

Audit Report

AUDIT REPORT
TO THE READERS OF
PALMERSTON NORTH CITY COUNCIL AND GROUP'S
ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of Palmerston North City Council (the City Council) and group. The Auditor-General has appointed me, L H Desborough, using the staff and resources of Audit New Zealand, to carry out an audit on his behalf. The audit covers the City Council's compliance with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report of the City Council and group for the year ended 30 June 2006, including the financial statements.

Unqualified opinion

In our opinion:

- The financial statements of the City Council and group on pages 31 to 114 and pages 117 to 161:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect :
 - the City Council and group's financial position as at 30 June 2006; and
 - the results of operations and cash flows for the year ended on that date.
- The service provision information of the City Council on pages 31 to 114 fairly reflects the levels of service provision as measured against the intended levels of service provision adopted, as well as the reasons for any significant variances, for the year ended on that date; and
- The Council has complied with the other requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report (the "other requirements")

The audit was completed on 7 September 2006, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Council and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and the other requirements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and the other requirements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and the other requirements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Council;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the other requirements.

We evaluated the overall adequacy of the presentation of information in the financial statements and the other requirements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Council and the Auditor

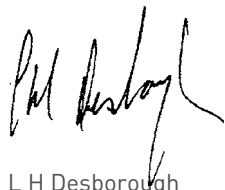
The Council is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the City Council and group as at 30 June 2006. They must also fairly reflect the results of operations and cash flows for the year ended on that date. The Council is also responsible for preparing the information in the other requirements, including service provision information that must fairly reflect the Council's levels of service provision. The Council's responsibilities arise from Section 98 and Schedule 10 of the Local Government Act 2002.

We are responsible for expressing an independent opinion on the financial statements and the other requirements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 99 of the Local Government Act 2002.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit and in conducting the audit of the Long Term Council Community Plan, we have no relationship with or interests in the City Council or any of its subsidiaries.



L H Desborough
Audit New Zealand
On behalf of the Auditor-General
Palmerston North, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Palmerston North City Council and group for the year ended 30 June 2006 included on City Council's web-site. The Council is responsible for the maintenance and integrity of the City Council's web site. We have not been engaged to report on the integrity of the City Council's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 7th September 2006 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Accounting Policies

For the Year Ended 30 June 2006

Reporting Entity

The Financial Statements and Group Financial Statements of the Council have been prepared in accordance with the Local Government Act 2002 and the Financial Reporting Act 1993 requirements.

The Parent financial statements are for the Council as a separate legal entity. The Group financial statements incorporate the Council, Council's 86.5% share of its subsidiary Palmerston North Airport Limited (PNAL) and the following Council Controlled Organisations (CCOs):

- Arena Manawatu
- Caccia Birch Trust Board
- Globe Theatre Trust Board
- Palmerston North City Environmental Trust
- Palmerston North Community Arts Council
- Regent Theatre Trust Board
- Te Manawa Museums Trust Board

Measurement Base

The financial statements have been prepared on the basis of historical cost, except where specific accounting policies are provided.

Specific Accounting Policies

Budget

The budget figures provided in the financial statements are those approved by Council as part of the 2005/06 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.

Consolidation

The purchase method has been used to account for the consolidation of subsidiaries and CCOs.

Significant intra-group transactions and intra-group outstanding balances between the various activities of the Council have been eliminated from these financial statements. This ensures that the financial statements reflect only those transactions conducted with parties external to the Council.

Statement of Financial Performance

Revenue Recognition

Rates revenue is recognised when it is levied. Penalties and discounts relating to rates are included where applicable.

LTNZ subsidies received in relation to the provision of services are recognised on a percentage of completion basis. Other grants and subsidies are recognised when receivable.

Investment revenue is accounted for on an accruals basis, recognising both realised and unrealised gains or losses in value.

Normal accrual practices apply to the recognition of all other revenue.

Allocation of Overhead Costs

Council allocates overhead costs to the activities as follows:

- Direct costs are charged to an activity on actual usage/contractual agreement.
- Indirect costs are allocated on appropriate cost drivers.

Depreciation

Assets for the Group are depreciated on a straight-line basis, with certain exceptions. Land, restricted assets, assets under construction, investment properties and the Museum and Art Gallery Collection are not depreciated. Arena Manawatu depreciates some of its assets using diminishing value basis. Depreciation is calculated at a rate that allocates the value of the asset (less any estimated residual or disposal value) over its expected useful economic lives.

The expected lives, in years, of major classes of fixed assets are as follows:

Operating Assets:

Buildings	50 -100
Building Fitout	10 -50
Plant and Equipment	4 - 25
Furniture and Fittings	4 - 20
Motor Vehicles	3 - 18
Computer Equipment	2 - 5
Library Books	3 -10

Infrastructure Assets:**Roading**

Bridges and Culverts	25-125
Sub Base and Base Course	100
Surfaces	2-20
Footpaths	8-100
Kerb & Channel	80
Signage	20
Signals, Streetlights	5-45
Trees	70
Vehicle Crossing	80

Carparks

Carpark Buildings	100
Sub Base and Base Course	20-100
Surfaces	2-20

Waste Management

Safety Fence, Portable Screens	40
Pumps	30
Sumps, Drainage	100
Weighbridge	30

Stormwater

Pipework	60-150
Sumps	60
Laterals, Manholes	100-150
Pumping Station/Pumps	10-100
Land Drainage/Stopbank	50-120

Wastewater

Pipeworks, Laterals, Manholes	120
Pumps	30
Pumping Stations	15-100
Buildings	100
Treatment Plants	15-100

Water

Pipeworks, Laterals	50-120
Hydrants	80
Tobies	55-70
Valves	80
Water Meters	15-30
Pumping Stations	10-100
Dams	15-1000
Reservoirs	100

PNAL depreciates its runway, taxiways, and aprons at a rate of between 2-99 years. Te Manawa depreciates its exhibitions at a rate of between 1-5 years, and its leasehold improvements at a rate of between 4-10 years.

Research Costs

Costs incurred on research projects are written off as they are incurred.

Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of GST, except receivables and payables, which are stated inclusive of GST.

Taxation

The income tax expense for the financial year is based on the net surplus for the year, after allowing for permanent and timing differences not expected to reverse in future periods.

Deferred taxation is calculated by the Council and its subsidiaries using the comprehensive basis under the liability method. Future tax benefits attributable to tax losses or timing differences are only recognised when there is virtual certainty of realisation.

Arena Manawatu is exempt from paying income tax as it is a District Improvement Body under the Income Tax Act.

Statement of Financial Position

Inventories

Inventories are valued at the lower of cost (on a weighted average basis) or net realisable value.

Accounts Receivable

Accounts receivable are stated at estimated realisable value after providing for doubtful and bad debts. All known bad debts are written off in the period which they are identified as irrecoverable.

Employee Entitlements

Provision for the Group's liability for annual leave is calculated on an actual entitlement basis at current rates of pay. Retirement gratuities and long service leave are calculated on an actuarial basis at current rates of pay.

Leases

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance in the period in which they are incurred.

Finance lease

Leases of property, plant and equipment, where the Council has substantially all the risks and rewards of ownership, are classified as finance leases. These leases are recognised in the statement of financial position as an asset and a liability at amounts equal to the fair value of the asset or if lower, the present value of the minimum lease payments. The interest expense component of the finance lease payments is recognised in the statement of financial performance using the effective interest rate method.

Financial Instruments

The Council (and Group) is party to financial instruments as part of its normal operations. These financial instruments include cash and short term investments, accounts receivable, prepayments and accruals, accounts payable, payables and deposits and term liabilities. All of these are recognised in the statement of financial position. Revenues and expenses in relation to all financial instruments are recognised in the statement of financial performance.

Investments

Investments by the Council (and Group) are stated at cost, with the exception of those relating to Investment Properties (see note below) and the Investment Fund (which is recorded at market value at balance date).

Investment Properties

Properties that fall within the accounting definition of investment properties were valued at 30 June 2006 at their net current value, by independent registered valuer C M Leahy (ANZIV, SNZPI) of Property Solutions. The movements in value as the result of the valuation have been recognised in the statement of financial position. Depreciation is not charged on investment properties. Investment properties are revalued annually.

Intangible Assets

Intangible assets are recognised at their cost and amortised to the statement of financial performance on a straight line basis over their estimated useful lives. PNAL has trademarks which are amortised over eight years. 'Community Rights' are contracted rights of access for the

community to assets not owned by the Council. These rights are accounted for as intangible assets in situations where the Council invests at least \$0.75 million in the right of the community to use the facility and in terms of the contract that right exists for longer than twelve months. These intangible assets are amortised over the shorter of 50% of the expected life of the asset or the term of the contracted right.

Property, Plant and Equipment

Infrastructural Assets

Infrastructural assets are the fixed utility systems owned by the Council. Each asset type includes all items that are required for the network to function; ie the water system includes water piping and water pump-stations.

Operating Assets

Operating assets include land, buildings, improvements, office equipment, furniture and fittings, motor vehicles, plant, and library books.

Restricted Assets

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

Other Non-Current Assets

Other non-current assets include heritage and art collection assets, intangible assets and long term advances.

The heritage and art collection assets of the Te Manawa Museums Trust have not been depreciated, as it is the Trust's Policy to maintain the collections in its current state, in accordance with the Trust's Conservation Policy. Donated objects are recorded at fair value, or depreciated replacement cost, or nil value if considered unrealisable or irreplaceable. There is a portion of the heritage and art collection that is not formally owned by the Te Manawa Museums Trust. These assets are held and maintained by the Trust by agreement with the owners.

Assets Under Construction

Assets under construction (AUC) are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

Subdivisions and Land and Buildings Held for Resale

These assets are valued at the lower of cost or their net realisable value.

Asset Valuation

All Council assets are valued at historic cost less accumulated depreciation, with the following exceptions:

Land and buildings were valued as part of the General Revaluation of the City effective 30 June 2004, confirmed as appropriate for financial reporting purposes by Andrew Parkyn (B Com VPM, PG Dip Com), the Registered Valuer of Quotable Value New Zealand Limited.

Recreation land, buildings, and improvements were revalued at 30 June 2004. Valuations were at current market value, as determined by an independent valuer, Andrew Parkyn (B Com VPM, PG Dip Com), registered valuer of Quotable Value New Zealand Limited. This asset class is revalued every three years.

Infrastructure assets were revalued as at 1 July 2005. The valuation was prepared by staff engineers employed by the Council, lead by Eng Lim (BE, ME, MIPENZ, PG Dip Bus Admin). Valuation has been carried out using the New Zealand Infrastructure Asset Valuation and Depreciation Guidelines produced by New Zealand Asset Management Steering (NAMS) Group. The valuation has been reviewed by Graeme Hughson (BE, MIPENZ), a Registered Engineer from Maunsell Limited, which confirmed that the valuation basis is appropriate for external reporting purposes.

The depreciated replacement cost basis was used. Valuation of land, including roading, forming part of infrastructural assets has been based on the undeveloped value of the adjoining properties. Brown Fields approach was used for stormwater, wastewater, and water whereby the valuation is based on replacing the assets in the current environment, ie, if the infrastructure was constructed in an open field development, but further infrastructure is now in place and assets are valued at urban costs.

Additions since valuation date are valued at cost. The revaluation of the fixed assets will be no less than once in every five years.

Land under roads was valued on the undeveloped value of the adjoining properties, less a discount to take into account the restricted nature of the land. This asset class is revalued as part of the infrastructural asset revaluation.

Forestry Assets were valued as at 30 June 2006 by Tony Smith, an independent recognised forest consultant of New Zealand Institute of Forestry (Former Consulting Group). The methodology is based on estimated future returns from the sale of logs (net of harvesting costs) and discounted at 9%. The movement in value due to revaluation has been recognised in the statement of financial position. Forestry assets are revalued annually.

The Manawatu District Council owns one-sixth of the forest. The statement of financial position includes only the Council's five-sixth share.

Library Books were valued as at 30 June 1993, at their deemed cost. The NZ Pacific Collection is valued at cost. All other books are valued at cost less accumulated depreciation. Additions since valuation date are stated at cost.

Museum Collection was revalued by R J Watt and Associates. Dr Robin J Watt MA (First Class Hons), PhD valued the collection based on market, replacement, and comparative institutional values. The owned heritage collection assets were revalued as at 30 June 2003 and the custodial heritage assets were revalued as at 30 June 2004 in accordance with NZ FRS-3 Accounting for Property, Plant and Equipment. All additions are recorded at cost and are revalued in accordance with the Trust's Valuation Policy (once every four years).

Art collection has been revalued in accordance with FRS-3 for financial statement purposes as at 30 June 2006 by Christopher Moore. Mr C Moore, Art Dealer for the past 19 years, valued the collection based on fair, minimum realisable value. All additions are recorded at cost and are revalued in accordance with the Trust's Valuation Policy (once every three years).

Revaluation Reserves

Any revaluation of a class of assets (land, buildings, improvements, restricted land, other assets, forestry, investment properties, heritage assets, and infrastructural assets) is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve balance for the class of asset is recognised in the statement of financial performance in the period it arises. Revaluation surpluses which reverse previous revaluation deficits recognised in the statement of financial performance are recognised as revenue in the statement of financial performance.

Landfill Post-closure Provision

The Council, as operator of the Awapuni landfill, has a legal obligation under the resource consent to provide ongoing maintenance and monitoring services at the landfill site after closure.

A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises.

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events, including new legal requirements and known improvements in technology. The provision includes all costs associated with landfill post-closure.

Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits to be obtained. Components of the capitalised landfill asset are depreciated over their useful lives. 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.

Statement of Cash Flows

Cash

'Cash' refers to 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. It does not include cash held by fund managers.

Operating, Investing and Financing Activities

Operating activities include cash received from all income sources of the Group and record the cash payments made for the supply of goods and services.

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 the Group.

Cash Holdings of Foreign Currency

At balance date, foreign monetary assets and liabilities are translated at the closing rate of exchange. Any net exchange differences of foreign currency are recognised in the statement of financial performance. PNAL has transactions in foreign currencies that are converted at the New Zealand rate of exchange applicable at the date of transaction.

Changes in Accounting Policies

There has been one change in accounting policy for Council. This is the first year that the Council has recognised the movements in value on the Investment Fund (which is recorded at market value at balance date) in the statement of financial performance. Previously, the movements were recognised in a revaluation reserve. The reason for this change is to apply a consistent treatment to all Council investments, and recognise all revenues and expenses (including gains and losses) in the statement of financial performance. The financial impact of this change in 2005/06 is \$1.6 million (increase revenue). The investment fund fluctuation reserve balance of \$2.1 million as at 30 June 2005 has been transferred to ratepayers equity during the 2005/06 financial year.

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

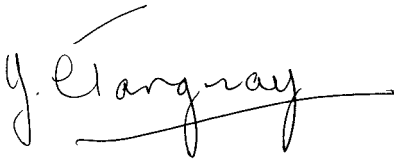
Statement of Compliance and Responsibility

Compliance

- 1 The Council and management of Palmerston North City Council confirm that all statutory requirements have been complied with, in accordance with Schedule 10, Part 3 clause 20 of the Local Government Act 2002.

Responsibility

- 2 The Council and management of Palmerston North City Council accept responsibility for the preparation of the annual Financial Statements and the judgements used in them.
- 3 The Council and management of Palmerston North City Council accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
- 4 In the opinion of the Council and management of Palmerston North City Council, the annual Financial Statements for the year ended 30 June 2006 fairly reflect the financial position and operations of Palmerston North City Council.



The Mayor
Heather Tanguay
7 September 2006



Chief Executive
Paul J Wylie
7 September 2006



Chief Financial Officer
Brian N Trott
7 September 2006

Statement of Financial Performance

For the Year Ended 30 June 2006

	Note	2005/2006			2004/2005	
		Council Actual \$000	Council Budget \$000	Group Actual \$000	Council Actual \$000	Group Actual \$000
Revenue	1	92,241	79,103	99,540	82,500	89,238
Share of Associate Income		-	-	-	-	133
Less Cost of Operations	1	81,761	73,024	87,615	74,008	81,210
Operating Surplus Before Taxation		10,480	6,079	11,925	8,492	8,161
Less Taxation				678		565
Operating Surplus After Taxation and Before Revaluations and Landfill Aftercare Adjustments		10,480	6,079	11,247	8,492	7,596
Plus Revaluation adjustment	3a	32,264	-	32,264	-	-
Less Landfill Aftercare Adjustment		(1,312)	-	(1,312)	-	-
Less Minority Interest in Surpluses of Subsidiaries		-	-	(200)	-	(113)
Net Surplus		41,432	6,079	41,999	8,492	7,483

The accompanying notes and accounting policies form part of and should be read in conjunction with these Financial Statements.

Statement of Movements in Equity

For the Year Ended 30 June 2006

	2005/2006			2004/2005	
	Council Actual \$000	Council Budget \$000	Group Actual \$000	Council Actual \$000	Group Actual \$000
Equity at Start of the Year	919,734	815,745	946,153	910,313	928,338
Equity Adjustments	-	-	(1,138)	-	-
Amended Equity at Start of the Year	919,734	815,745	945,015	910,313	928,338
Net Surplus	41,432	6,079	41,999	8,492	7,483
Movement in Revaluation Reserve	70,654	103,869	71,805	929	9,068
Movement in Council Created Reserves	-	-	-	-	-
Total Recognised Revenues and Expenditure for the Year	112,086	109,948	113,804	9,421	16,551
Other Movements					
Contributions from Owners During the Year	-	-	-	-	-
Distributions to Owners During the Year	-	-	(45)	-	(119)
Minority Interests During the Year	-	-	200	-	1,383
Equity at End of the Year	1,031,819	925,693	1,058,974	919,734	946,153

The accompanying notes and accounting policies form part of and should be read in conjunction with these Financial Statements.

Statement of Financial Position

As at 30 June 2006

	Note	2005/2006			2004/2005	
		Council Actual \$000	Council Budget \$000	Group Actual \$000	Council Actual \$000	Group Actual \$000
Current Assets						
Cash & Short Term Investments	6	3,329	1,102	7,160	3,681	6,655
Accounts Receivable	7	2,347	2,423	2,985	2,389	3,210
Prepayments & Accruals	8	2,963	4,589	3,219	2,891	3,057
Inventory		298	350	303	328	336
Subdivisions & Properties Held for Sale		-	100	-	2	2
Total Current Assets		8,937	8,564	13,667	9,291	13,260
Non Current Assets						
Investments & Advances	9	81,403	78,893	74,191	78,507	73,735
Other Non-Current Assets	10	19,622	12,460	29,304	16,330	25,390
Property, Plant, & Equipment	11	1,049,357	950,799	1,080,862	921,517	951,564
Total Non Current Assets		1,150,382	1,042,152	1,184,357	1,016,354	1,050,689
TOTAL ASSETS		1,159,319	1,050,717	1,198,024	1,025,645	1,063,949
Current Liabilities						
Accounts Payable		5,269	1,674	6,085	3,291	3,657
Payables & Deposits	12	14,224	9,245	15,090	12,613	13,952
Current Portion of Term Liabilities	13	11	9	1,261	9	409
Current Portion of Finance Lease	13	234	-	246	229	251
Total Current Liabilities		19,738	10,928	22,682	16,142	18,269
Non Current Liabilities						
Employee Entitlement	29	845	750	856	973	986
Landfill Aftercare	27	992	1,188	992	1,356	1,356
Deferred Tax Liability	18	-	-	738	-	704
Onerous Contract		-	241	-	-	-
Term Liabilities	13	105,780	111,917	113,629	87,113	96,135
Term Finance Lease	13	145	-	152	327	346
Total Non-Current Liabilities		107,762	114,096	116,367	89,769	99,527
Public Equity						
Ratepayers' Equity	14	773,657	736,706	787,152	730,357	744,422
Revaluation Reserve	15	257,942	187,674	268,382	189,377	198,666
Council Created Reserves	16	220	1,312	220	-	-
Minority Interest	17	-	-	3,220	-	3,065
Total Public Equity		1,031,819	925,693	1,058,975	919,734	946,153
TOTAL LIABILITIES & RESERVES		1,159,319	1,050,717	1,198,024	1,025,645	1,063,949

The accompanying notes and accounting policies form part of and should be read in conjunction with these Financial Statements.

Statement of Cash Flows

For the Year Ended June 2006

	Note	2005/2006			2004/2005	
		Council Actual \$000	Council Budget \$000	Group Actual \$000	Council Actual \$000	Group Actual \$000
CASH FLOW FROM OPERATING ACTIVITIES						
Cash Was Provided From						
Rates		45,795	45,477	45,645	43,507	43,355
Other Sundry Receipts		31,659	26,190	39,295	26,035	32,311
Net GST Received		2,365	-	2,351	-	19
Interest Received		4,846	4,986	5,112	5,195	5,394
Dividend Received		253	100	-	268	-
		84,918	76,753	92,403	75,005	81,079
Cash Was Disbursed To						
Operation, Maintenance & Administration Expenses		62,091	50,532	66,647	54,242	58,851
Net GST Paid		-	-	-	-	638
Interest Paid		6,042	6,784	6,771	5,014	5,684
Finance Interest Paid		28	-	28	5	5
Taxation Paid		-	-	756	215	-
		68,161	57,316	74,202	59,477	65,178
Net Cash Flow From Operating Activities	21	16,757	19,437	18,201	15,528	15,901
CASH FLOW FROM CAPITAL/INVESTING ACTIVITIES						
Cash Was Provided From						
Sale Proceeds of Assets and Contributions		2	-	257	5,023	5,172
Sale Proceeds of Investments		2,321	743	2,321	-	12
Withdrawal of Investments & Advances		-	-	-	459	666
		2,323	743	2,578	5,482	5,850
Cash Was Applied To						
Purchase of Fixed Assets		34,511	44,778	36,926	35,732	39,784
Investments & Others		3,243	2,000	1,246	1,388	323
		37,754	46,778	38,172	37,120	40,107
Net Cash Flow From Capital/Investing Activities		(35,431)	(46,035)	(35,594)	(31,638)	(34,257)

CASH FLOW FROM FINANCING ACTIVITIES**Cash Was Provided From**

New Loans	22,000	26,147	22,100	20,100	22,350
	22,000	26,147	22,100	20,100	22,350

Cash Was Applied To

Loans Repaid	3,511	-	3,934	7,210	7,536
Dividends Paid to Minority Shareholder	-	-	80	-	119
Finance Leases Repaid	167	-	189	57	57
	3,678	-	4,203	7,267	7,712

Net Cash Flow From Financing Activities	18,322	26,147	17,897	12,833	14,638
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NET INCREASE (DECREASE) IN CASH HELD	(352)	(451)	504	(3,277)	(3,718)
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Opening Cash Balance	3,681	1,553	6,656	6,958	10,374
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CLOSING CASH BALANCE	3,329	1,102	7,160	3,681	6,656
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The accompanying notes and accounting policies form part of and should be read in conjunction with these Financial Statements.

Notes to the Financial Statements

Note 1: Summary of Revenue and Cost of Operations by Outcome

2005/2006

	2005/2006 REVENUE			2005/2006 EXPENSES		
	Council Actual 2005/06 \$000	Council Budget 2005/06 \$000	Group Actual 2005/06 \$000	Council Actual 2005/06 \$000	Council Budget 2005/06 \$000	Group Actual 2005/06 \$000
A Growing Economy						
City Marketing	458	315	458	1,852	1,614	1,852
Economic Development	2	-	2	655	874	655
Events	23	8	23	783	757	783
A Growing Economy	483	323	483	3,290	3,245	3,290
A Liveable Urban Environment						
Emergency Planning	23	19	23	583	455	583
Urban Design	-	-	-	175	829	175
Regulatory	3,319	2,520	3,319	5,320	4,668	5,320
A Liveable Urban Environment	3,342	2,539	3,342	6,078	5,951	6,078
A Strong & Caring Community						
Cemeteries	350	401	350	848	774	848
Community Development	50	60	50	975	1,186	975
Community Housing	936	955	936	1,254	1,118	1,254
A Strong & Caring Community	1,336	1,416	1,336	3,077	3,078	3,077
An Active Community						
Aquatic Facilities	-	-	-	1,462	1,315	1,462
Arena Manawatu	-	42	-	2,255	1,659	2,255
Library Services	534	494	534	5,816	5,402	5,816
Arts & Cultural Activities	50	-	50	465	486	465
Performing Arts Facilities	35	-	35	835	825	835
Recreation Activities	4	-	4	479	508	479
Recreation Facilities	1,705	586	1,705	6,461	5,928	6,461
Te Manawa	-	-	-	2,853	2,940	2,677
An Active Community	2,328	1,122	2,328	20,626	19,063	20,450
A Well Managed Physical Environment						
Roading & Parking	11,130	10,415	11,130	15,234	14,335	15,234
Stormwater	181	128	181	2,726	2,073	2,726
Waste Management	1,976	2,296	1,976	5,243	3,180	5,243
Wastewater	559	977	559	4,540	4,271	4,540
Water	1,912	1,518	1,912	6,580	5,442	6,580
A Well Managed Physical Environment	15,758	15,334	15,758	34,323	29,302	34,323
An Effective & Responsible Council						
Citizen Partcptn & Public Service	20	16	20	3,292	3,086	3,292
Customer Service & Public Inform	9	28	9	1,025	1,103	1,025
Investments	13,181	9,782	13,181	6,689	6,088	6,689
Organisational Development	(142)	69	(142)	788	(484)	788
Strategic Planning	85	17	85	2,335	2,375	2,335
An Effective & Responsible Council	13,153	9,912	13,153	14,129	12,169	14,129
Total Outcomes	36,400	30,646	36,400	81,523	72,807	81,347
Rates Collection Income & Petrol Tax	685	630	685	831	901	831
Less Internal Rates	(593)	(1,049)	(593)	(593)	(684)	(593)
General Rates & Penalties	37,789	37,840	37,638	-	-	-
Targeted Rates	8,803	8,686	8,803	-	-	-
Non-operating Revenue	9,157	2,350	9,157	-	-	-
Add Affiliated Activity	-	-	7,450	-	-	6,030
TOTAL	92,241	79,103	99,540	81,761	73,024	87,615

2004/2005	2004/2005 REVENUE			2004/2005 EXPENSES		
	Council Actual 2004/05 \$000	Council Budget 2004/05 \$000	Group Actual 2004/05 \$000	Council Actual 2004/05 \$000	Council Budget 2004/05 \$000	Group Actual 2004/05 \$000
A Growing Economy						
City Marketing	456	315	456	1,722	1,649	1,722
Economic Development	2	-	2	732	874	732
Events	80	8	80	844	743	844
A Growing Economy	538	323	538	3,298	3,266	3,298
A Liveable Urban Environment						
Emergency Planning	17	19	17	484	415	484
Urban Design	2,885	-	2,885	300	482	300
Regulatory	2,843	2,297	2,843	4,447	4,183	4,447
A Liveable Urban Environment	5,745	2,316	5,745	5,231	5,079	5,231
A Strong & Caring Community						
Cemeteries	374	401	374	754	618	754
Community Development	110	-	110	932	919	932
Community Housing	916	955	916	1,332	912	1,332
A Strong & Caring Community	1,400	1,356	1,400	3,018	2,448	3,018
An Active Community						
Aquatic Facilities	-	-	-	1,308	1,181	1,308
Arena Manawatu	5	21	5	1,858	1,227	1,846
Library Services	431	464	431	5,440	5,088	5,440
Arts & Cultural Activities	28	-	28	493	434	488
Performing Arts Facilities	-	-	-	864	754	848
Recreation Activities	6	-	6	709	773	709
Recreation Facilities	498	302	498	7,139	5,190	7,139
Te Manawa	-	-	579	2,608	2,526	2,435
An Active Community	968	787	1,547	20,419	17,173	20,213
A Well Managed Physical Environment						
Roading & Parking	5,696	5,723	5,696	12,962	13,143	12,962
Stormwater	40	3	40	2,298	1,980	2,298
Waste Management	1,893	1,833	1,893	4,042	3,127	4,042
Wastewater	311	283	311	4,238	3,894	4,238
Water	1,441	1,203	1,441	6,085	5,526	6,085
A Well Managed Physical Environment	9,381	9,045	9,381	29,625	27,670	29,625
An Effective & Responsible Council						
Citizen Partcptn & Public Service	120	86	120	3,127	2,919	3,127
Customer Service & Public Inform	20	16	20	1,130	989	1,130
Investments	10,002	9,402	9,876	5,277	5,063	4,899
Organisational Development	81	67	81	906	496	906
Strategic Planning	9	18	9	1,772	2,338	1,772
An Effective & Responsible Council	10,232	9,589	10,106	12,212	11,805	11,834
Total Outcomes	28,264	23,416	28,717	73,803	67,441	73,219
Rates Collection Income & Petrol Tax	696	630	696	879	879	879
Less Internal Rates	(674)	(679)	(674)	(674)	(679)	(674)
General Rates & Penalties	34,156	34,051	34,156	-	-	(152)
Targeted Rates	9,342	9,229	9,342	-	-	-
Non-operating Revenue	10,716	8,728	10,716	-	-	(2,100)
Add Affiliated Activity	-	-	6,285	-	-	10,038
TOTAL	82,500	75,375	89,238	74,008	67,641	81,210

Note 2: Rates - Council

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
General Rates (incl UAGC)	37,466	37,315	33,867	33,673
Penalty	323	323	289	289
Targeted Rates Attributable to Activities:				
Waste Management	924	924	1,312	1,312
Wastewater	3,616	3,616	3,660	3,660
Water	4,263	4,263	4,369	4,369
	46,592	46,441	43,497	43,303
less internal rates	593	593	674	674
Total Rates	45,999	45,848	42,823	42,629

Rate Remissions

Rates revenue is shown net of rates remissions. The Council has adopted rates remission policies that provide for rates to be remitted for a variety of purposes. During the year a total of \$341,000 was remitted in accordance with these policies for the following purposes (\$321,000 in 2004/2005).

	2005/06 Council \$000	2004/05 Council \$000
Community organisations	62	62
Arts, recreation & sporting organisations	56	40
Penalties	133	145
Wastewater charges for educational establishments	62	48
Wastewater charges for non-residential properties	7	5
Residential land in commercial or industrial areas	18	13
Storm affected property	3	8
Total Rates Remissions	341	321

Note 3: Other Revenue

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Other grants for capital projects	35	-	2,944	2,079
Interest received	4,972	5,238	5,329	5,504
Dividend	253	-	292	-
Petrol tax	553	553	545	545
Reserves contribution	1,006	1,006	850	850
Subdivision & other contributions	421	421	82	82
Development contributions	707	707	149	149
Investment fund movement	1,559	1,559	-	-
LTNZ assisted capital projects	5,926	5,926	1,383	1,383
Vested assets	9,157	9,157	5,374	5,517
Total other revenue	24,589	24,567	16,948	16,109

Revaluation Adjustment

An adjustment of \$32.2 million has been made to reverse prior asset write-downs that were expensed in the 2000/2001 financial year. For more information, refer to the Financial Overview on page 32.

Note 4: Cost of Operations

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Amortisation of intangible assets	75	75	75	75
Audit fees (Annual Report)	136	210	131	192
Audit fees (LTCCP)	68	68	-	-
Bad Debts	43	57	9	10
Depreciation	see next page	16,669	17,580	14,953
Elected members' remuneration	see next page	571	571	557
Interest expense	6,442	7,177	5,168	5,837
Finance interest expense	28	37	5	5
Rental expenses on operating leases	904	945	1,020	1,048
Depreciation comprised of:				
Building	4,175	4,387	3,525	3,705
Office equipment, furniture & fittings	1,749	1,926	1,492	1,674
Motor vehicles & plant	711	980	686	835
Library books	592	592	504	532
Improvements	1,083	1,111	945	969
Road	4,716	4,942	4,453	4,670
Stormwater	791	791	779	779
Waste Management	48	48	18	18
Wastewater	1,328	1,328	1,099	1,099
Water	1,476	1,476	1,452	1,452
Total Cost of Operations	16,669	17,581	14,953	15,733

Elected Members Remuneration (the Mayor and Councillors of Palmerston North City Council) comprised of:

	Council 2005/06 \$000	Council 2004/05 \$000
A Broad	31	21
P Claridge	31	30
M Craig	32	33
G Cruden	34	33
I Cruden	32	21
V Dennison	31	29
P Etheridge	31	21
L Findlay	32	32
J Hornblow	35	33
J Jefferies	31	30
P Kelly	31	30
J Naylor	31	29
A Podd	34	34
L Pope	32	30
H Tanguay (Mayor)	89	71
A Wall	34	34
Partial term:		
M Bell-Booth	-	27
M Brown	-	9
D Ireland	-	10
Total Elected Members Remuneration	571	557

Note 5: Income Tax

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Net Surplus (Deficit) Before Tax	10,480	11,925	8,492	8,161
Tax at 33%	3,458	3,935	2,802	2,693
Plus (less) tax effect of:				
Permanent differences	(3,546)	(3,345)	(2,798)	(2,084)
Tax loss not recognised	88	88	45	45
Imputation credit adjustment	-	-	(49)	(49)
Prior year over/under provision	-	-	-	(39)
Tax Expense (Benefit)	-	678	-	566
Comprising:				
Current tax	-	644	-	530
Deferred tax	-	34	-	36
Tax Expense (Benefit)	-	678	-	566

As at 30 June 2006, the Group has unrecognised tax losses of \$822,182 (\$693,340 in 2004/05), with a tax effect of \$271,320 (\$136,276 in 2004/05). Utilisation and carry forward of these losses is subject to meeting the requirements of the Income Tax Act 1994.

Note 6: Cash & Short Term Deposits

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Cash & Bank Balances	500	940	(1,824)	(955)
Short Term Deposits	2,829	6,220	5,505	7,610
Total Cash & Short Term Deposits	3,329	7,160	3,681	6,655

The effective interest rate on the Council's cash and bank balances was 7.25% per annum (6.75% per annum for 2004/05).

The effective interest rate for the Palmerston North Airport Limited's investment ranged from 2.25% to 7.40% per annum (0% to 6.55% per annum for 2004/05).

The effective interest rate for the Arena Manawatu's on-call deposit ranged from 0.25% to 1% per annum (5.35% per annum for 2004/05).

The effective interest rate for the Caccia Birch's short term deposits ranged from 7.0% to 7.2% per annum (6.75% per annum in 2004/05).

The effective interest rate for Regent Theatre's short term deposits is 7% per annum (5.5% per annum in 2004/05)

During the 2005/06 financial year, the Council obtained a short term investment of €253,000, which is held in an off-shore bank account. At balance date it was worth NZ\$529,000 (exchange rate of 0.478).

Note 7: Accounts Receivable

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
General Debtors	1,703	2,341	1,763	2,584
Provision for Doubtful Debts	(50)	(50)	(50)	(50)
Rates Debtors	694	694	676	676
Total Accounts Receivable	2,347	2,985	2,389	3,210

Note 8: Prepayments and Accruals

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Accrued Income	1,724	1,795	2,008	2,030
GST Receivable	998	1,057	865	923
Prepayments	241	367	18	104
Total Prepayments & Accruals	2,963	3,219	2,891	3,057

Note 9: Investments & Advances

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Subsidiaries				
Palmerston North Airport Limited - Shares	6,112	-	4,082	-
Palmerston North City Council Holdings Limited - Shares	-	-	686	-
Associates				
Palmerston North Carpark Limited - Shares	-	-	-	1,010
Others				
NZ Local Government Insurance Corporation Limited - Shares	194	194	194	194
Advances & Loans				
Palmerston North Carpark Limited - Loan	-	-	-	86
Advances to Organisations	300	300	307	307
Advance to Arena Manawatu	1,100	-	1,100	-
Securities, Stocks, Bonds and Shares for Investment Fund	73,697	73,697	72,138	72,138
Total Investments & Advances	81,403	74,190	78,507	73,735

Subsidiaries

Name of Entity: Palmerston North Airport Limited
Principal Activity: To provide airport facilities and services to airlines and airport users
Ownership: 86.5% of shares issued (86.5% for 2004/05); 83.2% of paid in share capital (76.7% in 2004/05)
Owner: Palmerston North City Council and Central Avion Holdings Limited (13.5%)
Balance Date: 30 June
Method of Consolidation: Line by line

Name of Entity: Palmerston North City Council Holdings Limited
Principal Activity: To own shares in subsidiary companies as determined by the shareholders
Ownership: 0% (100% in 2004/05)
Palmerston North City Council Holdings Limited was sold on 21 October 2005. Gain on sale was \$416,000; total assets were \$1.1m; total liabilities were \$0, and net surplus consolidated in 2004/05 was \$120k.

Investments

Name of Entity: Palmerston North Carpark Limited
 Principal Activity: To provide carpark facilities on a casual and leased basis
 Ownership: 0% (38.6% in 2004/05)
 This investment was owned by Palmerston North City Council Holdings Limited, which was sold on 21 October 2005.

Fair Value

Investments listed above (except for Securities, Stocks, Bonds and Shares for Investment Fund) are not publicly traded. Refer to Note 25 for further information.

Statement of Financial Involvement in Council Controlled Organisations (CCO), Council Controlled Trading Organisations (CCTO) and Other Companies & Organisations

The Council has control over Palmerston North Airport Limited (CCTO). Details of financial interests in this entity are detailed above and in Note 26.

The dividend received by the Council from the Palmerston North Airport Limited was \$253k (\$268k in 2004/05).

There are no other interests and dividends for other companies.

Note 10: Other Non-Current Assets

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Investment Properties - at valuation	14,795	14,795	10,738	10,738
Forestry Asset - at valuation	4,452	4,452	5,142	5,142
	19,247	19,247	15,880	15,880
Heritage Assets	-	9,679	-	9,057
Intangible Assets	375	376	450	451
Long Term Advance	-	2	-	2
Total Other Non Current Assets	19,622	29,304	16,330	25,390

The land under Gordon Kear forest has been transferred from the Forestry category to the Investment Property category in 2005/06.

Note 11: Property, Plant and Equipment

2005/2006

	Council			Group		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	\$000	\$000	\$000	\$000	\$000	\$000
OPERATING ASSETS						
At Cost/Valuation						
Land	26,275	-	26,275	38,379	-	38,379
Improvements	16,065	2,052	14,013	16,314	2,141	14,173
Building	108,812	7,598	101,214	119,463	9,100	110,362
Office Equipment, Furniture and Fittings	17,490	11,400	6,090	19,899	12,550	7,349
Motor Vehicles and Plant	11,168	7,415	3,753	13,705	8,731	4,973
Library Books	8,335	5,478	2,857	8,335	5,478	2,857
Assets Under Construction **	18,275	149	18,126	18,275	149	18,126
Total operational assets	206,420	34,092	172,328	234,370	38,150	196,220
RESTRICTED ASSETS						
At Cost/Valuation						
Land and Improvements	100,255	-	100,255	100,255	-	100,255
Total restricted assets	100,255	-	100,255	100,255	-	100,255
INFRASTRUCTURE ASSETS						
At Cost/Valuation						
Road	484,065	4,143	479,922	494,883	7,348	487,535
Stormwater	92,989	777	92,213	92,989	777	92,212
Waste Management	5,962	47	5,915	5,962	47	5,915
Wastewater	85,680	1,312	84,368	85,680	1,312	84,368
Water	82,092	1,414	80,677	82,092	1,414	80,678
Assets Under Construction **	33,936	257	33,679	33,936	257	33,679
Total infrastructural assets	784,724	7,950	776,774	795,542	11,155	784,387
TOTAL	1,091,399	42,042	1,049,357	1,130,167	49,305	1,080,862

In the 2005/06 financial year, the Assets under construction balance includes some completed assets that have not yet been capitalised. A depreciation charge has been estimated and recognised in the statement of financial performance in relation to these completed assets.

The consolidated figures include Palmerston North Airport Limited's land and buildings. The carrying value of land and buildings is indicative of fair value for the purpose of reporting.

2004/2005

	Council			Group		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	\$000	\$000	\$000	\$000	\$000	\$000
OPERATING ASSETS						
At Cost/Valuation						
Land	26,378	-	26,378	38,489	-	38,489
Improvements	14,496	969	13,527	14,753	1,071	13,682
Building	107,611	3,526	104,085	118,005	4,815	113,190
Office Equipment, Furniture and Fittings	17,552	9,999	7,553	20,567	11,495	9,072
Motor Vehicles and Plant	10,610	6,927	3,683	12,746	8,085	4,661
Library Books	8,334	4,940	3,394	8,334	4,940	3,394
Assets Under Construction	10,207	-	10,207	10,250	-	10,250
Total operational assets	195,188	26,361	168,827	223,144	30,406	192,738
RESTRICTED ASSETS						
At Cost/Valuation						
Land and Improvements	100,377	-	100,377	100,377	-	100,377
Total restricted assets	100,377	-	100,377	100,377	-	100,377
INFRASTRUCTURE ASSETS						
At Cost/Valuation						
Road	424,411	18,229	406,182	433,527	21,209	412,318
Stormwater	79,270	3,617	75,653	79,270	3,617	75,653
Waste Management	3,053	81	2,972	3,053	81	2,972
Wastewater	81,215	5,159	76,056	81,215	5,159	76,056
Water	88,856	7,175	81,681	88,856	7,175	81,681
Assets Under Construction	9,769	-	9,769	9,769	-	9,769
Total infrastructural assets	686,574	34,261	652,313	695,690	37,241	658,449
TOTAL	982,139	60,622	921,517	1,019,211	67,647	951,564

** Assets Under Construction:

	2005/06	2004/05
	\$000	\$000
OPERATIONAL ASSETS		
Land and Improvements	10,154	1,964
Building	6,174	7,822
Office Equipment, Furniture & Fittings	721	322
Motor Vehicles & Plant	107	91
Library Books	1,118	8
	18,275	10,207
INFRASTRUCTURAL ASSETS		
Road	20,338	5,171
Stormwater	4,193	1,339
Waste Management	1,361	67
Wastewater	3,477	1,197
Water	4,568	1,993
	33,936	9,767
Total Assets Under Construction	52,211	19,974

Note 12: Payables & Deposits

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Bonds & Deposits	325	403	377	419
Elected Members Fees Payable	20	20	20	20
Holiday Leave Entitlements	2,086	2,265	1,833	1,971
Rates Prepaid	1,074	1,074	1,092	1,092
Other Accrued Expenses	9,958	10,567	7,183	8,262
Retention Payments	761	761	998	998
Tax Provision	-	-	1,110	1,190
	14,224	15,090	12,613	13,952

Holiday Leave Entitlements comprised:

Balance at start of year	1,833	1,971	1,732	1,890
Increment during year	254	294	101	81
Balance at end of year	2,086	2,265	1,833	1,971

Note 13: Term Liabilities

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Balance at start of year	87,122	96,544	74,063	82,661
New loans raised during the year	22,000	22,100	20,100	21,250
Interest capitalised	180	180	169	169
	109,302	118,824	94,332	104,080
Loans paid during the year	3,511	3,934	7,210	7,536
Total Term Liabilities	105,791	114,890	87,122	96,544
Due within 1 year	11	1,261	9	409
Non current portion	105,780	113,629	87,113	96,135

The term liabilities of the Council are secured over the rateable value of the City of Palmerston North. It is intended to re-finance the amounts of the Council's Term Liabilities due for repayment in the next financial year.

The term liability of Palmerston North Airport Limited from BNZ is secured by a registered first debenture and mortgage over the Company's assets and property.

The Council's maturity profile for the term liabilities as at 30 June 2006 is:

Year of Maturity	Total Term Liabilities \$000	Interest Rate Range %	Weighted Average % Interest Rate
2006/07	5,253	6.75% - 8.2%	7.69%
2008/09	200	10.50%	10.50%
2009/10	11,106	3.5% - 7.0%	6.81%
2010/11	5	3.50%	3.50%
2011/12	60,734	3.5% - 7.1%	6.69%
2012/13	416	3.5% - 6.5%	6.07%
2013/14	10,000	6.85%	6.85%
2014/15	6,077	3.5% - 6.86%	6.78%
2015/16	12,000	6.65% - 6.92%	6.79%
	105,791		6.79%

Finance Leases

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Current	234	246	229	251
Non-current	145	152	327	346
Total finance leases	379	398	556	597

Repayable as follows:

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Within 1 year	243	258	246	272
1 - 2 years	122	131	231	246
2 - 5 years	18	18	104	113
Over 5 years	8	8	-	-
Total amount repayable	392	415	581	631
less future finance charges	13	17	24	33
Amount recognised as a liability	379	398	557	598

Note 14: Ratepayers' Equity

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Balance at start of year	730,357	744,422	721,326	736,400
Other adjustments	2,138	1,000	-	-
	732,495	745,422	721,326	736,400
Net surplus/(deficit)	41,432	42,001	8,492	7,483
Net transfers from/(to) Council Created Reserves	(220)	(220)	1,314	1,314
Transfer from Revaluation Reserves	(49)	(49)	(775)	(775)
	773,657	787,152	730,357	744,422

Note 15: Revaluation Reserves

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Investment Fund Fluctuation Reserves	-	-	2,138	2,138
Land	10,002	10,002	14,054	20,510
Buildings	12,211	12,211	8,117	9,800
Improvements	2,154	2,154	2,154	2,154
Restricted Land	77,578	77,578	77,569	77,569
Other Assets	215	215	215	215
Forestry	1,682	1,682	2,074	2,074
Investment Properties	4,898	4,898	1,358	1,358
Heritage Assets	-	2,301	-	1,150
Roading	40,621	48,760	-	-
Stormwater	56,358	56,358	40,400	40,400
Waste Management	2,585	2,585	-	-
Wastewater	32,905	32,905	24,028	24,028
Water	16,733	16,733	17,270	-
Total Revaluation Reserve	257,942	268,382	189,377	198,666
Represented by:				
Balance at start of year	189,377	198,665	187,673	188,823
Plus increment/(decrement) due to revaluation	70,654	73,075	929	10,338
Less minority shareholder's share of revaluation	-	(1,270)	-	(1,270)
	70,654	71,805	929	9,068
Less transfer to equity for revaluation reserve attributed to asset disposals	49	49	775	775
Less transfer of Investment Fund to equity	(2,138)	(2,138)	-	-
Balance at end of year	257,942	268,382	189,377	198,666

Council's land under Gordon Kear forest has been reclassified as Investment Property, thus the revaluation reserve relating to this land has similarly been transferred in 2005/06.

Note 16: Council Created Reserves

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Opening balance	-	-	1,313	1,313
Receipts	1,933	1,933	2,474	2,473
Interest received	50	50	70	70
	1,983	1,983	3,857	3,857
Expenditure and disbursements	(1,763)	(1,763)	(3,857)	(3,857)
Total Council Created Reserves	220	220	-	-
Represented by:				
Development Contributions	220	220	-	-
Total Council Created Reserves	220	220	-	-

Development Contributions Reserve has been created by the Council for the following purpose:

Development contributions provide Council with a method to obtain contributions to fund infrastructure requirements due to growth. A Development Policy is required as a component of the Funding & Financial Policies in the Long Term Council Community Plan (LTCCP) under section 102(4)(d) of the Local Government Act (LGA) 2002.

Note 17: Minority Interest

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Opening balance	-	3,065	-	1,802
Share of net surplus	-	200	-	113
Other movement in minority interest	-	(45)	-	1,150
	-	3,220	-	3,065

As at 30 June 2006, Council held an 86.5% (86.5% in 2004/05) share in Palmerston North Airport Limited. The remaining 13.5% was held by Central Avion Holdings Limited (13.5% in 2004/05)

Council fully consolidates the activities of the company and records the minority interest in accordance with FRS-37.

Note 18: Deferred Tax Liability

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Opening balance	-	704	-	216
Amount provided for the year	-	34	-	488
Deferred taxation liability at end of year	-	738	-	704

Note 19: Comparative Information

No changes to comparative information have been made.

Note 20: Post Balance Date Events

In July 2006, Council exchanged some Gordon Kear forest and land parcels for Woodpecker forest and land in a swap. The swap was non-cash, and the parcels swapped were of equivalent value, thus the total investment balance will remain unchanged.

There are no other post balance date events.

Note 21: Reconciliation of operating surplus after taxation with net cashflow from operating activities

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Operating Surplus/ (Deficit) After Taxation	41,432	41,999	8,492	7,484
Add / (Subtract) Non Cash Items				
Depreciation	16,669	17,580	14,953	15,751
Revaluation-(Increase)/ Decrease in Fixed Asset Value	(32,264)	(32,264)	-	-
Subdivision Vested Assets	(9,157)	(9,157)	(5,374)	(5,516)
(Gain)/Loss on Fixed Asset Disposals	865	865	(1,887)	(1,854)
Other non cash items	(14)	27	(1,394)	(933)
Add / (Subtract) Movement in Working Capital				
(Increase)/Decrease In Accounts Receivable and Prepayments	(30)	63	(599)	(976)
(Increase)/Decrease In Inventory	32	35	57	61
Increase/(Decrease) In Trade Creditors, Accruals and Deposits	2,478	2,457	1,309	1,888
Increase/(Decrease) In Taxation Provision	1,110	972	-	78
Add (Less) Items Classified as Investing Activities				
(Gain)/Loss on Sale/Revaluation of Investments	(2,764)	(2,764)	-	-
Capital Creditors	(1,328)	(1,340)	(179)	(232)
Other Non Working Capital	(272)	(272)	150	150
Net Cash Inflow (Outflow) From Operating Activities	16,757	18,201	15,528	15,901

Note 22: Remuneration of Chief Executive Officer

Details of the total remuneration of the following individuals has been provided in this report in accordance with Schedule 10 Part 3 Clause 18 of the Local Government Act 2002

- a. the Mayor or Chairperson of the local authority (refer to Note 4);
- b. each of the other members of the local authority (refer to Note 4);
- c. the Chief Executive of the local authority (refer below).

The Chief Executive's total remuneration package, to the nearest \$1,000, was \$293,000 for 2005/06 (\$248,000 in 2004/05).

Note 23: Severance

Severance payments requiring disclosure under Schedule 10 Part 3 Section 19 of the Local Government Act 2002 of \$68,000 were paid to staff during the year ended 30 June 2006 (\$0 in 2004/05). The payments relate to six staff members. The amounts paid were: \$28,357; \$15,000; \$12,500; \$7,493; \$2,500 and \$2,043

Note 24: Contingencies & Commitments

Litigation

As at 30 June 2006, a number of legal actions are being taken against the Council. The claims total approximately \$1.2 million (\$0.63 million for 2005). These claims are covered by the Council's public liability or professional indemnity insurance policies which have an excess payment requirement against all claims.

There are no contingent liabilities for Council Controlled Organisations.

Uncalled Share Capital

The Council's investment in Palmerston North Airport Limited is uncalled to the extent of \$0.35 per \$1 share for 5.8 million shares (\$0.70 per \$1 share for 5.8 million shares was uncalled as at 30 June 2005). The Company has signalled that it expects to call the uncalled capital during 2006/2007.

Loan Guarantees

The Council has guaranteed the borrowings of a number of sports clubs and charitable organisations from third party lenders totalling \$250,580 (\$40,165 for 2005).

Contract Commitments

Contract commitments for capital costs amount to \$1.5 million as at 30 June 2006 (\$7.5 million for 2005).

Palmerston North Airport Limited has capital commitments of \$186,000 as at 30 June 2006 (\$168,000 for 2005).

Carbon Credits

The Council has an agreement with the Crown to reduce carbon dioxide equivalent (methane) emissions from 2006 to 2012 in return for being awarded carbon credits. This will be achieved through the installation of a cogeneration plant at the City's landfill. The Council will be required to monitor the methane destruction and electricity generation (which determines the credits) using an approved methodology. From 2008 to 2012 this will be independently audited in arrears by a UN-certified climate change auditor. Under a Kyoto mechanism the Council has sold all of its credits from 2008 to 2012 to the Austrian Government. Under the contract between the Council and KummunalKredit (as agent for the Austrian Government) the Council was paid 241,000 EUR (30% of the sum due) in November 2005. If the Council were unable to deliver the credits as required under the contract the sum paid to date would be refundable. On behalf of the Council, Westpac Bank has provided a guarantee that this repayment would be made.

The provision of the guarantee has been on the basis of indemnities provided by the Council and the provision of security under The provision of the guarantee has been on the basis of indemnities provided by the Council and the provision of security under the terms of the Debenture Trust Deed. The Council is progressing well with the commissioning of the co-generation plant and has a risk mitigation plan in place. At balance date the sum paid in advance was invested in a EUR denominated foreign currency account and converted the New Zealand dollars at the exchange rate prevailing on that date.

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Operating Lease Contract Commitments				
Not later than 1 year	879	1,579	647	899
Later than 1 year & not later than 2 years	677	1,135	636	668
Later than 2 years & not later than 5 years	4	42	529	568
Later than 5 years	-	-	-	2
Total operating lease contract commitments	1,560	2,756	1,813	2,137

Note 25: Financial Instruments

The Council is risk averse and seeks to minimise exposure from its borrowing and investment activities. It has adopted a Liability Management and Investment Policy specifying the nature of activities which can be entered into. Activity which can be construed as speculative in nature is not permitted.

During the financial year the Council managed a Long Term Investment Fund in accordance with the Investment Policy in the 2005/06 Annual Plan.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could impact on the cost of borrowing or the return from an investment.

Note 6 provides information on cash and short term deposit interest rates.

Note 9 provides information on short and long term investments.

Note 13 provides information on term liabilities interest rates and maturity profile.

The Council has a total bank overdraft facility of \$0.5 million (\$0.5 million for 2005), with interest being charged at the bank's prime lending base rate. In addition as part of a \$65.7 million multi-option credit line facility the Council has a remaining balance of \$5 million (\$1.5 million in 2005).

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Council has exposure to currency risk through investment of a portion of its long term investment fund in overseas shares and a short term overseas currency investment. The investment fund exposure is 50% hedged (100% in 2005) via the external fund manager.

Credit Risk

Credit risk is the risk that a third party will default on its obligations to the Council and the Group, causing a loss. Financial instruments which potentially subject Council and the Group to credit risk principally consist of bank balances, term deposits, investments, accounts receivable and financial guarantees.

The group has no off-balance sheet financing. The credit quality of all major customers requiring credit is continuously monitored. Rates receivable by the Council are secured against the rateable value of the properties concerned.

Maximum exposures to credit risk at balance date are:

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Short Term Deposits	2,829	6,220	5,505	7,610
Securities, Stocks, Bonds and Overseas Shares	73,697	73,697	72,138	72,138
Receivables	2,347	2,985	2,389	3,210
Investments and Advances	300	300	-	22
Financial Guarantees	251	251	40	40

As at 30 June 2006, Palmerston North Airport Limited is exposed to a concentration of credit risk in that there were a limited base of customers for the services provided by the Company. Although considered fully recoverable 74% of the Company's total receivables are from 11 customers.

Fair Values

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. Other than described below the fair value of each class of financial instrument is assumed to be the carrying amount disclosed in the financial statements. The fair value of securities, stocks, bonds and overseas shares is \$73,696,944 as at 30 June 2006 (\$72,137,698 for 2004/05) and is the same as the carrying value (same for 2004/05). It is not practical to estimate the fair value of financial guarantees though no losses are expected to eventuate from them.

Note 26: Related Party Transactions

Inter entity transactions have been eliminated from the Consolidated Financial Statements.

	2005/06 Actual \$000	2004/05 Actual \$000
Arena Manawatu Board of Control		
Accounts payable by the Council	-	89
Accounts receivable by the Council	200	401
Term receivable by the Council	1,100	1,100
Grants provided from the Council	425	425
Grants provided to the Council	-	2,100
Rates paid to the Council	14	17
Services provided by the Council	4	12
Capital contributions provided by the Council	-	46
Caccia Birch Trust Board		
Grants provided from the Council	82	76
Rates paid to the Council	-	5
Services provided by the Council	4	5
Services provided to the Council	44	12
Globe Theatre Trust Board		
Accounts receivable by the Council	-	1
Grants provided from the Council	40	40
Services provided by the Council	6	5

	2005/06 Actual \$000	2004/05 Actual \$000
Palmerston North Airport Limited		
Accounts payable by the Council	1	16
Accounts receivable by the Council	4	-
Rates paid to the Council	136	129
Services provided by the Council	49	105
Capital contributions provided by the Council	477	120
Dividends received by the Council	253	268
Shares paid	2,030	1,100
Palmerston North Environmental Trust		
Grants provided from the Council	6	6
Palmerston North Performing Arts Trust		
Services provided by the Council	-	5
Regent Theatre Trust Board		
Grants provided from the Council	92	92
Grants provided to the Council	35	-
Services provided by the Council	6	6
Services provided to the Council	1	1
Te Manawa Museums Trust Board		
Accounts receivable by the Council	8	3
Grants provided from the Council	2,413	2,163
Rates paid to the Council	1	1
Services provided by the Council	174	173
Services provided to the Council	5	20
Capital contributions provided by Council	-	15

The material transactions between the Council and these parties were:

- * the provision of secretarial and financial and other services to some of these parties;
- * the provision of goods and services by some of these parties to the balance of the Council's operations; and
- * the provision of capital contributions

Councillors' Interests

The amounts paid by the Council to firms or companies in which Councillors have an interest under the Local Authorities Members Interest Act were \$29,691 (\$28,817 for 2004/05).

Councillor Craig's firms:

Factotum 2000 Limited, The Turning Shop Limited and Halifax Trust provided goods and services totalling \$13,768 (\$18,165 for 2005, including Factotum Holdings Limited, Factotum Works Limited, Factotum Kapiti Limited and Factotum Training & Resource Brockers Limited).

Councillor Jefferies' firms:

Jim Jefferies Limited, Centre Port Limited, Medical Waste (Wgtn) Limited and Aorangi Hospital Limited provided goods and services totalling \$1,268 (\$897 for 2005).

Councillor Findlay's firm:

Drug Arm - Palmerston North Street Van Inc provided goods and services totalling \$11,250 (\$10,000 for 2005).

Councillor Ireland's firm:

Ireland Electrical Services provided goods and services totalling \$0 (\$333 for 2005).

Councillor Broad's Trust:

Arohanui Hospice Service Trust provided goods and services totalling \$3,405 (\$0 for 2005)

During the financial year Councillors and key management, as part of a normal customer relationship, were involved in minor transactions with the Council such as purchase of rubbish bags and payment of rates.

The only outstanding balance for Councillor's interests is \$586 owed to Aorangi Hospital as at 30 June 2006 (Councillor Jefferies).

Note 27: Landfill Aftercare Provisions

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Balance at start of the year	1,356	1,356	1,397	1,397
Increment during the year	992	992	-	-
Less decrement during the year	(1,356)	(1,356)	(41)	(41)
Balance at end of the year	992	992	1,356	1,356

The Council as operator of the Awapuni landfill since 1952 has a legal obligation under the resource consent to provide on-going maintenance and monitoring services at the landfill site after closure.

The Landfill post-closure provision is measured in accordance with FRS-15.

The on-going annual charge to the Statement of Financial Performance arising from the landfill comprises depreciation of the landfill asset, and the interest expense associated with unwinding the discount. In 2005/06 a significant amount of closure work was brought forward, using up all of the existing provision. A new provision has been recognised for the remaining closure and on-going maintenance and monitoring costs.

The management of the landfill will influence the timing of recognition of some liabilities. Estimates of the life of the landfill have been made by the Council's engineers based on historical volume information.

The cash outflow for landfill post-closure have begun and are expected to continue over the next 2 to 3 years, with monitoring costs expected to continue for up to 30 years. The long term nature of the liability means that there are inherent uncertainties in estimating costs that will be incurred. The provision has been estimated taking into account existing technology and is discounted using a discount rate of 7%. The estimated remaining life of the landfill is one year.

Note 28: Segmental Reporting

Palmerston North City Council provides local authority services to ratepayers and other residents of Palmerston North City.

Note 29: Employee Entitlements

	Council 2005/06 Actual \$000	Group 2005/06 Actual \$000	Council 2004/05 Actual \$000	Group 2004/05 Actual \$000
Opening balance	973	986	782	799
Additional provision made	-	-	191	187
Amount utilised	(128)	(130)	-	-
Closing balance	845	856	973	986

This provision relates to long service leave and retirement gratuities.

Note 30: Capital Expenditure Performance

	Council 2005/06 Actual \$000	Council 2005/06 Budget \$000	Council 2004/05 Variance \$000
A Growing Economy	128	97	5
A Liveable Urban Environment	3,170	5,946	2,900
A Strong & Caring Community	623	586	1,447
An Active Community	4,200	5,432	10,107
A Well Managed Physical Environment	26,129	23,969	15,489
An Effective and Responsible Council	7,379	10,748	5,504
Total Capital Expenditure	41,629	46,778	35,452

Significant Acquisitions and Replacements of Assets

In accordance with the provisions of Section 15(f) Part 3 Schedule 10 of the Local Government Act 2002, the Outcome Statements section contains more information on the significant acquisitions and renewals of assets.

Note 31: Variations from 2005/06 Annual Plan

	Annual Plan 2005/06	Actual 2005/06	Variance 2005/06	Variance %	
Operational Revenue					
A Growing Economy	323	483	161	50%	a
A Liveable Urban Environment	2,539	3,342	804	32%	
A Strong and Caring Community	1,416	1,336	(80)	-6%	
An Active Community	1,122	2,327	1,205	107%	b
A Well Managed Physical Environment	15,336	15,758	422	3%	
An Effective and Responsible Council	9,911	13,153	3,243	33%	c
Rates Collection Income and Petrol Tax	46,107	46,685	578	1%	
Vested Assets	2,350	9,157	6,807	290%	d
	79,102	92,241	13,139		
Operational Expenditure					
A Growing Economy	3,245	3,289	(44)	-1%	
A Liveable Urban Environment	5,951	6,079	(127)	-2%	
A Strong and Caring Community	3,078	3,077	1	0%	
An Active Community	19,062	20,625	(1,563)	-8%	e
A Well Managed Physical Environment	29,302	34,323	(5,021)	-17%	f
An Effective and Responsible Council	12,169	14,130	(1,961)	-16%	g
Rates Collection Income and Petrol Tax	217	239	(23)	-11%	
Vested Assets	-	-	-		
	73,024	81,762	(8,738)		
Non Operational Revenues and Expenditure					
Revaluation adjustment (revenue)	-	32,264	32,264	100%	h
Landfill Aftercare adjustment (expense)	-	1,312	(1,312)	100%	i
	-	33,576	30,952		
Capital Expenditure					
A Growing Economy	97	128	(31)	-32%	
A Liveable Urban Environment	5,946	3,170	2,775	47%	j
A Strong and Caring Community	586	623	(37)	-6%	
An Active Community	5,432	4,200	1,232	23%	k
A Well Managed Physical Environment	23,969	26,129	(2,160)	-9%	l
An Effective and Responsible Council	10,748	7,379	3,369	31%	m
	46,778	41,629	5,149		
Balance Sheet					
Current Assets	8,564	8,937	373	4%	
Non-current Assets	1,042,152	1,150,382	108,229	10%	n
Current Liabilities	10,928	19,738	8,811	81%	o
Non-current Liabilities	114,096	107,762	(6,334)	-6%	
Equity	925,693	1,031,819	106,127	11%	n

See reasons for variations 'a' to 'o' on the following page.

Key reasons for Variances:

- a Higher revenue from Convention Centre than was budgeted.
- b More contributions in lieu received than budgeted.
- c Investment fund movement, tax provision written back and greater revenue on equity investments than budgeted.
- d More vested assets received than budgeted.
- e Higher depreciation, library and recreation facilities related operating expenditure than budgeted.
- f Predominantly due to greater waste management costs (particularly recycling) due to volume and fuel/labour price increases. Also higher water related costs (higher use of bores, discoloured water issues).
- g Write off of obsolete IT assets, plus maintenance infrastructural services, laboratory costs and LTCCP related costs higher than budgeted.
- h Reversal of 2001/02 write-down of roading and waste management assets; due to increase in assets from 2005/06 infrastructural revaluation.
- i Increase in landfill aftercare provision.
- j City Heart Stage III work under-spent; carried forward into the 2006/07 financial year.
- k Victoria Esplanade (Project Phoenix) and Lombard building extension work under-spent; carried forward into 2006/07 financial year.
- l More work completed on Awapuni landfill closure than budgeted, offset by roading projects under-spent due to delays.
- m Civic Admin building upgrade and corporate vision replacement project under-spent; carried forward into the 2006/07 financial year.
- n Infrastructural revaluation undertaken during 2005/06 financial year resulted in an increase in assets (and equity) of \$100 million.
- o Higher level of payables is predominantly due to increased level of expenditure experienced compared to budget.