

Statement of Accounting Policies

Reporting Entity

Gisborne District Council is a Unitary Authority governed by the Local Government Act 2002. For financial reporting purposes the Authority is a group consisting of Gisborne District Council, its subsidiary CCTOs/CCOs, Gisborne Holdings Ltd (and its subsidiaries).

- ❖ The financial statements and group financial statements of Gisborne District Council have been prepared in accordance with the requirements of section 98 of the Local Government Act 2002 which includes the requirement to comply with generally accepted accounting practice.

Measurement Base

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

Basis of Consolidation

The consolidated financial statements include Council and its subsidiaries.

100% owned subsidiaries and in-substance subsidiaries are accounted for using the purchase method which involves adding together corresponding assets, liabilities, revenues and expenses on a line-by-line basis.

All significant inter-company/Council transactions are eliminated on consolidation.

Property, Plant and Equipment

Property, Plant and Equipment consists of:

Operational Assets ▶ These include land, buildings, improvements, library books, wharves, floating plant, plant, equipment and motor vehicles.

Infrastructural Assets ▶ Infrastructural assets are the fixed utility systems owned by the Council and comprise the sewer, water, stormwater, roading, flood control, and the waste disposal infrastructures. Each asset type includes all items that are required for the network to function, for example, sewer reticulation piping and sewer pump stations. In the case of roading and waste disposal, the value of the land is included.

Forestry Assets ▶ Forestry Assets consist of Council's forestry holdings excluding land owned by Council. Upon consolidation any forestry holdings, excluding land, held by Council's CCTOs/CCOs are included in this category of assets.

Property, Plant and Equipment Valuation

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

Operational Land and Buildings ▶ Operational land and buildings have been valued at fair value and optimised depreciated replacement cost respectively by Agfirst Valuations Ltd as at 30 June 2005. Operational land and buildings include parks, reserves, monuments and cenotaphs owned by the Council (previously disclosed as Restricted Assets) which provide a benefit or service to the community and which can only be disposed of when legal processes have been satisfied. These have been valued at cost.

Operational land and buildings are to be revalued every 3 years, or more frequently when there are indicators that the values may have changed substantially from carrying value. Land and Buildings held for resale have been valued by Agfirst Valuations Ltd as at 30 June 2005 and are valued at the lower of cost or net realisable value. Tauwhareparae Farms Ltd's land is revalued periodically (every two years), with additions between revaluations recorded at cost.

Infrastructural Assets Revaluations ▶ Infrastructural Assets are recorded at depreciated replacement cost. Valuations have been completed on 30 June 2005 (unless otherwise stated). Infrastructure assets are to be valued every 3 years, unless conditions indicate that carrying value is materially different to fair value, in which case assets will be revalued more frequently.

The roading revaluation was undertaken at 30 June 2005 by Scott Verevis (Roading Asset Manager – Opus International Consultants Limited, Napier) and Bruce Cowper (Registered Valuer ANZIV – Agfirst Valuations Ltd). The value of land under and on the margins of roads is included in the roading asset valuation. Roading assets are to be revalued annually.

The June 2005 sewer, water and stormwater revaluations were prepared by the Engineering and Works Department of the Gisborne District Council. A peer review was undertaken by Leonard Wiles BE(Civil)(Hons), BSc(Chem)(Hons) and John Vessey, Principal - Asset Management, BE, MSc(Eng), DIC, FIPENZ Registered Engineer, both of Opus International Consultants Limited.

Flood Control Infrastructure Assets were revalued by the Engineering and Works Department of the Gisborne District Council on 30 June 2003, and this revaluation was peer reviewed by Gary Williams BE(Hons) Registered Engineer, of G & E Williams Consultants.

Library Collections ▶ Library collections were valued at 30 June 2000. Depreciation is not provided on library books. All new and replacement books are expensed in the year they are purchased. Library collections are to be valued every 5 years. The valuation was done by the District Librarian in accordance with draft guidelines released by the New Zealand Library Association and the National Library of New Zealand.

Airport Assets ▶ Agfirst Valuations Ltd in conjunction with Maunsell Limited provided a valuation of the Gisborne Airport assets including land, buildings, runway, aprons, roading and below ground infrastructure as at 30 June 2005. The valuation was undertaken by Bruce Cowper ANZIV SNZPI, Registered Valuer of Agfirst Valuations Ltd and Graeme Hughson

BE, MIPENZ, Senior Asset Management Consultant. Airport assets are to be valued every 3 years or more frequently when there are indicators that the values may have changed substantially from carrying value.

Forestry Assets ▶ Gisborne District Council's forestry holdings have been valued by Jason Blair, B.Ag.Sci, M.Appl.Sc.(Hons), Environmental Manager of P F Olsen & Co Ltd, as at 30 June 2005 on the basis of present value of tree crop. Each compartment aged six years and over is calculated by discounting future revenues to the valuation date and subtracting future discounted costs. Younger age classes are valued by compounding costs forwarded to the valuation date. For purposes of periodic revaluations direct costs of forest establishment, silviculture and maintenance are debited to forest asset accounts to give book values. The valuations, when determined as above, are then compared with the book values. The Forestry Revaluation Reserve is credited or debited with the difference. Gisborne District Council Forest Assets are revalued every year.

Tauwhareparae Farms Ltd forest assets (including land) are revalued annually using a net present value approach which reflects future earnings expectations.

The valuations, when determined as above, are then compared with the book values. The Statement of Financial Performance is credited or debited with the difference.

The forestry (net planted area) owned by Tauwhareparae Farms Ltd was revalued at 30 June 2005, based on valuation reports prepared by P F Olsen and Company Ltd.

Wharves ▶ Wharves and floating plant are recorded at cost.

Livestock ▶ Livestock is valued at current market value. These values are not the same as those used for calculating taxation. Changes in the value of existing productive livestock and the numbers and/or composition of the livestock are treated as revenue items.

Additions ▶ Additions between valuations are recorded at cost, except for vested assets. Certain infrastructural assets and land have been vested in the Council as part of the subdivision consent process. Vested assets are recognised as revenue when control over the asset is obtained. Vested assets are valued at current replacement cost.

Capitalisation of Interest ▶ When the construction of assets are loan funded, all interest incurred (to the point of project completion) as a result of the capital work is capitalised as part of the total cost of the asset up until the point where the asset enters service.

Depreciation

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

Infrastructural Assets

▶ Roads ◀

*Pavement Surface (seal)	1 – 12 years ¹
*Pavement Layers (basecourse)	75 – 100 years
*Formation	(not depreciated)
*Culverts	25 – 50 years
*Footpaths	20 – 75 years
*Kerbs	50 years
*Signs	12 years
*Street Lights	15 – 25 years
*Bridges	25 – 80 years
*Retaining Structures	80 years
*Traffic Signals	15 – 30 years
*Parking Meters	25 years
*Safety Projects	10 – 13 years

¹ Life depends on road type and traffic volumes

▶ Water Reticulation ◀

*Pipes	30 – 165 years ²
*Valves, Hydrants	25 years
*Pump Stations	15 – 100 years
*Dams	400 years
*Structures	16 – 200 years

▶ Sewerage Reticulation ◀

*Pipes	60 – 100 years ³
*Manholes	100 years
*Treatment Plant	15 – 50 years
*Laterals	100 years

▶ Stormwater Systems ◀

*Pipes	62 – 100 years ⁴
*In-drain structures	25 – 100 years

▶ Flood Control Systems ◀

25 – 100 years

▶ Solid Waste ◀

4 – 25 years

Operational Assets

Land	(not depreciated)
Buildings/Land Improvements	3 – 100 years
Plant/Machinery/Motor Vehicles	3 – 20 years
Office Equipment/Furniture	3 – 50 years
Other Equipment	5 – 25 years
Library Books	(not depreciated)
Wharves	50 years
Floating Plant	25 years
Leased Assets	3 – 8 years

Revenue Recognition

Rates are recognised when levied.

² Life depends on material type of pipe

³ Life depends on material type of pipe

⁴ Life depends on material type of pipe

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

All other revenue from operations billing is recognised on an accrual basis.

Other grants and bequests, and assets vested in the Council are recognised as revenue when control over the asset is obtained.

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

Inventories and Assets Under Construction

Inventories are valued at the lower of weighted average cost or net realisable value less provision for damaged or obsolete items.

Assets under construction are valued at the lower of cost or net realisable value.

Accounts Receivable

Accounts receivable are stated at estimated realisable value after providing a doubtful debt provision.

Cost Allocation

Gisborne District Council has derived the net cost of service for each significant activity of the Council using the cost allocation system outlined below.

Direct costs are charged directly to the significant activities. Indirect costs are charged to a service department and the total service department costs are charged on a pre-determined basis to each significant activity.

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those which cannot be identified in an economically feasible manner with a specific activity.

Investments

Investments, including those in subsidiary companies, are stated at the lower of cost or net realisable value. Any decreases are recognised in the Statement of Financial Performance.

Public Equity

This represents the ratepayers net ownership of the Gisborne District Council. It is made up of the following components:

- ▶ Accumulated Balances
- ▶ Reserve Funds
- ▶ Restricted Reserves
- ▶ Asset Revaluation Reserves
- ▶ Special Funds

Council Created Reserves include the following:

Special Funds ▶ Special funds are recorded at cost plus accumulated interest. These funds are restricted in nature and can only be used for the special purpose for which they were set up.

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.

Restricted Reserves ▶ Restricted reserves are recorded at cost plus accumulated interest. These funds are subject to specific conditions accepted as binding by Council and which may not be revised by Council without reference to a third party or the Courts.

Income Tax

Income tax expense / (credit) is charged in the Statement of Financial Performance in respect of current year's earnings after allowing for permanent differences. Deferred taxation is determined on a comprehensive basis using the liability method. Deferred tax assets attributable to timing differences or tax losses are only recognised where there is virtual certainty of realisation.

Financial Instruments

The Council and group is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, debtors, creditors, debentures and loans and are recognised in the Statement of Financial Position. All revenues and expenses in relation to these financial instruments are recognised in the Statement of Financial Performance. Except for loans and debentures, which are recorded at face value, and those items covered by a separate accounting policy, all financial instruments are shown at their fair value.

Financial instruments which represent an off balance sheet risk are entered into to manage the exposure to interest rate fluctuations. These include interest rate swaps and option contracts. Over the period of the contract any differential relating to the payment or receipt on a swap contract or premium on an option contract is recognized as a component of interest revenue or expense.

Cash Flows

The following definitions have been used for the preparation of the Statement of Cash Flows:

Cash ▶ Cash includes coins, notes, demand deposits, or highly liquid investment, which the Council regards as part of its day-to-day cash management.

Operating Activities ▶ Transactions and other events that are not investing or financial activities.

Investing Activities ▶ Activities relating to the acquisition, holding and disposal of fixed assets and of investments, such as securities, not falling within the definition of cash.

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

Leases

Finance Leases ▶ Assets held by Council and Group under finance leases are classified as fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset are transferred to the Council.

The leased assets and corresponding liabilities are initially recognised in the Statement of Financial Position at amounts equal to the fair value of the asset or if lower the present value of the minimum lease payments. The leased assets are depreciated over the period the entity is expected to benefit from their use.

Operating Leases ▶ Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are charged as expenses in the periods in which they are incurred.

Pamoa Joint Venture Forest

The Council has transferred forestry rights in respect of a total of 1,608 hectares of land to Juken Nissho Limited. The transfer relates to one harvest cycle. Under the agreement Council has contributed the land and is entitled to 16.75% of stumpage. All costs of development are borne by Juken Nissho Limited. The value of the land (excluding the trees) and Council's right to a share of the stumpage is reflected in the Statement of Financial Position.

GST

The financial statements have been prepared exclusive of GST with the exception of receivables and payables, which are stated with GST included.

Landfill Post Closure Costs

Paokahu ▶ As former operator of the Paokahu landfill site, the Council has an obligation to ensure the ongoing maintenance and monitoring services at this landfill site after closure.

A landfill aftercare provision has been recognised as a liability in the Statement of Financial Position. Provision is made for the present value of post closure costs expected to be incurred in restoring the area to its former status. The calculated cost is based on estimates of future site maintenance, supervision and monitoring costs. The estimated length of time needed for post closure care for the Paokahu site is 35 years, from 31 December 2002.

The calculations assume no change in the legislative requirements or technological changes for closure and post closure treatment. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the Council.

Waiapu ▶ As operator of the Waiapu landfill site, the Council has an obligation to ensure the ongoing maintenance and monitoring services at this landfill site after closure.

A landfill aftercare provision has been recognised as a liability in the Statement of Financial Position. Provision is made for the present value of post closure costs expected to be incurred in restoring the area to its former status. The calculated cost is based on estimates of future site maintenance, supervision and monitoring costs. The estimated length of time needed for post closure care for the Waiapu site is 35 years, from 30 June 2024.

Properties Intended for Sale

This is made up of property and other subdivision properties which are listed as Properties Intended for Sale in the Statement of Financial Position. These properties are recorded at the lower of cost and net realisable value.

Employee Benefits

Liabilities have been recognised in respect of the Group's obligations for annual leave, retiring leave and long service leave. Annual leave has been calculated on an actual entitlement basis at current rates of pay whilst the

other liabilities have been calculated on an actuarial basis at current rates of pay.

Comparative Figures

Certain comparative information in these financial statements has been reclassified to reflect current year disclosure.

Changes in Accounting Policies

The frequency of revaluation for infrastructural assets, airport assets and operational land and buildings has been changed from every five years to every three years, except roading assets which will be revalued annually. However, if conditions indicate that the fair value of any class of assets is materially different from the carrying value at any balance date, that class of assets will be revalued at that balance date, irrespective of whether a revaluation was due or not. Conditions did indicate that for all classes of infrastructural assets, except Flood Control, and for Operational Land and Buildings and airport assets a revaluation was necessary at 30 June 2005. This revaluation resulted in an increase in asset values and revaluation reserves of \$472 million.

During the year Tauwhareparae Farms Limited changed its accounting policy in respect of the valuation of forestry assets. Previously the forest crop was revalued triannually with gains and losses passing through the forestry revaluation reserve. Debit balances in the reserve were immediately expensed. Forest land was revalued biannually with gains and losses passing through the forestry revaluation reserve. Valuations of both were carried out more frequently where the value had changed significantly. Forest crops and land are now considered a single class of asset, and revaluations are now carried out annually. This change in accounting policy had no effect on the financial statements.

All other policies have been applied on a consistent basis with prior years.

Statement of Financial Performance for the year ended 30 June 2005

	Notes	Gisborne District Council			Consolidated	
		Actual 2004 \$000	Actual 2005 \$000	Budget 2005 \$000	Actual 2004 \$000	Actual 2005 \$000
Revenue						
Government grants and subsidies	23	19,078	25,314	26,662	19,078	25,314
Rates levied		31,717	33,710	33,540	31,655	33,653
Other revenue	7B	9,568	10,431	9,365	16,408	15,035
		60,363	69,455	69,567	67,141	74,002
Expenditure						
Cost of Democracy		1,224	1,362	1,320	1,224	1,362
Principal Advisory Unit		1,755	1,998	2,125	1,755	1,998
Asset Management Unit		32,843	35,799	32,907	32,843	35,799
Environmental and Sustainable Management		5,481	6,017	6,364	5,481	6,017
Business and Community Units		4,148	4,012	3,815	10,729	8,806
Support Services		5,334	5,950	5,579	5,334	5,950
Total Cost of Service		50,785	55,138	52,110	57,366	59,932
Operating Surplus		9,578	14,317	17,457	9,775	14,070
Write-down of investments		0	0	0	0	0
Operating Surplus Before Tax		9,578	14,317	17,457	9,775	14,070
Taxation	14	0	0	0	0	0
Surplus After Tax	23	\$9,578	\$14,317	\$17,457	\$9,775	\$14,070

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position as at 30 June 2005

	Notes	Gisborne District Council			Consolidated	
		Actual 2004 \$000	Actual 2005 \$000	Budget 2005 \$000	Actual 2004 \$000	Actual 2005 \$000
Non Current Assets						
Accounts receivable	3	21	533	0	29	533
Property, Plant and Equipment	1A	923,469	1,405,889	613,484	955,564	1,449,261
Investments	2A	0	0	0	31	31
Shares in companies	2B	20,799	20,799	20,799	44	44
Total Non Current Assets		944,289	1,427,221	634,283	955,668	1,449,869
Current Assets						
Bank accounts		1,418	3,285	266	1,498	3,356
Current investments	2A	10	0	2,000	10	0
Accounts receivable	3	8,071	8,840	5,856	8,169	8,909
Stock on hand		115	102	114	295	213
Properties intended for sale	6	494	917	0	494	917
Shares in Companies	2B	0	0	0	0	0
Total Current Assets		10,108	13,144	8,236	10,466	13,395
Total Assets		\$954,397	\$1,440,365	\$642,519	\$966,134	\$1,463,264
LIABILITIES and EQUITY						
Non Current Liabilities						
Public debt	4B	32,002	30,000	38,080	33,904	31,744
Provision for landfill aftercare	18	332	558	209	332	558
Provision for landfill decommission	19	0	6	0	0	6
Non Current Accounts Payable	5	213	226	420	213	226
Total Non Current Liabilities		32,547	30,790	38,709	34,449	32,534
Current Liabilities						
Deposits held		13	48	0	13	48
Bank overdraft		0	0	0	550	1,350
Accounts payable	5	8,714	7,995	7,899	9,108	8,504
Current portion of public debt	4A	68	2,002	0	80	2,022
Provision for Landfill Aftercare	18	138	84	0	138	84
Other Current Provisions	20	155	0	0	155	0
Total Current Liabilities		9,088	10,129	7,899	10,044	12,008
Total Liabilities		41,635	40,919	46,608	44,493	44,542
Equity		912,762	1,399,446	595,911	921,641	1,418,722
Total Equity and Liabilities		\$954,397	\$1,440,365	\$642,519	\$966,134	\$1,463,264

Meng Foon
MAYOR

R D R Elliott
CHIEF EXECUTIVE

Statement of Movements in Equity for the year ended 30 June 2005

	Notes	Gisborne District Council			Consolidated	
		Actual 2004 \$000	Actual 2005 \$000	Budget 2005 \$000	Actual 2004 \$000	Actual 2005 \$000
Equity at start of year		562,539	912,762	578,454	562,539	921,641
Net Surplus for the year		9,578	14,317	17,457	9,775	14,070
Increase in asset revaluation reserves	1B	340,406	472,096	0	349,088	482,740
Transfer to retained earnings included in revaluation reserve movement		239	271	0	239	271
Total Recognised Revenues and Expenses		350,223	486,684	17,457	359,102	497,081
Equity at end of year		\$912,762	\$1,399,446	\$595,911	\$921,641	\$1,418,722
Equity is made up as follows:						
Special funds		7,361	10,147	7,086	7,361	10,147
Accumulated surplus		340,953	352,764	364,804	330,654	342,218
Asset revaluation reserves	1B	564,349	1,036,445	223,943	583,527	1,066,267
Restricted reserves		144	146	157	144	146
Reserve funds		(45)	(56)	(79)	(45)	(56)
		\$912,762	\$1,399,446	\$595,911	\$921,641	\$1,418,722

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows for the year ended 30 June 2005

	Notes	Gisborne District Council			Consolidated	
		Actual 2004 \$000	Actual 2005 \$000	Budget 2005 \$000	Actual 2004 \$000	Actual 2005 \$000
CASH FLOW FROM OPERATING ACTIVITIES						
Cash was provided from:						
Gov't grants and subsidies	23	16,739	24,709	26,662	16,739	24,709
Activity revenue		9,560	10,199	11,060	14,691	14,059
Rates		31,731	32,784	33,540	31,669	32,727
GST		0	75	0	0	54
Interest received		81	252	105	92	260
Income tax refund		0	0	0	6	0
		58,111	68,019	71,367	63,197	71,809
Cash was applied to:						
Suppliers and employees		38,101	42,213	40,380	44,355	45,787
Grants		750	875	0	750	875
GST		75	0	0	45	0
Interest payable		1,632	1,824	2,484	1,780	2,027
Income tax paid		0	0	0	0	2
		40,558	44,912	42,864	46,930	48,691
Net Cash from Operating Activities		17,553	23,107	28,503	16,267	23,118
CASH FLOW FROM INVESTING ACTIVITIES						
Cash was provided from:						
Sale of fixed assets		1,793	961	0	1,811	1,041
Investments matured		0	10	0	0	10
Sale of shares		1,000	0	0	0	0
		2,793	971	0	1,811	1,051
Cash was applied to:						
Asset purchases		15,915	21,753	25,756	16,855	22,318
Borrowing cost capitalised	1D	499	425	0	499	425
Forestry expenditure		0	0	0	254	194
		16,414	22,178	25,756	17,608	22,937
Net Cash used in Investing Activities		(13,621)	(21,207)	(25,756)	(15,797)	(21,886)

	Notes	Gisborne District Council			Consolidated	
		Actual 2004 \$000	Actual 2005 \$000	Budget 2005 \$000	Actual 2004 \$000	Actual 2005 \$000
CASH FLOWS FROM FINANCING ACTIVITIES						
Cash was provided from:						
New loan - secured		17,000	0	0	19,000	0
New debentures - secured		15,000	0	0	15,000	0
Increase in deposits held		0	35	0	0	35
		32,000	35	0	34,000	35
Cash was applied to:						
Loan repayments - secured		35,989	0	2,747	36,111	133
Hire purchase repayments		70	68	0	77	76
Decrease in deposits held		47	0	0	47	0
		36,106	68	2,747	36,235	209
Net Cash from/(used in) Financing Activities		(4,106)	(33)	(2,747)	(2,235)	(174)
Net Increase/(Decrease) in Cash		(174)	1,867	0	(1,765)	1,058
Cash						
Balance at beginning of year		1,592	1,418	266	2,713	948
Balance at end of year		1,418	3,285	266	948	2,006
Increase/(Decrease) in Cash		\$(174)	\$1,867	\$0	\$(1,765)	\$1,058

The consolidated cash balance at the end of the year of \$2,006,000, comprises cash deposits of \$3,356,000 less bank overdrafts of \$1,350,000.

Statement of Commitments as at 30 June 2005

	2004 \$000	2005 \$000
Capital Commitments		
Gisborne District Council		
Capital Commitments approved and contracted - not later than one year	8,981	8,062
Capital Commitments approved and contracted - greater than one year	3,703	5,475
Total Commitments - Gisborne District Council	\$12,684	\$13,537
Total Consolidated Commitments	\$12,684	\$13,537

Non-Cancellable Operating Lease Commitments

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Operating lease payments are payable as follows:				
Not later than one year	253	245	253	245
Later than one year but not later than two years	243	245	243	245
Later than two years but not later than five years	61	61	61	61
	\$557	\$551	\$557	\$551

Statement of Financial Involvement in CCTOs/CCOs and Other Companies or Organisations

For the Group Organisational Structure please refer to the Council Management Section of the Annual Report.

The following Companies are CCTOs/CCOs as defined by the Local Government Act 2002:

- ❖ Gisborne Holdings Ltd
- ❖ Tauwhareparae Holdings Ltd
- ❖ Tauwhareparae Forests Ltd
- ❖ Tauwhareparae Farms Ltd

The Council is also financially involved in:

- ❖ Pamoā Joint Venture Forests — 16.75% of stumpage

Please refer to Note 12 for Related Party Transactions. Apart from that, there were no costs to each of the above enterprises for financial interests, finance or financial assistance of the Council.

Notes for the Accounts

1A. Property Plant and Equipment

Gisborne District Council					
	Book Value 2004 \$000	Cost or Valuation 2005 \$000	Depre- ciation 2005 \$000	Accumulated Depreciation 2005 \$000	Book Value 2005 \$000
Cost					
Buildings/Land Improvements	0	3,335	943	2,273	1,062
Plant/Motor Vehicles	962	2,881	176	1,818	1,063
Office Equipment	1,075	2,387	230	1,381	1,006
Other Equipment	879	2,347	195	1,561	786
CBD	1,465	1,667	46	248	1,419
Wharves	332	688	7	14	674
Assets under Construction	15,060	20,261	0	0	20,261
	19,773	33,566	1,597	7,295	26,271
Cost/Valuation					
Property for Resale	2,931	2,034	0	0	2,034
Forestry	889	697	0	0	697
Land	95,923	304,709	0	0	304,709
Buildings / Land Improvements	28,184	35,729	0	0	35,729
Library Books	2,819	2,819	0	0	2,819
Sewer	36,830	40,685	884	0	40,685
Stormwater	35,176	36,989	506	0	36,989
Water Supply	66,897	75,199	1,103	0	75,199
Solid Waste	779	2,539	104	0	2,539
Roading	591,147	836,126	6,226	0	836,126
Flood Control	42,121	42,258	85	166	42,092
	903,696	1,379,784	8,908	166	1,379,618
Total Property Plant and Equipment	\$923,469	\$1,413,350	\$10,505	\$7,461	\$1,405,889

Forestry valuation comprises PF Olsen & Co Ltd valuation of Council Woodlots at \$336,000 and PF Olsen & Co Ltd valuation of Pamoia Joint Venture woodlots at \$364,000.

Land valuation comprises Agfirst Valuations Ltd valuation of Council land at \$312,277,000. This includes \$7,572,000 relating to Property for Resale, which has been stripped out as Property for Resale is carried at cost.

Buildings/Land Improvements valuation comprises Agfirst Valuations Ltd valuation of Council Buildings/Land Improvements at \$44,820,000 and Maunsell Ltd valuation of airport assets at \$4,221,777, less \$13,230,474 also included in Infrastructural assets valuation and less \$105,000 included in Property for Resale.

Sewer valuation comprises Opus International Consultants Ltd valuation of Council sewer assets at \$40,705,504.

Stormwater valuation comprises Opus International Consultants Ltd valuation of Council stormwater assets at \$36,986,308.

Water Supply valuation comprises Opus International Consultants Ltd valuation of Council water assets at \$75,186,973.

Solid Waste valuation comprises Opus International Consultants Ltd valuation of Council solid waste assets at \$2,292,707 plus an asset at \$255,000 which was capitalised on 30 June 2005 and was therefore not valued.

Roading valuation comprises Opus International Consultants Ltd valuation of Council roading assets at \$836,125,848.

	Book Value 2004 \$000	Cost or Valuation 2005 \$000	Depreciation 2005 \$000	Accumulated Depreciation 2005 \$000	Book Value 2005 \$000
Cost					
Buildings / Land Improvements	0	3,335	943	2,273	1,062
Plant/Motor Vehicles	1,485	3,721	278	2,182	1,539
Office Equipment	1,075	2,399	232	1,384	1,015
Other Equipment	879	2,347	195	1,561	786
CBD	1,465	1,667	46	248	1,419
Wharves	332	688	7	14	674
Assets under Construction	15,060	20,261	0	0	20,261
	20,296	34,418	1,701	7,662	26,756
Cost/Valuation					
Property for Resale	2,931	2,034	0	0	2,034
Forestry	3,275	2,156	0	0	2,156
Land	115,762	335,473	0	0	335,473
Buildings / Land Improvements	30,089	38,092	48	0	38,092
Library Books	2,819	2,819	0	0	2,819
Sewer	36,830	40,685	884	0	40,685
Stormwater	35,176	36,989	506	0	36,989
Water Supply	66,897	75,199	1,103	0	75,199
Solid Waste	779	2,539	104	0	2,539
Roading	591,147	836,126	6,226	0	836,126
Flood Control	42,121	42,258	85	166	42,092
Livestock	7,442	8,301	0	0	8,301
	935,268	1,422,671	8,956	166	1,422,505
Total Property, Plant and Equipment	\$955,564	\$1,457,089	\$10,657	\$7,828	\$1,449,261

1B. Asset Revaluation Reserves

Consist of:

Consolidated

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Sewerage	5,075	9,707	5,075	9,707
Stormwater	9,859	11,947	9,859	11,947
Water Supply	5,791	15,182	5,791	15,182
CBD	102	102	102	102
Solid Waste	32	139	32	139
Roading	423,836	662,207	423,836	662,207
Flood Control	30,860	30,860	30,860	30,860
Land	79,588	288,311	97,688	316,832
Buildings/Land Improvements	4,166	13,156	5,244	14,457
Office Equipment	480	476	480	476
Library Books	2,819	2,819	2,819	2,819
Other Equipment	499	499	499	499
Property for Resale	532	505	532	505
Forestry	710	535	710	535
	\$564,349	\$1,036,445	\$583,527	\$1,066,267

1C. Assets Under Construction

Consist of:

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Computer Equipment	62	0	62	0
Buildings / Land Improvements	238	131	238	131
Sewer	1,886	2,348	1,886	2,348
Stormwater	78	81	78	81
Water Supply	40	40	40	40
Solid Waste	4,791	3,829	4,791	3,829
Roading	7,751	13,599	7,751	13,599
Flood Control	201	233	201	233
Wharves	13	0	13	0
	\$15,060	\$20,261	\$15,060	\$20,261

Solid Waste ▶ Assets under construction includes \$3.829 million for the development of the Manders Road Landfill. Council has decided to proceed with this project.

Sewer ▶ Assets under construction includes \$2.332 million for the new Wastewater treatment project which is planned to commence during the 2006-2007 financial year.

Roading ▶ Assets under construction includes \$13.579 million for Regional Development Roding.

1D. Borrowing Costs Capitalised

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Sewer	102	136	102	136
Stormwater	119	2	119	2
Solid Waste	278	287	278	287
	\$499	\$425	\$499	\$425

1E. Leased Assets

Assets subject to finance leases have been included in the following classes:

	Gisborne District Council				Consolidated	
	Book Value 2004 \$000	Cost Value 2005 \$000	Depreciation 2005 \$000	Accumulated Depreciation 2005 \$000	Book Value 2005 \$000	Book Value 2004 \$000
Buildings/Land Improvements	12	108	12	108	0	12
Other Equipment	117	231	29	144	87	117
Plant/Motor Vehicles	0	0	0	0	0	27
	\$129	\$339	\$41	\$252	\$87	\$156

2. Investments

A. Investments

	2004 \$000	2005 \$000
Gisborne District Council Funds Held:		
Trading Banks	10	0
	\$10	\$0
Less investment classified as current	10	0
Gisborne District Council Non Current Investments	0	0
Gisborne Holdings Ltd Non Current Investments	31	31
Consolidated Total Non Current Investments	\$31	\$31

B. Shares in Companies - Gisborne District Council

	Ownership	Number	Gisborne District Council		Consolidated	
			2004 \$000	2005 \$000	2004 \$000	2005 \$000
Gisborne Holdings Limited	100%		20,755	20,755	0	0
- Ordinary Shares		1,200,090				
- Preference Shares		577	20,755	20,755	0	0
NZ Local Government Insurance Corp						
- Ordinary Shares		43,702	44	44	44	44
			\$20,799	\$20,799	\$44	\$44
Current Shares in Companies			0	0	0	0
Non Current Shares in Companies			20,799	20,799	44	44
Total Shares in Companies			\$20,799	\$20,799	\$44	\$44

Gisborne Holdings Limited

The Redeemable Preference Shares have priority over any other class of shares upon winding up and may be redeemed by the Company at any time without prior notice. There is no fixed dividend rate for Redeemable Preference Shares.

The carrying amount of this investment has been written down to reflect the net asset value as recorded in the Company's and Group's Statement of Financial Position.

New Zealand Local Government Insurance Corporation:

43,702 shares @ \$1.00 cost out of total issued shares of 6,390,790.

The shares are valued at cost less any diminution in value based on net asset backing of the company. As the most recent financial statements show net asset backing greater than cost, the shares are shown at cost.

3. Accounts Receivable

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Rates Debtors Outstanding	1,783	2,004	1,783	2,004
Government Subsidies	4,719	5,261	4,719	5,261
Other Debtors	1,801	2,342	1,907	2,411
Prepayments	24	16	24	16
	8,327	9,623	8,433	9,692
Less Provision for Doubtful Debts	235	250	235	250
	8,092	9,373	8,198	9,442
Less accounts classified as non current	21	533	29	533
	\$8,071	\$8,840	\$8,169	\$8,909

4. Public Debt

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
A. Current				
Secured Loans	0	0	0	0
Secured Debentures	0	2,000	0	2,000
Finance Lease Liabilities	68	2	80	22
	\$68	\$2,002	\$80	\$2,022
B. Non Current				
Secured Loans	17,000	17,000	18,878	18,744
Secured Debentures	15,000	13,000	15,000	13,000
Finance Lease Liabilities	2	0	26	0
	\$32,002	\$30,000	\$33,904	\$31,744
C. Repayment Terms				
No later than 1 year	68	2,002	80	2,022
Later than 1, not later than 2 years	10,002	0	10,014	0
Later than 2, not later than 5 years	22,000	30,000	23,890	31,744
	\$32,070	\$32,002	\$33,984	\$33,766

D. Security

The Council's bank loan facility and all debentures are secured over future rates income under a Debenture Trust Deed. The maximum potential security taken by the bank is for \$30 million. This security does not affect the normal operational activities involving those Council assets.

E. Interest Rates

Interest rates payable are between 5.72% and 7.22% on Secured Loans and Debentures.

F. Guarantees

Guarantees given by BNZ on behalf of Council:
03 January 1992: Ministry of Commerce Bond \$5,000

G. Analysis of Finance Lease Liabilities

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Not later than 1 year	72	2	84	22
Later than 1, not later than 2 years	2	0	14	0
Later than 2, not later than 5 years	0	0	12	0
	\$74	\$2	\$110	\$22
Less future finance charges	4	0	4	0
Recognised as a liability	\$70	\$2	\$106	\$22
Representing Finance Lease Liabilities				
Current	68	2	80	22
Non Current	2	0	26	0
	\$70	\$2	\$106	\$22

5. Accounts Payable

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Current Accounts Payable				
Staff entitlements	1,569	1,912	1,620	1,969
Trade creditors and accruals	6,203	4,961	6,546	5,413
Rates in advance	942	1,122	942	1,122
	8,714	7,995	9,108	8,504
Non Current Accounts Payable	213	226	213	226
Total Accounts Payable	\$8,927	\$8,221	\$9,321	\$8,730

6. Properties Intended for Sale

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Opening balance	258	494	258	494
Plus additional property transferred	236	917	236	917
Less Sales	0	(494)	0	(494)
	\$494	\$917	\$494	\$917

7. Operating Statement

A. Administration Department Operating Costs

The cost of Service Departments is recovered from rates funded departments using a number of different parameters.

If a direct charge for service can be established then a direct charge is made. Then, if a robust methodology for charging the balance on a specific percentage can be determined, this percentage is used. If not then an organizational wide percentage is used which is as follows:

	2004	2005
Economic Development	0.82%	0.82%
Engineering and Works	61.01%	61.01%
Environment and Planning	32.64%	32.64%
Community Development	4.97%	4.97%
Rural Fires	0.56%	0.56%

B. Other Revenue	Gisborne District Council			Consolidated	
	Actual 2004 \$000	Actual 2005 \$000	Budget 2005 \$000	Actual 2004 \$000	Actual 2005 \$000
Activity Revenue	9,091	9,879	8,968	14,381	13,618
Interest	175	252	105	186	258
Petroleum Tax	302	300	292	302	300
Livestock Revaluations	0	0	0	1,539	859
Total Other Revenue	\$9,568	\$10,431	\$9,365	\$16,408	\$15,035

8. Remuneration

During the year to 30 June 2005, the total remuneration and value of other non-financial benefits received by, or payable to the Mayor, other Councillors and Chief Executive of the Council were as follows:

	Total Remuneration	
	2005	2004
M Foon, Mayor	82,457	83,097
R Atkinson	7,275	23,266
J C Bauld	33,843	33,499
W S Burdett	37,540	36,780
A Cranston	16,176	-
A Davidson	29,595	29,714
N Gaskin	15,534	-
C W Haar	7,924	26,165
R Haisman	26,583	28,797
H Hikawai	30,287	32,328
G Hope	21,430	21,649

A Poananga	32,504	33,221
P Seymour	33,857	33,150
K Sheldrake	21,204	22,325
G Thomson	22,581	23,679
M A Thorpe	26,989	27,662
B Wilson	26,851	23,755

R D R Elliott	223,801	190,081
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The total remuneration figures also include the value of non-financial benefits.

9. Separate Disclosures

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Debts written off: Rates	95	116	95	116
Others	13	2	13	2
Change in Provision for Doubtful Debts	(43)	15	(43)	15
Fees paid to Auditors				
- Audit fees (including expenses): Ernst & Young	134	154	134	174
- Audit fees (including expenses): Deloitte Touche Tohmatsu	0	0	17	0
Mayor, Councillors' & Directors' fees	337	340	413	413
Rental/Operating Lease costs	270	273	270	273
Interest expense (excluding finance leases)	2,143	2,185	2,299	2,388
Depreciation	9,259	10,505	9,403	10,657
Net loss / (profit) on disposal of assets	35	(380)	63	(339)
Total cost of finance leases:				
Principal	70	68	82	88
Interest	11	6	13	6
Donations	30	50	30	50
Livestock Revaluation Gain	0	0	0	(859)
Impairment of Forest Assets	0	0	0	697
GISBORNE DISTRICT COUNCIL				

	2004 \$000	2005 \$000
Insurance premiums paid	393	480
Ceremonies for the public	15	24
Authorised entertainment	2	2
Grants made	750	824
Subscriptions	82	56

10. Statement for Transfund (NZ) 2004/2005

Council is required, under Section 31 of the Transit New Zealand Amendment Act 1995, to report on in-house business units that perform work and charge against Transfund New Zealand financially-assisted roading programmes.

Roading Professional Services	2004 Actual \$000	2005 Actual \$000	2005 Budget \$000
Operating Statement			
Revenue from:			
In-house professional services for Transit NZ	2,598	2,803	2,555
Other activities	118	132	149
Total Works Performed	2,716	2,935	2,704
Total Operating Costs	2,320	2,338	2,233
Net Surplus/(Deficit) on Operations	\$396	\$597	\$471

11. Reconciliation of Net Surplus to Net Cash Inflow From Operating Activities

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Reported Net Surplus	9,578	14,317	9,775	14,070
ADD / DEDUCT Non Cash Items				
Depreciation	9,259	10,505	9,403	10,657
Livestock holding (gain) / loss	0	0	(1,539)	(859)
Loss on disposal of assets	35	(380)	63	(339)
Assets transferred to trading stock	246	191	246	191
Shares issued in Wool Equities Ltd	0	0	(6)	0
Forest value impairment	0	0	0	697
	9,540	10,316	8,167	10,347
ADD Items Classified as Investing Activity				
Sale of assets included in receivables	(1,618)	(21)	(1,628)	(26)
Purchase of assets included in payables	(312)	446	(208)	448
Forestry expenditure included in payables	0	0	4	9
	(1,930)	425	(1,832)	431
Increase in Working Capital				
Accounts receivable	(2,025)	(769)	(2,068)	(740)
Stock on hand	(1)	13	(106)	82
Payables & accruals	1,018	(719)	958	(604)
Current Provisions	(30)	(209)	(30)	(209)
Non Current Provisions	0	232	0	232
	(1,038)	(1,452)	(1,246)	(1,239)
Other Movements				
Non Current Receivables	1,589	(512)	1,589	(504)
Non Current Payables	(186)	13	(186)	13
	1,403	(499)	1,403	(491)
Net Cash Inflow from Operating Activities	\$17,553	\$23,107	\$16,267	\$23,118

12. Related Party Transactions

Relationship with Gisborne Holdings Ltd

Gisborne Holdings Ltd (GHL) is 100% owned by Gisborne District Council (GDC). The Gisborne District Council is, through GHL, a 100% shareholder in Tauwhareparae Farms Ltd. The Eastland Energy Community Trust purchased the Port assets and this business now operates as Eastland Port Ltd.

The investment by GHL in subsidiaries comprises a 100% interest in Tauwhareparae Holdings Ltd. Tauwhareparae Holdings Ltd in turn has a 100% interest in Tauwhareparae Forests Ltd and a 100% interest in Tauwhareparae Farms Ltd.

Tauwhareparae Holdings Ltd and Tauwhareparae Forests Ltd are non-trading entities. Tauwhareparae Farms Ltd is involved in the ownership and operation of farming activities. All subsidiaries have a 30 June balance date.

	2004	2005
	\$000	\$000
Gisborne Holdings Ltd and Subsidiaries		
Services provided by Council	69	66
Accounts receivable to Council	0	0
Accounts payable by Council	0	0
Services provided to Council	11	0

All the above services were provided on normal terms and conditions of trade. Figures for services provided are shown exclusive of GST. Balance Sheet items are GST inclusive. All balances have been eliminated on consolidation.

13. Financial Disclosure

Financial Instruments

The Gisborne District Council is party to financial instrument arrangements as part of its every day operations, including instruments which have been recognised in these financial reports. These financial instruments include Cash and Bank, Investments (including short-term deposits and shares in companies), Accounts Receivable, Loans Receivable, Loans & Debentures Payable and Accounts Payable.

- a. Revenues and expenses in relation to all financial instruments are recognised in the overall statement of financial performance and appropriations. Revenue is recognised when due and expenses are recognised when incurred (including gains and losses).
- b. All financial instruments, except Interest Rate Swaps, are recognised in the statement of financial position. Gisborne District Council has entered into Interest Rate Swaps as disclosed on Page 28, which are recorded off balance sheet.

The following methods and assumptions were used to value each class of financial instrument:

- i. Accounts Receivable are recorded at expected net realisable value. The carrying value has been deemed to approximate fair value for cash and bank, loans receivable, loans and debentures payable, short-term deposits and accounts payable.
- ii. Investments are recorded at the lower of cost or net realisable value.
- iii. Shares in Gisborne Holdings Ltd previously recorded at cost, have been written down to net asset value.

Fair Values

Investments are recorded at the lower of cost or net realisable value. Shares are recorded at the lower of cost or net asset value. For all other assets and liabilities fair value is equal to current carrying value.

Currency Risk

The Gisborne District Council has no currency risk as all financial instruments are denominated in New Zealand dollars.

Interest Rate Risk

The effective interest rate on loan debentures is at a maximum of 6.75%.

Management of Interest Rate Risk

Council seeks to minimise its exposure by prescribing the ratio of fixed to floating rate borrowings and the maturity profile of fixed rate debt. Council also seeks to manage movements in investment interest rates by maintaining a balanced portfolio.

On 20 May 2004 Gisborne District Council entered into forward rate interest swap arrangements to fix interest rates for amounts and periods as follows:

\$17 million effective 2 August 2004 until 1 August 2005 at 6.40%

\$10 million effective 1 August 2005 until 31 July 2007 at 6.87%.

\$7 million effective 2 August 2004 until 31 July 2009 at 6.80%

\$7 million effective 2 August 2004 until 31 July 2014 at 7.01%

Tauwhareparae Farms Limited exercised a fixed rate option on its \$2,000,000 wholesale term loan facility with Westpac Banking Corporation on 8 July 2005. The fixed interest rate set for two years is 7.65%. Prior to this interest was charged at the bank's floating rate, but the interest was fixed using two year interest rate

swap. This swap ceased on 11 July 2005. The gross interest rate at year end on the swap arrangement was 7.70%.

Credit Risk

Financial instruments which potentially subject the Gisborne District Council to credit risk principally consist of bank balances, accounts receivable, shares in companies and Pamoia joint venture investment.

The Gisborne District Council reduces credit risk by spreading its investments over Government and Local Body Stock and registered New Zealand banks, with no more than \$6 million of its cash investments being with one registered bank, thus limiting the credit exposure. This is as per the Treasury Policy adopted by Council. There are no major concentrations of credit risk with respect to account receivable.

Management of Credit Risk

The Council does not generally require collateral or other security to support financial instruments with credit risk. While Council may be subject to losses up to the notional principal or contracted amount in the event of non-performance by other parties, it does not expect such losses to occur.

Maximum Credit Risk Exposure

Maximum exposures to credit risk at balance date are:

	2004 \$000	2005 \$000
Shares in Companies	20,799	20,799
Deposits -shorter term	10	0
Bank Balances	1,418	3,285
Accounts Receivable	8,092	9,373
	<u>\$30,319</u>	<u>\$33,457</u>

The above maximum exposures are net of any recognised provision for losses on these financial instruments. No collateral is held on the above accounts.

14. Income Tax Calculation

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
The income tax expense for the year is determined as follows:				
Net surplus/(deficit) before taxation	9,578	14,317	9,775	14,070
Tax at current rate of 33%	3,161	4,725	3,226	4,643
Adjustments to taxation for:				
Permanent differences	(3,506)	(5,068)	(4,118)	(5,285)
Tax loss not recognised	345	343	892	642
Prior period adjustment	0	0	0	0
Total Income Tax Expense/(Credit)	\$0	\$0	\$0	\$0
The Income Tax Expense is Represented by:				
Current taxation	0	0	0	0
Deferred taxation	0	0	0	0
	\$0	\$0	\$0	\$0

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
The Statement of Financial Position Provisions are:				
Deferred Taxation				
Balance at beginning of year	0	0	0	0
Released in current year	0	0	0	0
	\$0	\$0	\$0	\$0

The Group has tax losses carried forward of \$10,533,945 (2004: \$8,566,074). A future tax benefit not recognised in relation to these losses carried forward amounts to \$3,476,202 (2004: \$2,826,805).

15. Urban Portions of the State Highway Network

The ownership of urban portions of the State Highway Network is unclear although there is legal opinion indicating that the ownership rests with local authorities. Transit New Zealand maintains these highways in their entirety without any costs accruing to local authorities.

As a consequence, even if ownership resides with local authorities, in practice Transit New Zealand controls the economic resources. Pending clarification of ownership and further consideration of the accounting issues which may arise, the Gisborne District Council has not recognised the urban portion of the State Highway Network as an asset in these financial statements. The estimated distance of highway involved is 331 kilometres.

16. Contingent Liabilities

	Gisborne District Council		Consolidated	
	2004 \$000	2005 \$000	2004 \$000	2005 \$000
Council guarantees for loans to local sporting bodies	0	0	0	0
Paokahu consent bond	100	100	100	100
	\$100	\$100	\$100	\$100

Paokahu Consent Bond

As a condition of the Paokahu Landfill resource consent the Council entered into a bond with the Paokahu owners for the sum of \$100,000, this acts as security for the performance of any of the conditions of the resource consent, including any conditions relating to aftercare and post closure remediation.

Jody F Millennium

In February 2002 the vessel Jody F Millennium ran aground in a storm. As a result of this, significant costs were incurred in containing the oil spill, and refloating the vessel. Both Tauwhareparae Farms Limited and Gisborne District Council were named as respondents in the writ issued by the ship's owners. The claim is for approximately \$20 million in damages. However Gisborne District Council has now been dropped as second defendant from the claim lodged by the ship's owners. Action is continuing against Tauwhareparae Farms Limited as sole defendant.

Lease dispute

Gisborne Holdings Limited has been joined as a third party in relation to a dispute between a lessor and lessee in regards to a lease the Company once held. The lessor is alleging trespass and as that trespass allegedly occurred whilst the Company was the lessee, the existing lessee has claimed a breach of warranty with respect to the assignment of the lease. The dispute is currently

subject to arbitration and the parties will address the issue of liability at the conclusion of the arbitration process. Whilst the financial effect of this dispute cannot be accurately estimated, the directors do not believe the Company has any material outstanding liability in relation to this issue.

17. Segmental Reporting

The group operates in one geographic segment (New Zealand) and in three industries, being that of local government, port operations (discontinued) and farm operations.

Segment Assets	2004 \$000	2005 \$000
Farm operations	32,492	43,654
Local Government	954,397	1,440,760
Other	(20,755)	(20,755)
Total Assets	\$966,134	\$1,463,659

Segment Revenue	2004 \$000	2005 \$000
Port operations	98	0
Farm operations	6,758	4,613
Local Government	60,363	69,455
Other	(78)	(66)
Total Revenue	\$67,141	\$74,002

Segment Results	2004 \$000	2005 \$000
Port operations	(535)	(30)
Farm operations	743	(217)
Local Government	9,578	14,317
Other	(11)	0
Operating Surplus / (Deficit) Before Tax	\$9,775	\$14,070

18. Provision for Landfill Aftercare

	2004 \$000	2005 \$000
Opening balance	470	470
Plus – reversal of discount	33	21
Less – release of provision	(33)	(138)
Plus – additional provision required	0	289
	\$470	\$642
Current Portion of Provision	138	84
Non Current Portion of Provision	332	558

A provision of \$354,000 is recognised for discounted costs still to be expended on Paokahu Landfill Aftercare. The Landfill closed on 31 December 2002. The Aftercare costs started six months after the closure of the site. It is expected that future costs will be incurred between 2005-2035.

A provision of \$288,000 is recognised for discounted costs still to be expended on Waiapu Landfill Aftercare. The Landfill is expected to close on 30 June 2024. The Aftercare costs are expected to start six months after the closure of the site. It is expected that future costs will be incurred between 2025-2059.

19. Provision for Landfill Decommissioning

	2004 \$000	2005 \$000
Opening balance	21	0
Plus – Increase in provision	0	6
Less – Expended in the period	(21)	0
	\$0	\$6

20. Current Provisions

	2004 \$000	2005 \$000
Multiple Owned Maori Land Valuation Objections		
Opening Balance	70	0
Plus - Provision Increase	0	0
Less - Amounts Paid Out	(70)	0
	0	0
Contract Payments		
Opening Balance	94	155
Plus - Provision Increase	61	0
Less - Amounts Paid Out	0	(155)
	155	0
Total Current Provision	\$155	\$0

A provision of \$154,480 was recognised in 2004 for additional contract payments for specific engineering work which have now all been settled.

21. Discontinued Activities

The financial results of the Port operations (discontinued activity) are as follows:

	2004	2005
	\$000	\$000
Revenue from discontinued activities	98	0
Expenditure from discontinued activities	633	30
	<hr/>	<hr/>
Operating (Deficit) from Discontinued Activities	(\$535)	(\$30)
	<hr/> <hr/>	<hr/> <hr/>

22. Subsequent Events

Severe weather conditions prevailed in most parts of the Gisborne region during the latter part of October 2005 and significant damage was sustained to a number of the region's roads. A full assessment as to the extent of the damage is currently being undertaken, but it is not possible to estimate what the expected cost is likely to be at the present time.

23. Government Grants and Subsidies

Revenue from Government grants and subsidies (and hence operating income) includes \$16,293,000 (2004 \$10,626,000) relating to grants received where the associated expenditure has been capitalised. Expenditure relating to these projects will be recognized (primarily as depreciation) over the life of the capitalised assets.

Cashflows from Government grants and subsidies (and hence operating cash inflows) includes \$15,628,000 (2004 \$8,275,000) with respect to these capital grants where the associated cash outflows are recognized as investing activities.

24. Wastewater strategy

In late March 2005, Council revised its Wastewater Strategy after a technical review of each stage and, with the "Disposal of

Wastewater to Land" investigation complete, formally reviewed the last stage of the wastewater strategy. The review showed that disposal of treated wastewater to land would not be sustainable now or for the future. An option within the Council's proposal is to pass treated wastewater through a boulder bed before sending it back to sea through the outfall pipe. As a result, the "through-land" treatment stage could be fast-forwarded eight years to about 2016. If the Government provides the \$16M requested by Council, a primary wastewater treatment plant could be established in 2008.

The current consent expires on 31 December 2005.