0	(2,710)	0
Share of retained surplus in associated companies		(5)		26	(240)	(414)
Net Cash Flow from Operating Activities		43,436	35,782	35,753	59,306	64,319

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

DUNEDIN CITY COUNCIL – Statement of Commitments as at 30 June 2005

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Capital commitments approved and contracted	12,423	30,818	19,954	34,770
Non-cancellable operating lease commitments				
Payable within 1 year	1,038	997	2,193	2,024
Payable between 1 to 2 years	953	755	1,874	1,555
Payable between 2 to 5 years	864	354	2,101	1,267
Payable later than 5 years	0	0	948	823
	2,855	2,106	7,116	5,669

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

DUNEDIN CITY COUNCIL – Statement of Financial Involvement in CCO's as at 30 June 2005

Dunedin City Council has control over the following entity: Dunedin City Holdings Limited

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

	Dividend 2005 \$'000	Interest 2005 \$'000	Total 2005 \$'000
Subsidiaries			
Dunedin City Holdings	19,000	7,257	26,257

The provision of financial assistance by Dunedin City Council to Dunedin City Holdings is by share capital, and loan. It does not include any guarantee over loans made by the Holding Company.

Dunedin City Council has indirect control of other entities through Dunedin City Holdings Limited. These are the Subsidiaries: Citibus Newton Limited, City Forests Limited, Dunedin City Treasury Limited, Aurora Energy Limited, DELTA Utility Services Limited and Taieri Gorge Railway Limited. The associates are Dunedin Airport Limited and Otago Chipmill Limited.

This statement should be read in conjunction with Note 10 on Investments.

DUNEDIN CITY COUNCIL – Statement of Accounting Policies For The Year Ended 30 June 2005

STRUCTURE OF THE COUNCIL GROUP DUNEDIN CITY COUNCIL (CONSOLIDATED)

Organisation	O/ship	Nature and Scope of the Activities
1. Dunedin City Holdings Limited	100%	<p>Input into the statements of intent of subsidiaries.</p> <p>Input into the strategic direction of the subsidiaries.</p> <p>Performance monitoring.</p> <p>Ensuring individual subsidiaries receive maximum benefits from membership of the group of companies.</p> <p>Approval decisions in accordance with subsidiary constitutions.</p>
Subsidiaries of Dunedin City Holdings Limited		
1. City Forests Limited	100%	Sustainable production of logs for local and export markets.
2. Citibus Newton Limited	100%	Provision of urban and tourist transport services.
3. Dunedin City Treasury Limited	100%	Management of financial risks and liquidity of the group, as well as the Dunedin City Council.
4. Aurora Energy Limited	100%	Provision of electricity distribution services in Dunedin City and Central Otago.
5. DELTA Utility Services Limited	100%	Management of network assets, electrical and civil contracting services throughout the South Island.
6. Taieri Gorge Railway Limited	72%	Provision of a tourist train through the scenic Taieri Gorge.
Associated Companies		
7. Dunedin International Airport Limited	50%	Provision of airport services at Momona.
8. Otago Chipmill Limited	50%	Provision of tree processing.

Reporting Entity

Dunedin City Council is a Territorial Local Authority governed by the Local Government Act 2002.

These statements are produced under Section 98, 99 and 111 of the Local Government Act 2002 and include financial results and position of the Core Departments of the Dunedin City Council and the Consolidated Group comprising the Council and Dunedin City Holdings Limited (being a wholly owned subsidiary of the Dunedin City Council).

Section 98 and 99 includes the requirement that the financial statements comply with generally accepted accounting practice.

Included are:

1. Consolidated Statement of Financial Performance
2. Consolidated Statement of Movements in Equity
3. Consolidated Statement of Financial Position
4. Consolidated Statement of Cash Flows
5. Council's Significant Activities Cost of Service Statements
6. Statements of Service Performance

Measurement Base

The measurement base adopted is that of historical cost, varied by the revaluation of certain fixed assets.

Accounting Policies

The following accounting policies which materially affect the measurement of financial performance and financial position and cash flows have been applied.

Basis of Consolidation

The subsidiary company in which the Dunedin City Council has 100% ownership as at 30 June 2005 is Dunedin City Holdings Limited.

Dunedin City Holdings Limited, with authority under the provisions of the Local Government Act 2002, was incorporated under the Companies Act 1993 and has a 30 June balance date. Its audited results as at 30 June have been consolidated with the Dunedin City Council by line aggregation of assets, liabilities, revenues, expenses and cashflows that are recognised in the Financial Statements of all entities in the consolidated group. All inter company balances and transactions between group companies have been eliminated on consolidation.

Equity Accounting of Associate Companies

Equity accounting has been applied in respect of Associate Companies. Associate Companies are those in which the Council and Group have the capacity to exercise significant influence. Equity accounting shows the share of surpluses/deficits in the consolidated Statement of Financial Performance and the share of post acquisition increases/decreases in net assets in the consolidated Statement of Financial Position.

Except for Golden Block Investments Limited, the audited results of associate companies have been used.

Investments

Investments are stated at the lower of cost or net realisable value. Equity investments held as part of the Waipori Investment Fund are valued at market prices and exchange rates applicable at the end of the period.

Increases and decreases in value are transferred to the Statement of Financial Performance.

Where in the opinion of the Council and Group there has been a permanent diminution in the value of investments including equity investments, this has been recognised in the Statement of Financial Performance.

Investments in Associate Companies are stated at the fair value of the net tangible assets at acquisition plus the share of post-acquisition changes in reserves.

Sundry Debtors

Sundry Debtors are valued at their estimated realisable value. An estimate is made of doubtful debts based on a specific review of all outstanding amounts at year end. Bad debts are written off during the period in which they are identified.

Budget Figures

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

Inventories

Inventories held for resale or as consumables are stated at the lower of cost, determined on a first-in-first-out basis, and net realisable value.

Inventories held as spare parts or to be used in the construction of assets are stated at weighted average cost.

Cost of work in progress and finished goods includes the cost of direct materials, the cost of direct labour and a proportion of overhead expenses incurred in putting the inventories in their present location and condition based on the normal capacity of the facilities.

Fixed Assets**i) Council and Group fixed assets consist of:*****Operational Assets***

These include land, buildings, improvements, library books, plant and equipment, and motor vehicles.

Restricted Assets

Restricted assets are parks and reserves owned by the Council which cannot be disposed of because of legal or other restrictions, and provide a benefit or service to the community.

Infrastructure Assets

Infrastructure assets are the fixed utility systems owned by the Council. Each asset type includes all items that are required for the network to function, for example, sewer reticulation includes reticulation piping and sewer pump stations. Member Companies of Dunedin City Holdings Limited also hold infrastructure assets, being roading, dams and electricity distribution networks.

Heritage Assets

These include, but are not limited to, assets held by the Council subject to deeds of agreement, terms and conditions of bequests, donations, trusts or other restrictive legal covenants. The Council's control of these assets is restricted to a management/custodial role.

ii) Council Asset Valuations

The initial recording of Council Assets in 1991–1992 involved valuation as in most instances cost prices were not available.

Operational Assets

Additions to Operational Assets since 1991–1992 are recorded at cost.

Land and Buildings

Land and buildings are valued at fair value by Andrew Parkyn of Quotable Value NZ Ltd as at 30 June 2003.

Land and buildings are revalued on a three yearly cycle.

The next revaluation will be applied in the year ended 30 June 2006.

Fixed Plant and Equipment

Unless otherwise specified, fixed plant is valued at historical cost, less accumulated depreciation.

Mobile Plant

Vehicles, Mobile Plant and Equipment are valued at cost less accumulated depreciation.

Office Equipment

Office Equipment is valued at cost or estimated realisable value less accumulated depreciation.

Furniture and Fittings

Furniture and fittings were valued by the independent valuer Warwick Grimmer Limited Auctioneers at an estimated realisable value as at 30 June 1992 (deemed cost). Additions are recorded at cost and depreciated.

Library Collection

Library collections have been valued as at 30 June 1993 at depreciated replacement cost in accordance with draft guidelines prepared by the New Zealand Library Association and the National Library of New Zealand in May 1992.

Landfill Assets

Landfill assets have been revalued as at 30 June 2005 by Council staff. The methodology to update these valuations has been confirmed by an independent valuer: Gary Dent of Duffill Watts and Hanna Ltd.

Infrastructure Assets

Water infrastructure buildings and structures have been valued by the independent valuers, Duffill Watts and King, Registered

Consultant Engineers, at depreciated replacement cost as at 30 June 1991 (deemed cost). Subsequent additions are at cost and depreciated.

Waste Services infrastructure buildings and structures have been valued by independent valuer Gary Dent of Duffill Watts and Hanna Ltd on a depreciated replacement cost as at 30 June 2005.

Infrastructure assets comprising roads and bridges, traffic signals and signs have been valued at depreciated replacement cost as at 1 July 2004. The valuation of these assets has been done by Janice Brass and Michael Duggan of MWH NZ Limited, independent consultants. Roading's assets will be valued annually.

The water reticulation system was revalued as at 30 June 2005 by Council staff. The methodology to update these valuations has been confirmed by an independent valuer: Gary Dent of Duffill Watts and Hanna Ltd. Water reticulation assets will be valued annually.

The drainage reticulation system was revalued as at 30 June 2005 by Council staff. The methodology to update these valuations has been confirmed by an independent valuer: Gary Dent of Duffill Watts and Hanna Ltd. Drainage reticulation assets will be valued annually.

Vested Assets

Vested Assets are Fixed Assets given to Council by a third party and could typically include water, drainage and roading assets created in the event of a subdivision. Vested assets also occur in the event of the donation of heritage or art assets by third parties. The value of assets vested are the cost price to the third party to create or purchase that asset.

Restricted Assets

Land and Buildings

Land and road reserves are valued by Andrew Parkyn of Quotable Value NZ Ltd as at 30 June 2003. Buildings have been valued by Gary Dent of Duffill Watts and King as at 30 June 2003. Land and buildings are revalued three yearly.

Hard surfaces such as playgrounds and car parks have been valued by Alistair McGaughan of MWH NZ Ltd as at 30 June 2005.

Investment Properties and Properties Intended for Sale

Investment properties are revalued annually as at 30 June by independent registered valuers, on a net current value basis. Any revaluation gain or loss is taken to the investment property revaluation reserve with a debit balance to the Statement of Financial Performance. There is no depreciation on investment properties.

The properties held as Waipori Fund assets were valued by R A Clark of DTZ New Zealand. The other investment properties were valued by A G Chapman of Chapman Consultancy Otago Ltd.

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

Heritage Assets

Heritage assets included are the Art Gallery Collection at the Dunedin Public Art Gallery, the Theomin Collection at Olveston, the Early Settlers Museum and the monuments, statues and outdoor art. The Art Gallery Collection has been valued by the Council Collection Manager as a 'heritage collection' at estimated current values as at 30 June 1993, this is at deemed cost. The Theomin Collection has also been valued as a heritage collection by staff employed by the Theomin Gallery Management Committee. The collection was valued at estimated current values as at 30 June 1993, this is at deemed cost. The Otago Settlers Museum Collection has been valued at its estimated insurance value. Individual heritage assets have not been valued.

Monuments, statues and outdoor art have been valued at depreciation replacement value by Gary Dent of Duffill Watts and Hanna Ltd as at 30 June 2003.

The Otago Settlers Association has vested land, buildings and the collection in the Dunedin City Council. The land and buildings are valued by Quotable Value NZ Ltd as at 30 June 2003.

Heritage collections not valued include:

- The Rare Book Collection, Dunedin Public Library

Capital Work in Progress

Capital Work in Progress is recorded at cost.

Self constructed assets include the direct costs of construction for materials and labour, and a proportion of overheads to the extent that they relate to bringing the fixed asset to the location and condition necessary for its intended service.

iii) **Subsidiary Company Asset Valuations**

Fixed assets, other than land, electricity network and forestry assets, are recorded at cost less accumulated depreciation. Land is recorded at cost and is not depreciated.

Self-Constructed Assets

Self-constructed assets include the direct costs of construction for materials and labour, and a proportion of overheads to the extent that they relate to bringing the fixed asset to the location and condition necessary for its intended service.

Electricity Network Assets

The electricity network assets held by Aurora Energy Ltd at 1 July 1993 were revalued prior to the share sale to the parent company.

Subsequently these electricity network assets have been revalued at fair value by KPMG as at 1 July 2001 and 30 June 2005. The valuations were compiled from the estimation of the future cash flows from the network assets based on reliable market evidence. Network additions since 1 July 2001 are carried at their cost less depreciation.

iv) **Depreciation**

a) *Council Assets*

Depreciation is provided for on tangible fixed assets on the straight line basis (SL). Rates used have been calculated to allocate the asset's cost or valuation less estimated residual value over their estimated remaining useful lives.

Depreciation rates and methods used are as follows:

	Rate	Method
Bridges	1% to 0.5%	SL
Street lighting	10%	SL
Drainage reticulation	1% to 0.5%	SL
Water reticulation	0.75% to 3%	SL
Plant and machinery	10% to 15%	SL
Current use library collections	10% to 50%	SL
Motor vehicles	20%	SL

	Rate	Method
Computer equipment	20%	SL
Office equipment	10% to 20%	SL
Furniture and fittings	7.5%	SL
Buildings	1% to 4%	SL
Roads	1% to 2%	SL

Life cycle used:

• Kerb and Channel	80 years
• Shape Corrections	80 years
• Reseals	11 years
• Footpaths	13.5 years

Fixed assets not depreciated are as follows:

- Land
- Heritage assets
- Capital work in progress
- Investment properties

b) *Subsidiary Company*

Depreciation is provided using both a straight line and diminishing value basis on all tangible fixed assets other than freehold land and leasehold improvements, at rates calculated to allocate the asset's cost or valuation less estimated residual value, over their estimated useful lives.

Where a diminishing value basis has been used, the Directors are of the opinion that the approach adopted best suits those asset classes.

The rates of depreciation used or useful lives for significant asset classes are:

Roads	5–24% DV
Bridges	2% SL
Freehold Buildings	1–10% SL
Plant and Equipment	2.5–50% SL
Meters and Relays	10–15% SL
Motor Vehicles	5–30% SL
Rolling Stock	5–6.5% SL
Rail Tracks	5–6.5% SL
Office Furniture, Equipment and Software	6.6–48% SL

Gains and losses on disposal of fixed assets are taken into account in determining the operating result for the year.

Leased Assets

a) *Finance Leases*

Assets acquired under finance leases are included as fixed assets in the Statement of Financial Position.

Where assets are acquired by means of finance leases, the lower of the present value of the minimum lease payments or fair value is recognised as an asset at the beginning of the lease term and depreciated over the expected useful life of the asset. A corresponding liability is also established and each lease payment is allocated between the liability and interest expense.

b) Operating Leases

Under operating leases, ownership of the asset remains with the lessor. Operating lease payments are expensed over the period in which they are incurred.

Forestry Assets

Forestry assets are revalued annually as at 30 June on the basis of estimated market value taking into account tree age, condition, location and best market end use of the forest produce.

The annual valuation of the forests has been determined by applying a market based discount rate to post tax cash flows assuming single rotation stand based projections of costs and revenues. The directors are of the opinion that this methodology best reflects the current market value of the company's forests, is fair in terms of FRS3 and is in accordance with the NZ Institute of Forestry Valuation Standards of May 1999.

Logs sold during the year are charged to the statement of financial performance on the basis of apportioning the carrying value of each forest compartment over the estimated volume of logs to be recovered. Any adjustment for under or over cut is made at the time the compartment is fully logged out.

Construction Contracts

Construction contracts are stated at cost plus attributable profit to date (based on percentage of completion) less progress billings. Costs include all costs directly related to contracts, and an allocation of overhead expenses incurred by the Council and Group's contract operations. Losses are recorded in the Statement of Financial Performance in the period in which they are identified.

Revenue Recognition

Rates revenue is recognised when invoiced and Transfund and other subsidies are recognised when the entitlement is established, which is

where conditions pertaining to eligibility of expenditure is fulfilled.

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

Water billing revenue is recognised on an accrual basis with unread meters at year end accrued on an average usage basis.

Dividends are recognised on an accrual basis net of imputation credits.

Cost of Service Statements

The Cost of Service Statements, as provided in the Statement of Service Performance, report the net cost of services for significant activities of the Council, and are represented by the costs of providing the service less all revenue that can be allocated to these activities.

i) Inter-activity Transactions

Inter-activity transactions have not been eliminated in the individual Cost of Service Statements. Inter-activity transactions arise when one activity provides services to another activity. These transactions are eliminated in the Statement of Financial Performance.

ii) Cost Allocation

The net cost of service for each significant activity of the Council has been derived using the cost allocation system outlined below

iii) 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.

iv) Criteria for Direct and Indirect Costs

'Direct Costs' are those costs directly attributable to a significant activity.

'Indirect Costs' are those costs that cannot be identified in an economically feasible manner with a specific significant activity.

v) Cost Drivers for Allocation of Indirect Costs

The cost of internal services not directly charged to activities is allocated as overheads using appropriate cost drivers

such as actual usage, staff numbers and floor area.

vi) Allocation Basis for Rates

The significant activity statements include an allocation of rate revenue. The basis of allocation has been to fully fund expenditure after the deduction of other revenue streams and transfers to and from reserves.

Employee Entitlements

Council

Provision is made in respect of the Council's liability for annual leave and long service leave and all leave has been calculated on an actual entitlement basis as at 30 June at current rates of pay. The provision for gratuities is calculated as a net present value of the maximum possible payout for gratuities after allowance for the average turnover of staff.

Group

Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees.

This includes the estimated liability for salaries and wages, annual leave and long service leave as a result of services rendered by employees up to balance date. All provisions have been calculated on an actual entitlement basis at current rates of pay.

Landfill Post Closure Costs

The Dunedin City Council operates one major landfill at Green Island, and three community landfills at Waikouaiti, Middlemarch and Sawyers Bay.

An issue that is emerging is the management of closed landfills, of which Council has several.

The Council has quantified and booked a provision as a current expense to recognise the most significant of this liability. The provision was calculated as a net present value of the estimated closure and after care costs for likely closure of Green Island in 2023 with the expiry of the current Resource Consents and the remedial post-closure cost of the North Taieri Landfill.

Treatment of GST

The financial statements have been prepared with both income and expenditure items exclusive of GST.

In the balance sheet, accounts receivable and accounts payable are both inclusive of GST, and other assets and liabilities are exclusive of GST.

When GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

Restricted Reserves

This includes special funds and sinking funds.

i) Special Funds

Special funds are those funds set up by the Council for defined reasons and are separately invested and accounted for within Council equity.

ii) Sinking Fund

It has been a requirement of local authorities to set aside funds each year to meet the future repayments of loans. Most of these funds, described as Sinking Funds, are administered by the following Sinking Fund Commissioners.

- WestpacTrust
- National Provident Fund
- Dunedin City Council Sinking Fund Commissioners

Taxation

The income tax expense charged to the Statement of Financial Performance includes both the current year expense and the income tax effects of timing differences.

Deferred taxation is determined on a comprehensive basis using the liability method. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

Foreign Currency Conversion

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction.

Short-term transactions covered by forward exchange contracts are measured and reported at the forward rates specified in those contracts.

Foreign monetary assets and liabilities are translated at the closing exchange rate at balance date, and exchange gains or losses arising from these translations are included in the Statement of Financial Performance.

Statement of Cash Flows

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

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

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

Financing activities comprise the change in equity and debt capital structure of the Council and Group.

Financial Instruments

All financial instruments are recognised in the Statement of Financial Position except for performance bonds and guarantees, which are disclosed in Note 15 and swaps which are disclosed in Note 16. All revenues and expenses in financial instruments are recognised in the Statement of Financial Performance.

Currency and Interest Rate Risk

The Council and Group have various financial instruments with off balance sheet risk. Their primary purpose is to reduce exposure to fluctuations in foreign currency exchange rates and interest rates. The financial instruments are subject to risk that market values may change subsequent to their acquisition. However, such changes would generally be offset by corresponding but opposite effects on items being hedged.

Interest rate swaps have been employed to minimise interest rate exposure. For interest rate swap agreements, any differential to be paid or received is accrued as interest rates change and is recognised as a component of operating revenue or expense over the life of the agreement.

Credit Risk

Contracts have been entered into with various counterparties having such credit ratings and

in accordance with dollar limits as set by the Council and Group.

Collateral

The Council and Group do not generally require collateral or other security to support service or sales contracts. While the Group may be subject to credit losses up to the notional value of the service or goods supplied in the event of non-performance by counterparties, it does not expect such losses to occur.

Where inventory sold can be clearly identified and is likely to be altered by the purchaser, it is subject to a retention of title clause.

Concentrations of Credit Risk

Financial instruments which potentially subject the Council and Group to concentrations of credit risk principally consist of cash, accounts receivable, short term investments and various off balance sheet instruments.

The Group places its cash and short term investments with high quality credit financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution.

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers included in the Council and Group's customer base.

Goodwill

Goodwill is amortised on a straight line basis over a ten year period commencing on the date of acquisition. Amortisation of goodwill will be reviewed at the completion of each financial year.

Change in Accounting Policy

This year the directors of City Forests Limited and Dunedin City Holdings Limited changed their accounting policy used for equity accounting. Until this year the share of the post acquisition increase/decrease in net assets has been added to both the parent and consolidated financial statements. From this year the annual adjustment will be to the consolidated financial statements only. The accumulated balances have been eliminated from the parent financial statements this year.

The financial effects of this new policy is to deduct \$4.4m from the parent company revaluation reserves and to deduct \$3.3m from the parent company retained earnings. Fifty percent of the increase in the Dunedin International Airport Limited net assets over the current year of \$0.235m is added to the consolidated financial statements only.

Apart from the one change above there has been no change to the accounting policies from those adopted last year and accounting principles that have been applied on a basis consistent with last year.

DUNEDIN CITY COUNCIL – Notes to the Accounts for the Twelve Months ended 30 June 2005

1. SEPARATELY DISCLOSED REVENUE

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Rate allocation by significant activity				
Community Leadership	2,575	2,392	2,575	2,392
Sporting, Recreation and Leisure	11,322	10,699	11,322	10,699
Community Development Support	2,342	2,434	2,342	2,434
Museums and Art Gallery	13,763	13,535	13,763	13,535
Economic Development and City Promotion	6,092	6,559	6,092	6,559
Public Health	28,543	26,527	28,543	26,527
Transport Network	12,081	11,988	12,081	11,988
Personal Safety	2,923	3,024	2,923	3,024
City Planning and Urban Design	4,086	4,066	4,086	4,066
Access to Information	996	1,051	996	1,051
Corporate Services	2,843	2,399	2,843	2,399
Less other income used to reduce the rate requirement	(18,912)	(17,410)	(18,912)	(17,410)
Rates Revenue as per financial statements	68,654	67,264	68,654	67,264
Revenue of Continuing Activities				
Dividend received – Dunedin City Holding Limited	19,000	8,500	0	0
Dividend received	1,191	701	1,880	1,678
Interest received – Dunedin City Holding Limited	7,257	6,240	0	0
Interest received	2,226	1,876	2,406	2,207
Transfund subsidies	11,372	10,512	11,372	10,512
Government and government agency grants	1,980	1,895	1,980	1,895
Profit on sale of asset	779	3,910	965	3,910
Other fees and charges	45,900	40,860	174,094	161,804
	89,705	74,494	192,697	182,006

All rates revenue is shown gross of rates remissions. Under the Council's Rate Remission Policies, which provide for rates to be remitted in cases of Extreme Financial Hardship, during the year the Council allowed remissions totalling \$5,000 (\$4,000 in the previous year).

2. SEPARATELY DISCLOSED EXPENDITURE

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Depreciation				
Operational	5,765	6,028	5,765	6,028
Infrastructural	26,985	21,879	41,047	37,262
Restricted	813	892	813	892
Interest paid	4,147	2,684	12,818	11,762
Audit fee				
Principal auditor	133	116	244	221
Other auditor	16	0	26	0
Donations	1,538	1,624	1,575	1,669
Subvention payment				
Current year	6,257	5,248	0	0
Prior year	(258)	0	0	0
Directors' fees	0	0	441	362
Councillors' fees and expenses	884	798	884	798
Rental expense operating leases	1,158	1,410	2,730	2,836
Research and development	0	0	120	115
Bad debts written off	0	0	43	50
Increase/(decrease) in after care provision	(366)	4,612	(366)	4,612
Increase/(decrease) in doubtful debt provision	0	0	31	(6)
Goodwill written off	0	0	106	106
Loss on disposal of assets	570	0	815	190
Salaries and wages	33,124	28,786		
Other costs and expenditure	58,908	62,028	166,496	160,066
	139,674	136,105	233,588	226,963

3. RECONCILIATION OF SUMMARY OF COST OF SERVICE STATEMENTS WITH CORE COUNCIL STATEMENT OF FINANCIAL PERFORMANCE

Internal expenditure and revenue

Each significant activity is stated gross of internal costs and revenues. In order to fairly reflect the total external operations for the Council in the Statement of Financial Performance, these transactions are eliminated as shown below.

	EXPENDITURE		
	Expenditure \$'000	Internal Expenditure \$'000	Net Expenditure \$'000
Economic Development and City Promotion	17,196	1,167	16,029
Transport Network	29,732	2,028	27,704
Personal Safety	6,208	2,021	4,187
Public Health	38,902	2,737	36,165
City Planning and Urban Design	4,052	934	3,118
Community Development and Support	6,964	532	6,432
Museums, Libraries and Art Gallery	15,861	2,938	12,923
Community Leadership	2,829	700	2,129
Sport, Recreation and Leisure	15,487	3,501	11,986
Corporate Support	25,713	6,712	19,001
Total	162,944	23,270	139,674

4. TAXATION

The Dunedin City Council is liable for tax on any income derived from an assessable source, such as a Council owned subsidiary.

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Operating surplus/(deficit) before taxation	18,685	5,653	27,763	22,307
Profit on property sales	0	3,910	0	3,910
Operating surplus/(deficit) before taxation	18,685	1,743	27,763	18,397
Net non-taxable income/non-deductible expenditure	315	6,757	7,687	17,227
Income subject to taxation	19,000	8,500	35,450	35,624
Prima facie taxation at 33%	6,270	2,805	11,698	11,756
Plus/(less) taxation effect of imputation credits	3,088	1,382		
Imputation credit utilised	(9,358)	(4,187)		
Timing differences not recognised			2	6
Other permanent differences			18	12
Under/(over) provisions prior years			103	51
Taxation charge	0	0	11,821	11,825

The Council's tax liability in relation to the 2004 year was offset by losses transferred from Dunedin City Holdings Limited (\$4,989,801 by subvention payment and \$491,054 by loss offset). The subvention payment made was \$250,199 less than the amount accrued in the 2004 financial statements. The Council tax liability for the current year would also be eliminated by losses transferred from Dunedin City Holdings Limited. The financial statements for the current year include an accrual for a subvention payment due of \$6,257,704.

Taxation charge	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
The Taxation charge is represented by:				
Current taxation	0	0	6,278	4,028
Deferred taxation	0	0	5,440	7,746
Under/(over) tax provision in prior years	0	0	103	51
	0	0	11,821	11,825

Deferred taxation	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Balance at beginning of the year	0	0	52,260	45,849
Current year timing differences	0	0	5,438	7,746
Tax effect of forest revaluation	0	0	(725)	(1,335)
	0	0	56,973	52,260

Imputation Credit Account	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Balance at the beginning of the year	0	0	12,668	12,014
Credits attached to dividends received	0	0	230	271
Taxation payments made	0	0	4,694	4,570
Credits attached to dividends paid	0	0	(9,358)	(4,187)
Balance at the end of the year	0	0	8,234	12,668

5. MOVEMENT IN PUBLIC EQUITY AND RESERVES

	Accumulated Funds 2005 \$'000	Restricted Reserves 2005 \$'000	Revaluation Reserves 2005 \$'000	Total Equity 2005 \$'000	Total Equity 2004 \$'000
Core Council Equity and Revenues Movements					
Opening balance	1,445,183	15,873	371,124	1,832,180	1,636,590
Surplus/(deficit)	18,680			18,680	5,627
Investment property revaluations			6,333	6,333	1,722
General property revaluations			(134)	(134)	
Assets introduced Parks & Reserves	6,592			6,592	
Reticulation network revaluation			57,233	57,233	183,631
Road network			(13,740)	(13,740)	4,610
Transfers to:					
Restricted reserves		4,260		4,260	2,812
Accumulated funds	(4,260)			(4,260)	(2,812)
Transfers from:					
Restricted reserves		(1,458)		(1,458)	(233)
Accumulated funds	1,458			1,458	233
Total equity	1,467,653	18,675	420,816	1,907,144	1,832,180
Equity and reserves comprise:					
General reserves	9,734			9,734	8,152
Capital reserves sale of assets	134,727			134,727	134,727
Accumulated funds	1,323,192			1,323,192	1,302,304
Sinking funds		230		230	310
Special funds		18,445		18,445	15,563

	Accumulated Funds 2005 \$'000	Restricted Reserves 2005 \$'000	Revaluation Reserves 2005 \$'000	Total Equity 2005 \$'000	Total Equity 2004 \$'000
General property revaluations			420,816	420,816	371,124
Investment property revaluations					0
	1,467,653	18,675	420,816	1,907,144	1,832,180

Sinking Funds are funds put aside for the repayment of loans. These funds have legal restrictions placed on them by Section 85 of the Local Authorities Loans Act 1956.

Special Funds relate to donations, bequests and disposals of assets, the proceeds of which are to be used in accordance with the conditions of the bequest or legislation.

	Accumulated Funds 2005 \$'000	Restricted Reserves 2005 \$'000	Revaluation Reserves 2005 \$'000	Total Equity 2005 \$'000	Total Equity 2004 \$'000
Consolidated Equity and Revenues Movements					
Consolidated opening balance	1,469,207	15,872	451,298	1,936,377	1,730,100
Surplus/(deficit)	15,937			15,937	10,896
Minority interest in subsidiary			(6)	(6)	6
Additional assets	6,592			6,592	
Investment property revaluations			6,333	6,333	1,722
Reticulation network revaluations			57,233	57,233	183,631
Road network revaluations			(13,740)	(13,740)	4,610
General Property revaluations			45,327	45,327	5,412
Transfers to:					
Restricted reserves		4,260		4,260	2,812
Accumulated funds	(4,260)			(4,260)	(3,883)
Transfers from:					
Revaluation reserves	6			6	1,071
Restricted reserves		(1,458)		(1,458)	(233)
Accumulated funds	1,458			1,458	233
	1,488,939	18,675	546,445	2,054,059	1,936,377
Equity and reserves comprise:					
General reserves	9,734			9,734	8,152
Minority interest in subsidiary company	3,975			3,975	3,379
Public equity	1,475,230			1,475,230	1,457,675
Sinking funds		230		230	310
Special funds		18,445		18,445	15,562
General property revaluations			546,445	546,445	451,298
	1,488,939	18,675	546,445	2,054,059	1,936,377

6. CASH AND DEPOSITS

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Municipal deposits	1,382	5,499	1,382	5,499
Council controlled organisations	0	0	1,100	544
	1,382	5,499	2,482	6,043

7. ACCOUNTS RECEIVABLE

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Amounts owing from subsidiaries	7,334	6,311	0	0
Accrued debtors	2,468	2,353	16,597	16,144
Rate accounts issued and owing	1,046	1,420	1,046	1,420
Other debtor accounts issued and owing	5,345	1,854	5,474	2,584
Provision for doubtful debts	(110)	(110)	(201)	(171)
	16,083	11,828	22,916	19,977

8. ACCOUNTS PAYABLE AND ACCRUED EXPENDITURE

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Accounts payable				
Accrued creditors	10,246	11,525	23,187	23,908
Amounts owing to subsidiaries	8,156	7,208	0	0
Contract retentions	1,968	1,139	1,968	1,139
Rates in advance	265	265	265	265
	20,635	20,137	25,420	25,312
Accrued expenditure				
Accrued leave	2,684	2,527	5,471	5,137
Accrued long service leave	329	323	329	323
Accrued pay	386	0	386	0
Other accruals	1,199	861	2,301	2,149
Gratuities provision	246	96	246	96
	4,844	3,807	8,733	7,705

9. INVENTORIES

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Raw materials in store (at cost)	828	780	986	930
Work in progress (at cost)	0	0	4,890	2,522
Finished goods (at cost)	0	0	2,371	2,462
	828	780	8,247	5,914

10. INVESTMENTS**a) Long Term Investments**

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Sinking fund term deposit	230	294	230	294
Landfill aftercare fund term deposit	344	133	344	133
Waipori Fund term deposit	9,242	7,880	9,242	7,880
Shares in subsidiary company	100	100	0	0
Mortgage receivables	0	0	1,249	1,168
Interest and advances in associate company	0	0	12,130	11,906
Waipori Fund equity investments	28,070	22,881	28,070	22,881
Other shares	440	439	7,799	513
	38,426	31,727	59,064	44,775

The effective interest rate on investments ranged between 4 % to 9%.

Waipori Fund equity investments are valued at market value. This reflects the fair value of the equities.

b) Shares in Subsidiary

On incorporation, Dunedin City Holdings Limited issued 100,000,000 ordinary shares of \$1 in favour of Dunedin City Council. Only \$100,000 was called.

Since incorporation Dunedin City Holdings Limited has issued additional shares of \$1 each in favour of the Dunedin City Council. The shares carry equal voting rights and are uncalled. The amounts and dates of issue are:

May 1996	75,000,000
March 1999	100,000,000
June 2002	71,000,000

By way of Dunedin City Holdings Limited, the Council also owns and has interest in the following:

Name of Entity	Principal Activities	Year Ended 30 June 2005	Year Ended 30 June 2004
Investment in Subsidiary Companies			
Citibus Newton Limited	Transport	100	100
City Forests Limited	Forestry	100	100
Dunedin City Treasury Limited	Finance	100	100
Aurora Energy Limited	Energy	100	100
Taieri Gorge Railway Limited	Transport	72	72
DELTA Utility Services Limited	Energy – General Contracting	100	100

All Subsidiary Companies have balance dates of 30 June.

c) Investment in Associate Companies

Dunedin International Airport Limited (Transport)	50	50
Otago Chipmill Limited (Forestry)	50	50

The Associate Company, Dunedin International Airport Limited has a balance date of 30 June. The management accounting result to 30 June is used for Otago Chipmill Limited, which has a balance date of 31 December.

The Dunedin City Council in its own right has a 49% interest in the associate company, Golden Block Investments Limited which has a balance date of 30 June. The principal activity is investment in a rental property.

Results of associate company Golden Block Investments Limited

	Actual 2005 \$'000	Actual 2004 \$'000
Share of current year retained losses	(5)	(26)
Interest in associate company		
Shares (unlisted)	5	5
Share of retained losses	(487)	(482)
	(482)	(477)
Advances	1,042	1,042

No dividend was received or is receivable for this associate company for the year reported.

Group	\$'000	\$'000
Results of associated companies		
Share of current year retained surpluses	0	414
Interest in associate companies		
Shares (unlisted)	4,000	4,000
Advances		
Share of retained surpluses	0	7,764
	4,000	11,764

d) Short Term Investment

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Waipori Fund Investment	15,215	17,428	15,215	17,428
Shares	0	0	55	0

11. LOANS AND ADVANCES

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Dunedin City Holdings Limited	103,377	103,377	0	0
Other loans and advances	10,444	10,718	10,444	10,718
	113,821	114,095	10,444	10,718

The advance from the Dunedin City Council to the group is subordinated and unsecured. The terms of the advance agreement between the Dunedin City Council and the group are such that there is no obligation on Dunedin City Holdings Limited to transfer economic benefit at any specific time. In 2005 the annual interest on this debt (average rate of 6.46%) was not matched by a subvention payment from the shareholder.

12. NON-CURRENT LIABILITIES

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Opening balance	42,861	30,383	187,571	172,499
Plus Loans raised	29,347	14,684	26,120	16,880
	72,208	45,067	213,691	189,379
Less Loan repayments	12,553	2,206	468	1,808
	59,655	42,861	213,223	187,571
Less current portion	3,002	2,099	3	3
Closing balance	56,653	40,762	213,220	187,568
Security				
Secured multi-option note facility	0	0	201,518	176,048
Secured other loans	59,655	42,861	11,705	11,523
	59,655	42,861	213,223	187,571

Core Council term loans are secured by rates revenue. The term loans of the Dunedin City Holdings Limited group are secured by certain assets and undertakings of the group.

The multi-option note facility has a borrowing limit of \$350 million. Debt is raised by issuing long dated bonds or by the tender of promissory notes, usually issued for 90 day terms. Three independent banks have underwritten the facility to the amount of \$45 million.

Repayment Terms

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Repayable between one to two years	4,347	2,278	50,000	4,716
Repayable between two to five years	10,113	7,588	155,960	118,801
Repayable later than five years	42,193	30,896	7,260	64,051
	56,653	40,762	213,220	187,568

The effective interest rate for term liabilities range from 3.5% to 9.5%.

The average interest rate for term liabilities is 6.8% (2004: 6.7%).

The weighted average interest rate for this multi-option note facility, inclusive of any current proportion, was 7.065% (2004: 6.60%).

Other Non-current Liabilities

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Accrued Long Service Leave	80	80	80	80
Landfill aftercare provision	4,372	4,738	4,372	4,738
Gratuities provision	1,146	1,230	1,585	1,629
Other liabilities	185	0	859	554
	5,783	6,048	6,896	7,001

The non-current portion of accrued long service leave is a nominal amount and has not been discounted to its Net Present Value as required by the applicable accounting standards. The departure from the Standards is not considered material and would not hinder a reader's accurate interpretation of the financial statements.

Landfill aftercare provision

There are two landfill aftercare provisions one dealing with the closed North Taieri landfill and the other with the Green Island landfill. The opening balance for the North Taieri aftercare provision was \$1,565,000 and this year expenditure of \$577,335 was incurred leaving a balance of \$987,665 for further aftercare work.

The Green Island aftercare provision of \$3,384,221 is the present value of the fund required in 2023 of \$9.9 million. The discount rate used to arrive at the present value is 6.65%. The estimated aftercare costs have had an annual inflation rate of 2% applied to them and the aftercare has been estimated to continue until 2043.

Council intends to specifically invest the annual increase in the aftercare provision creating a separate fund which is disclosed in note 10, Investments.

The accounting treatment of the Landfill assets and the associated aftercare provision will be effected by the application of specific International Financial Reporting Standards in the near future. The impact of International Financial Reporting Standards is dealt with in Note 22.

13. PROPERTY PLANT AND EQUIPMENT

The Council assesses the fair valuation of core Council land and buildings at the carrying values shown below

	Cost or Deemed Cost 2005 (\$'000)	Cost at Valuation 2005 (\$'000)	Accumulated Depreciation 2005 (\$'000)	Net Book Value 2005 (\$'000)	Net Book Value 2004 (\$'000)
Core Council					
Operational assets					
Land	2,684	43,598	0	46,282	45,194
Buildings	24,796	92,460	6,918	110,338	97,042
Fixed plant and equipment	15,608	6,726	11,932	10,402	7,470
Vehicles, mobile plant	4,871	0	3,462	1,409	1,501
Office equipment	11,949	0	7,417	4,532	2,546
Library collection	13,263	0	11,377	1,886	1,604
Financially leased assets					
Total operational assets	73,171	142,784	41,106	174,849	155,357
Infrastructure assets					
Land	5,644	13,242	0	18,886	19,300
Buildings and structures	34,402	35,742	9,047	61,097	58,249
Roadways and bridges	3,007	558,137	11,474	549,670	561,705
Reticulation systems/networks	23,963	524,075	14,234	533,804	490,790
Total infrastructure assets	67,016	1,131,196	34,755	1,163,457	1,130,044
Restricted assets					
Land	2,711	54,028	0	56,739	56,276
Buildings	10,924	21,712	1,700	30,936	17,772
Fixed plant	1,537	0	516	1,022	758
Road reserve	406	215,966	0	216,372	216,372
Total restricted assets	15,579	291,706	2,216	305,069	291,178
Investment properties	21	43,293	0	43,314	33,965
Heritage assets					
Collections	47,137	0	0	47,137	45,441

	Cost or Deemed Cost 2005 (\$'000)	Cost at Valuation 2005 (\$'000)	Accumulated Depreciation 2005 (\$'000)	Net Book Value 2005 (\$'000)	Net Book Value 2004 (\$'000)
Buildings	5,286	2,780	0	8,066	8,309
Capital work in progress	67,797	0	0	67,797	60,300
Total Core Council Fixed Rates	276,007	1,611,759	78,077	1,809,689	1,724,594

The Council assesses the fair valuation of the consolidated land and buildings at the carrying values shown below

	Cost or Deemed Cost 2005 (\$'000)	Cost at Valuation 2005 (\$'000)	Accumulated Depreciation 2005 (\$'000)	Net Book Value 2005 (\$'000)	Net Book Value 2004 (\$'000)
Consolidated					
Operational assets					
Land	2,920	67,785	0	70,705	68,699
Buildings	28,363	102,415	7,683	123,095	110,106
Fixed plant and equipment	28,497	8,620	18,050	19,067	14,629
Vehicles, mobile plant	35,076	0	16,477	18,599	18,583
Office equipment	13,146	0	8,101	5,045	3,045
Library collection	13,263	0	11,377	1,886	1,604
Total operational assets	121,265	178,820	61,688	238,397	216,666
Infrastructure assets					
Land	5,644	13,242	0	18,886	19,300
Buildings and structures	34,402	35,742	9,047	61,097	58,249
Roadways and bridges	7,649	558,137	13,835	551,951	564,122
Reticulation systems/networks	36,944	807,329	20,169	824,104	733,583
Street lighting					
Rolling stock and rail tracks	1,961	0	1,038	923	997
Total infrastructure assets	86,600	1,414,450	44,089	1,456,961	1,376,251
Restricted assets					
Land	2,711	54,028	0	56,739	56,276
Buildings	10,924	21,712	1,700	30,936	17,772
Fixed plant	1,538	0	516	1,022	758
Road reserve	406	215,966	0	216,371	216,372
Total restricted assets	15,579	291,706	2,216	305,069	291,178
Investment properties					
Forestry assets	0	74,609	0	74,609	76,940
Heritage assets					
Collections	47,137	0	0	47,137	45,441
Buildings	5,286	2,780	0	8,066	8,309
Capital work in progress	76,452	0	0	76,452	64,266
Total Consolidated Fixed Rates	352,340	2,005,658	107,993	2,250,005	2,113,016

	Value 2005 (\$'000)	Value 2004 (\$'000)
Forestry Assets		
Balance at the beginning of the year	76,940	80,942
Add Costs capitalised in establishing forests during the year	1,675	1,713
Less Net reduction of forests from logging during the year	(1,809)	(1,667)
Less Reduction in forest asset value	(2,197)	(4,048)
	74,609	76,940

Urban portions of the state highway network

The ownership of urban portions of the state highway network was unclear, although there was a legal opinion indicating that ownership rested with local authorities. Transit New Zealand maintained these highways in their entirety without any costs accruing to local authorities.

As a consequence, even if ownership resided with local authorities, in practice Transit New Zealand controlled the economic resources. The Office of the Auditor General and Treasury have agreed that these assets will be accounted for by the Crown. As the Dunedin City Council has never included these assets in its accounts, no accounting adjustment is required. The estimated distance of highway involved is 200 kilometres.

14. WAIPORI FUND

Funds from the sale of Waipori Power Generation Limited and the Council's 42% interest in United Electricity became available in the latter part of October 1998. Funds were invested in short term financial instruments from that date. Following the Council's appointment of Dunedin City Treasury Limited as fund manager and the selection of equity and property investment advisors in March 1999, the programme of investment selection began in accordance with the allocation broadly indicated in the Council approved statement of policies and objectives.

Waipori Fund – Statement of Financial Performance For the Year Ended 30 June 2005

	Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000
Income	4,032	3,651	3,525
Less Expenditure	101	144	97
Net Operating Income	3,931	3,507	3,428
Plus Unrealised gains	3,507	1,903	2,066
Less agreed amount to retained earnings	(1,682)	0	(981)
Available for distribution to Council	5,756	5,410	4,513

Waipori Fund Statement of Movement in Equity as at 30 June 2005

	Actual 2005 \$'000	Actual 2004 \$'000
Equity at the beginning of the year	62,627	59,133
Plus Net surplus for the year	7,438	5,494
	70,065	64,627
Less Distribution to Council	3,500	2,000
	66,565	62,627

Waipori Fund Statement of Financial Position as at 30 June 2005

	Actual 2005 \$'000	Actual 2004 \$'000
Current assets		
Bank Account	25	47
Accounts Receivable	320	407
Short Term Investments		
Other	9,242	7,880
Dunedin City Council	3,921	4,468
Total Current assets	13,508	12,803
Investments		
Equities	28,070	22,881
Property	6,780	6,540
Term Financial Instruments		
Other	15,215	17,428
Dunedin City Council	3,000	3,000
Total Investments	53,065	49,849
Total assets	66,573	62,652
Current liabilities		
Accruals	8	25
Total Current liabilities	8	25
Equity		
Principal of the Fund including inflation adjustment	64,310	60,115
Residual Surplus	2,255	2,512
Total Equity	66,565	62,627
Total Equity and liabilities	66,573	62,652

Waipori Fund Trend Statement of 2001–2005

	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2003 \$'000	Actual 2002 \$'000	Actual 2001 \$'000
Income					
Interest	2,224	2,069	2,400	2,199	2,333
Dividend	1,127	693	742	567	731
Rent	620	602	579	616	438
Assets					
Financial Instruments	30,605	32,776	33,137	32,652	38,150
Equity	28,070	22,881	19,072	17,906	17,373
Direct Property Investment	6,780	6,540	6,460	6,460	6,557
Return on Assets Before Unrealised Losses					
Financial Instruments	7.27%	6.31%	7.24%	6.73%	6.11%
Equity	4.01%	3.02%	3.89%	3.16%	4.20%
Direct Property Investment	9.14%	9.20%	8.96%	9.53%	6.68%
Return on Assets after Unrealised Gains or Losses	11.33%	8.92%	6.36%	2.05%	

15. GUARANTEES AND CONTINGENT ASSETS/LIABILITIES

The Council has guarantees of \$677,238 (2003/04 – \$2,039,675). These are on behalf of recreation and service organisations who have funded expenditure by way of commercial loan or prospective fund raising.

The Otago Regional Council requires the payment of a bond from those entities involved in solid waste disposal. By mutual agreement the payment of a bond of \$1,000,000 has been waived as long as the Council retains ownership of the Green Island landfill site, and maintains the conditions of the consents.

The Council has the following contingent liabilities.

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005 \$'000	Actual 2004 \$'000	Actual 2005 \$'000	Actual 2004 \$'000
Dunedin City Holdings	0	0	2,330	1,923
Events	0	0	0	0
Planning	10	0	0	0
Development Services	0	1,800	0	1,800

The Dunedin City Holdings contingent liabilities are performance bonds issued principally in favour of South Island Local Authorities for contract work. There is no indicator that any of the performance bonds will crystallise in the foreseeable future.

16. FINANCIAL INSTRUMENTS**Credit risk**

Financial instruments which potentially subject the Group to credit risk, principally consist of bank balances, accounts receivable, short term investments and various off balance sheet instruments.

Maximum exposures to credit risk at 30 June 2005 were:

	CORE COUNCIL		CONSOLIDATED	
	Carrying Value 2005 \$'000	Fair Value 2005 \$'000	Carrying Value 2005 \$'000	Fair Value 2005 \$'000
Financial assets				
Bank balance	2,137	2,137	2,237	2,237
Cash deposits	1,382	1,382	2,482	2,482
Receivables from subsidiary	103,377	103,377	0	0
Receivables	16,083	16,083	22,916	22,916
Investments	38,426	38,426	59,065	59,065
Loans and advances	10,444	10,444	10,444	10,444
Financial liabilities				
Short term borrowings	0	0	7,073	7,073
Accounts payable	20,635	20,635	25,420	25,420
Accrued expenditure and contract retentions	4,844	4,844	8,733	8,733
Term liabilities	59,655	59,655	213,223	213,223
Financial instrument exposures				
Interest rate swaps	0	0	0	(848)
Foreign currency forward exchange contracts	0	0	0	5,628

Maximum exposures to credit risk at 30 June 2004 were:

	CORE COUNCIL		CONSOLIDATED	
	Carrying Value 2004 \$'000	Fair Value 2004 \$'000	Carrying Value 2004 \$'000	Fair Value 2004 \$'000
Financial assets				
Bank balance	567	567	1,111	1,111
Cash deposits	5,499	5,499	5,499	5,499
Receivables from subsidiary	103,377	103,377	0	0
Receivables	11,828	11,828	19,977	19,977
Investments	31,727	31,727	44,775	44,775
Loans and advances	10,718	10,718	10,718	10,718
Financial liabilities				
Bank balance				
Short term borrowings	2,000	2,000	5,198	5,198
Accounts payable	20,137	20,137	25,312	25,312
Accrued expenditure and contract retentions	3,807	3,807	7,705	7,705
Term liabilities	42,861	42,861	187,568	187,568
Financial instrument exposures				
Interest rate swaps	0	0	0	1,278
Foreign currency forward exchange contracts	0	0	0	9,296

Concentration of Credit Risk

The Council and Group is not exposed to any concentration of credit risk.

The carrying amounts of the Council and Group's financial assets and financial liabilities are equivalent to their fair value, except with regard to forestry suspensory loans and the term bonds which carry an interest liability below the current market rate.

The fair value of the financial instruments is based on quoted market prices for these instruments at balance date.

Interest Rate Risk

The Group has entered into interest rate swap and forward rate agreements to reduce the impact of changes in floating interest rates from the multi-option note facility. The interest rate agreements are held with independent and high credit quality financial institutions.

The notional principal outstanding with regard to the interest rate swaps is:

	CONSOLIDATED	
	2005 \$'000	2004 \$'000
Maturing in less than one year	0	0
Maturing between one and five years	75,000	180,000
Maturing after five years	45,000	35,000
	120,000	215,000

As at 30 June 2005, the cash settlement requirement for the Group of these interest rate swap agreements is limited to net interest payable of \$847,787 (2004: \$1,278,200 was payable).

This swap liability must be considered against the fair value of the bond debt that the swap is intended to hedge. The fair value of the bond debt is now \$0.6 million (2004: \$1.13 million) below the carrying cost in the Statement of Financial Position.

17. INDUSTRY SEGMENT REPORTING

Year Ended 30 June 2005

	Utilities	Forestry	Core Council	Other	Eliminations	Consolidated
External revenue	102,912	18,944	131,020	8,475	0	261,351
Intersegment revenue	32,705	0	27,339	41,155	(101,199)	0
Total revenue	135,617	18,944	158,359	49,630	(101,199)	261,351
Normal operating surplus before tax	34,678	3,109	18,685	(9,709)	(19,000)	27,763
Segment operating surplus before tax	34,678	3,109	18,685	(9,709)	(19,000)	27,763
Segment assets	354,160	111,578	1,998,061	86,244	(177,666)	2,372,377

Year ended 30 June 2004

	Utilities	Forestry	Core Council	Other	Eliminations	Consolidated
External revenue	92,858	21,808	126,037	8,567	0	249,270
Intersegment revenue	32,855	18	15,721	30,512	(79,106)	0
Total revenue	125,713	21,826	141,758	39,079	(79,106)	249,270
Normal operating surplus before tax	29,469	5,278	5,653	(9,593)	(8,500)	22,307
Segment operating surplus before tax	29,469	5,278	5,653	(9,593)	(8,500)	22,307
Segment assets	300,163	105,598	1,907,033	69,022	(160,392)	2,221,424

18. SUPPLEMENTARY INFORMATION

Corporate Support and Access to Information and Services

Dunedin City Council Internal Transactions Operating Statement

	Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000
<i>Revenue</i>			
General Rate Corporate Support	2,843	2,843	2,404
General Rate Access to Information and Services	996	996	1,051
External Revenue Corporate Support	1,150	203	343
External Revenue Access to Information	50	39	54
Internal Revenue Other	0	0	0
Internal Revenue Corporate Support	19,534	19,772	21,431
Internal Revenue Access to Information	3,736	3,802	3,592
Total services performed	28,309	27,655	28,875
<i>Expenditure by Outputs</i>			

	Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000
Administration	1,214	1,306	1,172
Business Improvement	253	237	343
Citifleet	1,542	1,507	1,639
Corporate Leadership	2,484	2,579	2,359
Finance	4,372	4,420	4,304
Human Resources	765	609	772
Information Systems	4,625	4,502	4,456
Graphic Design and Print Services	712	707	776
City Property	5,000	5,139	5000
Knowledge Centre	2,638	2,755	2,777
Customer Service Agency	2,108	2,137	1,994
Total operating costs	25,713	25,898	25,592
Net surplus/(deficit)	2,596	1,757	3,283

	Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000
Expenditure by Inputs			
Staff costs	8,894	8,886	8,774
Operational costs	7,378	9,775	14,746
Internal Costs	6,712	4,581	0
Loan Interest	151	152	91
Depreciation	2,578	2,504	1,981
Total Expenditure	25,713	25,898	25,592

Access to Information – Keeping track of non-financial performance

Satisfaction	Achievement	2005 Target	2005 Actual	2004 Comparative	2003 Comparative
• Residents' dissatisfaction with the Council's website www.CityofDunedin.com	x	2%	3%	2%	1%
• Residents' dissatisfaction with the Council's call centre (telephone enquiry service)	✓	5%	3%	4%	5%
• Residents' dissatisfaction with the Council's Customer Services Agency	✓	5%	2%	2%	2%

19. GOODWILL

	CORE COUNCIL		CONSOLIDATED	
	Actual 2005	Actual 2004	Actual 2005	Actual 2004
Balance at the beginning of the year	-	-	844	950
Goodwill arising on asset acquisition	-	-	0	0
Amortisation	-	-	(106)	(106)
Balance at the end of the year	-	-	738	844

Goodwill arose from the purchase by DELTA Utility Services Limited of the contracting assets of five businesses between September 2002 and May 2003.

20. TRANSACTIONS WITH RELATED PARTIES

Transactions between wholly owned subsidiaries have been eliminated. The group also conducted the following commercial transactions with associated companies.

	Actual 2005 (\$'000)	Actual 2004 (\$'000)
Amounts received or receivable from associate companies:		
Forest products sold to Otago Chipmill Limited	718	616
Dividend received from Dunedin Airport Limited	493	430
Contracting services to Airport Company		
	1,211	1,046
Amounts paid or payable to associate companies:		
Services purchased		
At year end the following amounts were owed to and from Associate Companies:		
Payable to associate companies		
Receivable from associate company Golden Block Investments		
Receivable from other associate companies		3
		3

No related party debts have been written off or forgiven during the period.

Apart from minor transactions such as the payment of rates, no councillor or senior management have entered into related party transactions with the Council or the Group.

The Dunedin City Council undertakes transactions with Dunedin City Holdings Limited and its subsidiary companies on an arm's-length commercial basis. The Group provided services and traded with the Dunedin City Council in respect of the following transactions:

Transactions with Dunedin City Holdings Limited

	Actual 2005 (\$'000)	Actual 2004 (\$'000)
Paid or payable to Dunedin City Holdings:		
Contract services	10,449	10,080
Subvention receipts	6,259	5,248
Electricity distribution		
Interest income	4,405	2,689
Transport services	268	244
Vehicle repairs	29	20
	21,410	18,281
Received or receivable from Dunedin City Holdings:		
Interest	7,476	6,240
Dividends	19,000	8,500
Materials purchased	217	343
Rates and property rentals	526	546
Administration and office services	120	92
Subvention payments		
	27,339	15,721

At year end the following amounts were owed to and from Dunedin City Holdings:

Payable to Dunedin City Holdings	67,077	50,870
Receivable from Dunedin City Holdings	7,334	6,311
Shareholder Advance to Dunedin City Holdings	103,377	103,377

Other Related Party Transactions

During the course of the year the group made payments of:

- \$671,000 (2004: \$433,000) for tax information system, and accounting services to Deloitte, an organisation of which Mr R D Liddell is a partner. Mr R D Liddell is a director of a Council controlled company.
- \$73,000 (2004: \$68,000) for consulting, accounting and financial services to Polson Higgs and Co, an organisation of which Mr R J Polson and Mr S J Higgs are partners. Mr R J Polson and Mr S J Higgs are directors of Council controlled companies.
- \$182,000 (2004: \$207,000) for materials and mechanical services to the Palmers Group, an organisation of which Mr R D Liddell is a director.
- \$1,352,000 (2004: \$836,000) for materials to Blackhead Quarries Ltd, an organisation of which Mr R D Liddell is a director.
- \$253,000 (2004: \$273,000) for services to the Port Otago Group, a company of which Mr J W Gilks is a director.
- \$154,000 (2004: \$195,000) for services to Hirequip Ltd, a company of which Mr M O Coburn is a director. Mr M O Coburn is a director of a Council controlled company.

21. NEW ZEALAND INTERNATIONAL ACCOUNTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that International Financial Reporting Standards (IFRS) will apply to all New Zealand entities from 1 January 2007. In adopting IFRS for issue as NZ IFRS certain adaptations of IFRS have been made to reflect New Zealand circumstances. Many of these adaptations are of particular relevance to what are referred to as Public Benefit Entities, such as the Dunedin City Council.

With the requirement to present a ten year Long Term Community and Council Plan (LTCCP) from 1 July 2006 to 30 June 2016 it became necessary for the Council to prepare the ground-work for changes to Accounting Standards earlier than would otherwise been necessary. It is desirable to have the full ten year LTCCP on a uniform accounting basis. To this end it is necessary for the Council to restate its 2005 Balance Sheet using NZ IFRS Standards as an opening position for the 30 June 2006 Balance Sheet prepared for the commencement of the LTCCP.

In keeping with best practice, the Council, with collaboration with staff from the Consolidated Dunedin City Holdings group and appropriate advisors, has had a project running to manage this complex transition. For the Council only two significant issues have been identified and these are briefly covered below. Further information will be made available as and when appropriate.

Landfill Aftercare Provision

This is potentially the most significant issue to arise out of the NZ IFRS for the Dunedin City Council. Under the provisions of New Zealand International Accounting Standard 16 (Property, Plant and Equipment), if the cost of land includes the costs of site restoration that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. As at the 30 June 2005 the latest estimates of the present value of the aftercare provision for site restoration could be around \$5,216,000.

Valuation of Derivatives

The Council enters into interest rate swaps to reduce the impact of changes in floating interest rates from the multi-option note facility. This aspect of Financial Reporting is governed by the complex New Zealand International Accounting Standard 29, Financial Instruments: Recognition and Measurement. The adjustment reflects an estimate of the impact of applying NZ IAS 39. The hedging instruments will ensure that there is no impact on the Statement of Financial Performance.

Dunedin City Holdings Ltd and International Financial Reporting Standards.

The Consolidated Dunedin City Holdings group has been requested by the Dunedin City Council to comply with the New Zealand equivalents to International Reporting Standards (NZIFRS) for financial reporting periods commencing on or after 1 July 2006.

The consolidated entity's first NZIFRS compliant financial statements will be for the half-year ending 31 December 2006 and the year ending 30 June 2007. Entities complying with NZIFRS for the first time must restate their comparative financial statements under NZIFRS. The consolidated entity's opening NZIFRS balance sheet will be a restated comparative balance sheet dated 1 July 2005.

The consolidated entities project has been operating throughout the last financial year with particular early emphasis being applied to NZIAS39. The project was managed internally using the expertise of our advisors Deloitte.

The consolidated entity is now implementing changes to its accounting administration processes to enable NZIFRS compliant reporting in accordance with the required timetable. The development of the necessary company policies and the processes to ensure compliance with NZIAS39 are complete and these involved the reorganisation of the derivatives held by the group to manage its risk to variations in cash flow arising from movements in NZ dollar interest rates. As a result of the reorganisation of the portfolio of derivatives some contracts were cancelled with the result that Aurora Energy Limited and the parent company each received \$0.3m.

The following disclosures have not been quantified. The assumptions and data necessary to quantify the changes are being gathered and will be released at a later date.

The key differences in the consolidated entity's accounting policies expected to arise on the adoption of NZIFRS are summarised as:

1. Business Combinations

Amortisation of goodwill within DELTA Utility Services Limited over a life of ten years will cease. The annual expense of \$0.1m will be replaced by an annual impairment test which may give rise to an expense if the fair value assessment of the goodwill is lower than the existing book value.

2. Hedge Accounting

In order to qualify for hedge accounting treatment under NZIAS39, foreign exchange hedges in respect of City Forests Limited's efforts to manage risk from fluctuations in foreign

currencies against the NZ dollar and interest rate hedges in respect of the consolidated entity's efforts to manage the risk from changes in NZ dollar interest rates must comply with strict designation and effectiveness requirements for each instrument held.

Group hedging instruments will satisfy the NZIFRS requirements and therefore no financial impact on annual earnings is expected.

3. Deferred Tax

Under NZIFRS deferred tax is recognised on all temporary differences between the revalued accounting book values and tax values for each asset and liability (known as the balance sheet approach). Whereas under existing NZGAAP Aurora Energy Limited has recognised the differences between the historic cost book values and the tax value for each asset and liability. As the increase in the book value of the electricity network assets resulting from revaluations is material the increase to the deferred tax liability under NZIFRS will also be material.

4. Forest Asset

The forest valuation method used by City Forests Limited under existing NZGAAP uses a present value of net cash flows approach and is on an in perpetuity basis. It establishes the current market value of the collective forest and forest land, with land then subtracted at its current book value to provide the value of the forest asset. Where the annual forest valuation indicates a permanent impairment the carrying value is reduced through changes to the asset value, the forest revaluation reserve and deferred tax.

The forest valuation methodology required under NZIFRS is similar to that used by City Forests Limited at present but it requires that the forest is valued on a single rotation basis and that the discount rate used for the cash flows is a pre-tax rate rather than a post-tax rate. The fair value of the forest will continue to be determined at each reporting period with the changes being included in earnings. This change has the potential to increase the volatility in the consolidated entity's earnings from year to year.

5. Employee Benefits

The consolidated entity employs very few staff on defined benefit superannuation plans. NZIFRS requires a change to the accounting methodology to calculate the liability from these plans and to calculate the liability from accumulated long service leave. Any change from changes in methodology will not be material.

22 POST BALANCE DATE EVENT

There are no post balance date events.

23 OTHER STATUTORY INFORMATION REQUIREMENTS (SCHEDULE 10, PART 3)

Covering

Remunerations issues for Councillors	Clause 18	Page 3	Section One
Remuneration issues for the Chief Executive	Clause 18	Page 16	Section One
Severance payments	Clause 19	Page 16	Section One
Report on opportunities for Maori to contribute to the decision-making process	Clause 21	Page 16	Section One
Statement of Compliance	Clause 20	Page 16	Section One