

Financial Report

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Financial Overview

Council aims to ensure that it is able to maintain infrastructure and assets at the expected levels, while at the same time maintaining costs at an affordable level for the community. To bridge the expenditure gap, rates increased by an average of 4% in 2011/12, to provide ongoing levels of service to the community within the constrained economic climate.

The 2009/19 LTCCP strategy expresses the strategic objectives and strategies of Council's plan in financial terms. The strategy projects Council's financial commitments for 10 years and enables Council to identify and analyse trends of significance and provide for sound financial planning and decision making.

Understanding the Financial Report

Introduction

The financial report shows how Council performed during the 2011/12 financial year and the overall position at the end of the financial year being 30 June 2012.

Council presents its report in accordance with NZIAS 1 Presentation of Financial Statements (revised 2007).

Particular terms required by the NZIAS may not be familiar to some readers. Council is a Public Benefit Entity and therefore some of the generally recognised terms used in private sector company reports may not be appropriate to Council's reports.

Council is committed to accountability. It is in the context that this 'plain english guide' has been developed to assist readers understand and analyse the financial report. Further, Council has set out a glossary with a view to assist readers who may not be familiar with reading Financial Statements.

What is contained in the Annual Report?

Council's Annual Report has 1 set of statements broken into 3 parts:

- Consolidated Financial Statements;
- Notes to the Financial Statements; and
- Statements of Service Performance reflecting actual service performance for financial and non financial information and the identified effects on social, economic, environmental or cultural wellbeing.

Financial Statements

There are 5 main statements. These statements are prepared by Council staff, and then audited by the Office of the Auditor-General who has appointed Audit New Zealand to audit these statements.

The 5 main statements are included on the first few pages of the financial report. They are called Statement of Financial Performance, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows.

Statement of Financial Performance

The Statement of Financial Performance (also referred to as the Profit & Loss Account) shows all of Council's





revenue earned and expenses incurred for the 12 months up to 30 June. Revenue includes income received from rates and other income such as investment income, rent and fees while expenses includes costs such as operating costs, interest payments and depreciation.

This statement shows how the surplus or (deficit) is arrived at. The net surplus or (deficit) recorded in the Statement of Financial Performance is added or subtracted from Council's equity as shown in the Statement of Changes in Equity.

Statement of Comprehensive Income

The Statement of Comprehensive Income shows the non owner changes in equity (net assets) for Council during the 12 months ending 30 June. This includes the net operating surplus / (deficit) plus movements in reserves. These items would include unrealised gains on asset revaluations and appropriations from the Statement of Financial Performance to restricted reserves.

Statement of Financial Position

The Statement of Financial Position (also referred to as the Balance Sheet) shows the assets and liabilities of the Council as at 30 June. Assets include cash, accounts receivable (money owed to Council but not yet received), investments, land, buildings, operational and infrastructure assets.

Current assets are amounts owed to Council that are expected to be received within the next 12 months while current liabilities are Council's short term debts that are due to be paid within the next 12 months.

Property, plant and equipment are of a permanent nature and are held for the benefit of the community. Non current liabilities represent money owed by Council that does not need to be paid within the next 12 months.

The total sum of assets and liabilities is referred to as net assets. This is the net worth of Council as at 30 June.

Net assets are represented by public equity which is the total accumulation of retained earnings, capital reserves, restricted and other reserves.

Statement of Changes in Equity

During the course of the year the value of total equity as set out in the Statement of Financial Position changes. The Statement of Changes in Equity shows the values of such changes and how these changes arose.

The main reasons for changes in equity arise from:

- The "profit or loss" from operations;
- The revaluation of fixed assets; and
- Movements in other reserves.

Statement of Cash Flows

The Statement of Cash Flows summarises Council's cash payments and cash receipts for the year. This statement is presented according to a very specific accounting standard and needs some care in analysis. The values may differ from those shown in the Statement of Financial Performance because the Statement of Financial Performance is prepared on an accrual accounting basis.



Cash in this statement refers to bank deposits and other forms of highly liquid investments that can readily be converted to cash.

Council's cash arises from, and is used in, 3 main areas:

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts

All cash received into Council's bank account from ratepayers and others who owed money to Council. Receipts also include the interest earnings from Council's cash investments.

Payments

All cash paid by Council from its bank account to staff, creditors and other persons. It does not include the costs associated with the sale of assets.

CASH FLOWS FROM INVESTING ACTIVITIES

This section shows the cash invested in the creation or purchase of property, plant or equipment, infrastructure, investment property and intangible assets and the cash received from the sale of these assets.

CASH FLOWS FROM FINANCING ACTIVITIES

This is where the receipt and repayment of borrowed funds are recorded, as well as any movement in deposits held by Council.

The bottom line of the Statement of Cash Flows is the cash at the end of the financial year. This shows the capacity of Council to meet its cash debts and other liabilities.

Statement of Accounting Policies and Notes to the Financial Statements

The Statement of Accounting Policies is a very important and informative section of the report. To enable the reader to understand how the values shown in the 5 main financial statements are established, details of Council's Accounting Policies can be found on *page 25 to 36*.

As well as accounting policies, the notes also give the details behind many of the summary figures contained in the main statements. The note numbers are shown beside the relevant items in the main statements.

Where Council wishes to disclose other information which cannot be incorporated into the main statements, this is shown in the notes.

Other notes with specific disclosures include:

- The breakdown of expenses, revenues, reserves and other assets;

- Contingent liabilities and contingent assets;
- Transactions with persons related to Council;
- Remuneration; and
- Financial instrument risk.

The notes should be read at the same time as, and together with, the other parts of the financial statements to get a clear picture of the accounts.

Auditor-General's Report

The independent Audit Report provides the reader with an external opinion on the Financial Statements, Notes to Financial Statements and Statements of Service Performance. It confirms the Annual Report has been prepared in accordance with Schedule 10 of the Local Government Act 2002 and professional standards and that it represents a fair picture of the financial affairs of the Council.

Statements of Service Performance

Statements of Service Performance reflect actual service performance for financial and non financial information and the identified effects on social, economic, environmental or cultural wellbeing.

