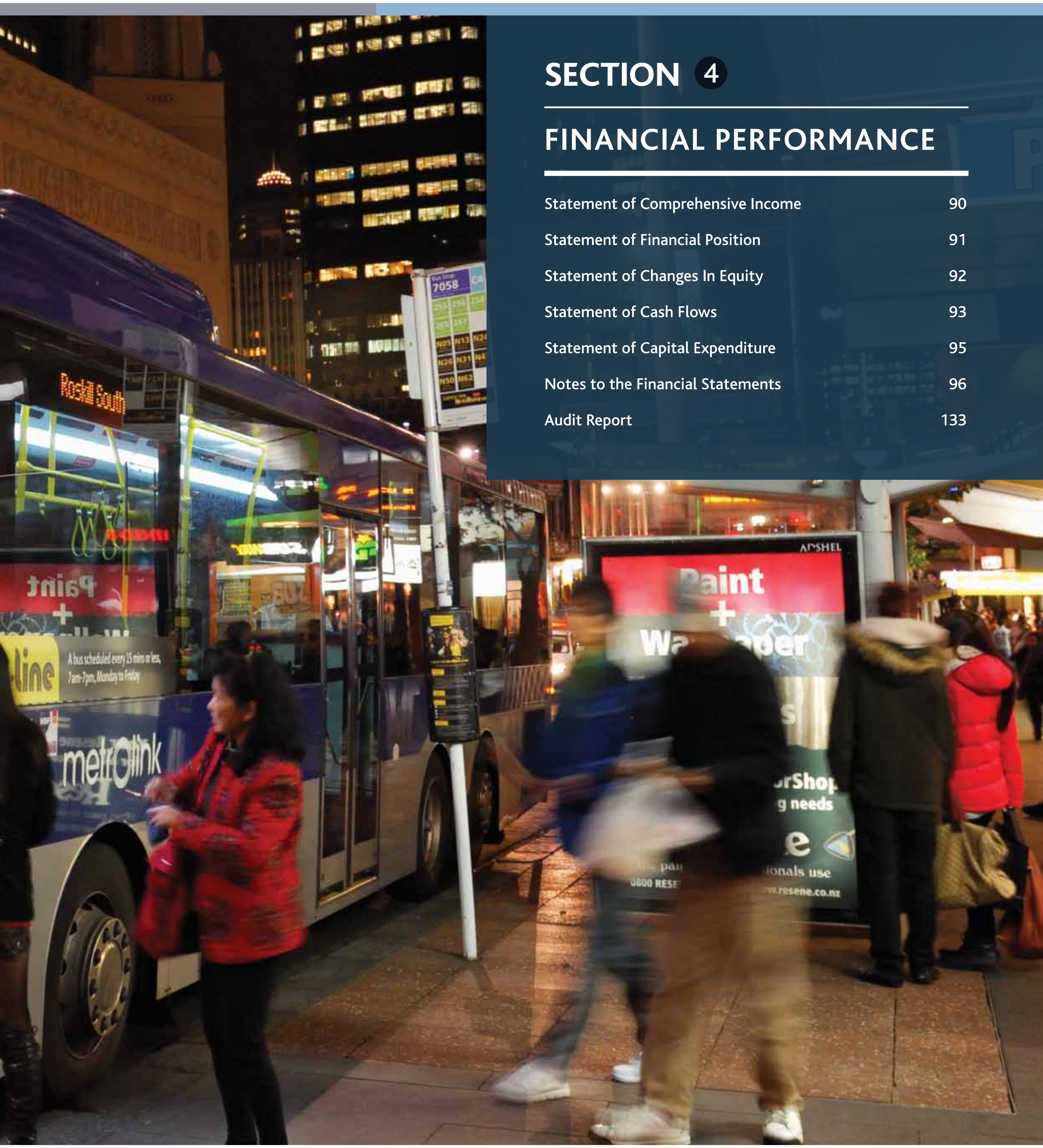
Auckland Transport runs bus services into the early hours of the morning to serve customers across the region

SECTION 4

FINANCIAL PERFORMANCE



STATEMENT OF COMPREHENSIVE INCOME

For the eight months ended 30 June 2011

	Note	Actual 8 months to 30 June 2011 $000	Plan 8 months to 30 June 2011 $000
INCOME			
Funding from Auckland Council	2	150,792	150,792
Operational funding from NZ Transport Agency		113,957	127,748
Capital funding from NZ Transport Agency		84,429	133,570
Interest income		173	-
Other income	3	127,658	79,312
Other gains/(losses)	4	571	-
Total income		477,580	491,422
EXPENDITURE			
Personnel costs	5	44,317	51,802
Depreciation and amortisation expense	12,13	144,300	140,714
Finance costs		-	-
Other expenses	6	328,900	295,756
Total expenditure		517,517	488,272
(Deficit)/surplus before tax		(39,937)	3,150
Income tax	7	474	-
Total (deficit)/surplus after tax		(39,463)	3,150
OTHER COMPREHENSIVE INCOME			
Revaluation gain on property, plant and equipment	12	953,893	215,113
Deferred tax on revaluation	7	(3,260)	-
Other comprehensive income for the period		950,633	215,113
Total comprehensive income for the period		911,170	218,263

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	Actual 30 June 2011 $000	Plan 30 June 2011 $000	Actual 1 Nov 2010 $000
ASSETS				
Current assets				
Cash and cash equivalents	8	2,251	7,239	6,656
Debtors and other receivables	9	214,071	75,153	70,969
Inventories	10	5,826	-	5,917
Other assets	11	11,680	-	11,509
Asset held for sale to Auckland Council		1,629	-	-
Total current assets		235,457	82,392	95,051
Non-current assets				
Property, plant and equipment	12	12,923,619	11,995,392	11,832,936
Intangible assets	13	26,712	21,542	25,321
Total non-current assets		12,950,331	12,016,934	11,858,257
Total assets		13,185,788	12,099,326	11,953,308
LIABILITIES				
Current liabilities				
Creditors and other payables	14	182,479	109,379	59,855
Employee entitlements	15	6,692	-	5,023
Derivative financial instruments	16	2,561	-	2,572
Total current liabilities		191,732	109,379	67,450
Non-current liabilities				
Deferred tax	7	12,775	-	9,989
Employee entitlements	15	958	-	848
Derivative financial instruments	16	171	4,966	1,416
Total non-current liabilities		13,904	4,966	12,253
Total liabilities		205,636	114,345	79,703
Net assets		12,980,152	11,984,981	11,873,605
EQUITY				
Contributed capital		12,068,982	11,766,718	11,873,605
Retained (deficit)/surplus		(39,463)	3,150	-
Other reserves		950,633	215,113	-
Total equity	17	12,980,152	11,984,981	11,873,605

Auckland Transport has chosen to show 1 November 2010 balances within the statement of financial position to reflect the deemed cost of assets and liabilities contributed by disestablished councils and council-controlled entities. These values are not comparative information as defined in NZ IAS 1. Refer to note 26 for further information on the establishment of Auckland Transport.

The accompanying notes form part of these financial statements.

Mark Ford, Chairman
September 2011

Paul Lockey, Director
September 2011

STATEMENT OF CHANGES IN EQUITY

For the eight months ended 30 June 2011

	Note	Actual 8 months to 30 June 2011 $000	Plan 8 months to 30 June 2011 $000
Capital contribution from ARTA on 1 November		365,294	-
Capital contribution from ARTNL and group on 1 November		7,219	-
Capital contribution from disestablished councils on 1 November		11,501,092	11,472,270
Total capital contribution on 1 November		11,873,605	11,472,270
(Deficit)/surplus for the period		(39,463)	3,150
Gain on property, plant and equipment revaluation		953,893	215,113
Deferred tax on revaluation		(3,260)	-
Total comprehensive income		911,170	218,263
Capital contribution from Auckland Council during the period		195,377	294,448
Balance at end of the period	17	12,980,152	11,984,981

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the eight months ended 30 June 2011

	Note	Actual 8 months to 30 June 2011 $000	Plan 8 months to 30 June 2011 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash provided from:			
Income from activities		98,795	79,312
Operating funding from Auckland Council		140,498	140,498
Operational funding from NZ Transport Agency		89,783	127,748
Capital funding from Auckland Council		10,294	10,294
Capital funding from NZ Transport Agency		89,927	133,571
Interest received		173	-
Total cash provided		429,470	491,423
Cash applied to:			
Payments to suppliers and employees		219,276	347,558
Goods and services tax		12,912	-
Total cash applied		232,188	347,558
Net cash from operating activities	18	197,282	143,865
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash applied to:			
Purchase of property, plant and equipment		279,595	438,312
Net cash applied to investing activities		(279,595)	(438,312)

STATEMENT OF CASH FLOWS

For the eight months ended 30 June 2011 contd

	Note	Actual 8 months to 30 June 2011 $000	Plan 8 months to 30 June 2011 $000
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash provided from:			
Capital contribution from Auckland Council		77,908	294,447
Total cash provided		77,908	294,447
Net cash from financing activities		77,908	294,447
Net (decrease)/increase in cash and cash equivalents		(4,405)	-
Opening cash and cash equivalents		6,656	-
Closing cash and cash equivalents	8	2,251	-

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

The accompanying notes form part of these financial statements.

SUMMARY OF CAPITAL EXPENDITURE

For the eight months ended 30 June 2011

	Note	Actual 8 months to 30 June 2011 $000	Plan 8 months to 30 June 2011 $000
NEW CAPITAL EXPENDITURE			
Roads		111,974	203,016
Public Transport[1]		38,603	76,879
Parking		3,818	5,574
Other		16,738	22,709
Total new capital expenditure		171,133	308,178
RENEWAL CAPITAL EXPENDITURE			
Roads		127,305	117,472
Public Transport		1,031	11,836
Parking		-	152
Other		542	674
Total renewal capital expenditure		128,878	130,134
VESTED ASSETS			
Roads		37,600	-
Total vested assets		37,600	-
Total capital expenditure		337,611	438,312
FUNDING			
NZ Transport Agency subsidies – new[1]		55,791	91,539
NZ Transport Agency subsidies – renewal		36,743	42,032
Capital funding from Auckland Council	2	10,294	10,294
Other capital grants		1,806	-
Vested assets		37,600	-
Investment by Auckland Council	17	195,377	294,447
Total funding		337,611	438,312

The accompanying notes form part of these financial statements.

[1] Includes $8.1m for the central system of the AIFS projects, refer note 11.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011

1 STATEMENT OF ACCOUNTING POLICIES

Reporting entity

Auckland Transport is a Council Controlled Organisation of the Auckland Council ('the Council') and is domiciled in New Zealand.

Auckland Transport (AT), together with the Auckland Council Group ('the Group') were formed as a result of the Local Government (Tamaki Makaurau Reorganisation) Act 2009 that was enacted on 23 May 2009. The legislation provided for the dissolution of local authorities in the Auckland region on 31 October 2010 (i.e. the Auckland City Council, Manukau City Council, Papakura District Council, Franklin District Council, North Shore City Council, Rodney District Council, Waitakere City Council and Auckland Regional Council) as well as the Auckland Regional Transport Authority and Auckland Regional Transport Network Limited (ARTNL) and group. The assets and liabilities of these entities were transferred to the new governing structures established on 1 November 2010. The new Auckland Transport organisation combines the transport expertise and functions of eight former local and regional councils and the Auckland Regional Transport Authority (ARTA) and Auckland Regional Transport Network Limited (ARTNL) and group.

Auckland Transport is a public-benefit entity as defined under New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS'). Auckland Transport's primary objective is to provide services and facilities for the community as a social benefit rather than to make a financial return.

The financial statements are for the eight months to 30 June 2011 and were authorised for issue by the board of Auckland Transport on 19 September 2011.

Auckland reorganisation

Following the Royal Commission's report on Auckland Governance in March 2009 the Government made changes to local government in Auckland with the objective of Making Auckland Greater. The Local Government (Tamaki Makaurau Reorganisation) Act 2009, dissolved the former city, district and regional authorities of the Auckland region as at 31 October 2010. The functions, duties and powers of the dissolved local authorities became the functions, duties and powers of the Auckland Council – the single unitary authority responsible for governing the Auckland region from 1 November 2010. All of the dissolved local authorities assets, rights, liabilities, contracts, entitlements and engagements were vested in the Auckland Council group at that date.

The assets and liabilities of Franklin District Council were apportioned between the Auckland Council Group, Waikato District Council and Hauraki District Council in accordance with the new Auckland Council boundaries approved by the Local Government Commission.

The dissolution of the local authorities in the Auckland region required the financial statements to be prepared on a dissolution basis, not the normal going-concern basis. All the services of the dissolved local authorities continue to be delivered by the Auckland Council group.

Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the opening statement of financial position and reporting to 30 June 2011, unless otherwise stated.

(a) Basis of preparation

Statement of compliance

The financial statements of Auckland Transport have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice ('NZ GAAP').

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZIFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

Measurement base

The financial statements are prepared based on historical cost modified by the revaluation of the following:

- Financial assets and liabilities at fair value
- Derivative financial instruments at fair value
- Certain classes of property, plant and equipment at methods appropriate to the class of asset.

The methods used to measure fair value are discussed in the specific accounting policies.

Functional and presentation currency

The financial statements are presented in New Zealand dollars ($), which is Auckland Transport's functional currency, and have been rounded to the nearest thousand unless otherwise stated.

Budget figures

The budget figures are those approved by Auckland Transition

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

Agency (ATA) on 29 October 2010 as part of the Auckland Council's Long Term Plan (LTP). ATA was required to prepare the LTP for Auckland Council under the Local Government (Tamaki Makaurau Reorganisation) Act 2009 Section 19A.

The budget figures have been prepared in accordance with NZ GAAP and are consistent with the accounting policies adopted by Auckland Transport for the preparation of the financial statements.

Costs allocation

Cost of service for each activity was allocated as follows:

- Direct costs are charged directly to activities. Indirect costs are charged to activities using appropriate cost drivers such as actual usage, staff numbers and floor area
- Direct costs are those costs directly attributable to an activity. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific activity.

Changes in accounting policy and disclosures

Auckland Transport commenced operations on 1 November 2010 and this is the first reporting period. Accordingly there are no comparative figures except for the statement of financial position. The comparative figures presented in the statement of financial position are the assets and liabilities as at 1 November 2010.

On creation of Auckland Transport, as at 1 November 2010, the relevant transport related assets and the liabilities of the dissolved above named councils were transferred to Auckland Transport. On the date of transfer, these assets and liabilities were recorded at their previous 31 October 2010 carrying values in the financial statements of the predecessor councils, ARTA and ARTNL with adjustments made where necessary to ensure that the assets and liabilities were recorded using consistent accounting policies adopted by Auckland Transport.

Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to Auckland Transport are:

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through surplus or deficit. The new standard is required to be adopted for the year ended 30 June 2014. Auckland Transport has not yet assessed the effect of the new standard and expects it will not be early adopted.
- NZ IAS 24 Related Party Disclosures (Revised 2009) replaces NZ IAS 24 Related Party Disclosures (Issued 2004). The revised standard simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. This will be applied for the first time in Auckland Transport's 30 June 2012 financial statements.

(b) Foreign currency translation

Auckland Transport translates its foreign currency transactions into New Zealand dollars using the exchange rates at the dates of the transactions. It records foreign exchange gains and losses from the settlement of transactions, and from translation at year-end exchange rates, in the statement of comprehensive income.

(c) Property, plant and equipment

Property, plant and equipment consists of:

(i) Operational assets

These include land, buildings, rolling stock, locomotive improvements, wharves, furniture and fittings, computer hardware, motor vehicles and plant and equipment.

(ii) Infrastructure assets

These include land, roading and street gardens.

Land (operational)

Land (operational) includes land held for roading purposes and land under off-street car parks.

Building

Building includes residential buildings held for roading purposes, car park buildings and wharf buildings.

Rolling stock

Rolling stock includes carriages and locomotives.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

Land infrastructure

Land infrastructure includes restricted land, land under roads and land under fields.

Roading infrastructure

Roading infrastructure includes public transport (e.g. bus shelters, bus stations, train stations), roading (e.g. footpaths, streetlights, traffic control, pavements) and car parking (e.g. off-street car parks).

Plant and equipment

Plant and equipment includes parking equipment (e.g. barrier arms, handheld parking infringement machines) and public transport equipment (e.g. public transport information, signal pre-emption, CCTV cameras).

Initial recognition

Property, plant and equipment at the time of transition

Property, plant and equipment transferred at the time of transition are initially shown at their previous carrying values (net book value) in the financial statements of the predecessor councils, ARTA and ARTNL. These property, plant and equipment are depreciated over their remaining estimated useful life.

Property, plant and equipment acquired after transition

Property, plant and equipment acquired after transition are initially shown at cost or at fair value in the case where an asset is acquired at no cost, or for a nominal cost. Cost includes any costs that are directly attributable to the acquisition of the items.

Subsequent costs

Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, when it is likely future economic benefits associated with the item will flow to Auckland Transport, and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income for the financial period they relate to.

Valuation of assets

Auckland Transport accounts for revaluations on a class of assets basis.

The revaluation for roading infrastructure for the current year was completed internally with the support of specialist expertise. An independent peer review process was carried out.

The revaluation for rolling stock for the current year was completed by an independent expert.

Both revaluations have used the depreciated replacement cost method, to ensure that their carrying amount does not differ materially from fair value.

Any accumulated depreciation at the date of revaluation is transferred to the gross carrying amount of the asset, and the asset cost is restated to the revalued amount.

Increases in asset carrying amounts due to revaluation increase revaluation reserves in equity. Decreases in asset carrying amounts decrease revaluation reserves in equity only to the extent that the class of asset has sufficient revaluation reserves to absorb the reduction. All other decreases are charged to the statement of comprehensive income.

If a revaluation increase reverses a decrease previously recognised in the statement of comprehensive income, the increase is recognised first in the statement of comprehensive income to reverse previous decreases. Any residual increase is applied to revaluation reserves in equity.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to Auckland Transport and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value at the date of acquisition.

Disposals

Gains and losses on the sale or disposal of assets are determined by comparing the proceeds of sale with the asset's carrying amount. Gains and losses are included in the statement of comprehensive income. When a revalued asset is sold or disposed of, any amount in the revaluation reserves in equity relating to that asset is transferred to general equity.

Depreciation

Land (operational) and land-infrastructure are not depreciated. Assets are depreciated on a straight-line basis. Depreciation writes off the cost of the assets to residual value over their useful lives.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

Class of asset depreciated	Estimated useful life (years)
Operational assets	
Buildings	10-100
Rolling stock	2-9
Locomotive improvements	2-9
Wharves	50-100
Furniture and fittings	5-15
Computer hardware	3-8
Plant and equipment	10-25
Motor vehicles	5
Infrastructure assets	
Roading	10-120
Street gardens	10

Auckland Transport reviews and, if necessary, adjusts the assets' residual values and useful lives at each year-end.

Capital works in progress

Capital works in progress are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

(d) Intangible assets

Intangible assets are initially recorded at cost. The cost of an internally generated intangible asset represents expenditure incurred in the development phase only.

Subsequent to initial recognition, intangible assets with finite useful lives are recorded at cost, less any amortisation and impairment losses, and are reviewed annually for impairment losses. Assets with indefinite useful lives are not amortised but are tested, at least annually, for impairment, and are carried at cost, less accumulated impairment losses.

Realised gains and losses arising from the disposal of intangible assets are recognised in the statement of comprehensive income in the period in which the disposal occurs.

Where an intangible asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the statement of comprehensive income.

Operating leases – land

The operating leases on land are long term land leases on which stations have been built. They are recognised in the accounts at fair value and amortised over the life of the underlying asset. These costs are amortised over the remaining portion of the 63 year life of the underlying lease.

Computer software

Computer software licences are capitalised based on the costs incurred to acquire and bring to use the software. These costs are amortised using the straight-line method over their estimated useful lives (three to eight years).

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

Costs directly associated with the development of identifiable and unique software products controlled by Auckland Transport, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets (e.g. software development employee costs). Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives (not exceeding eight years).

Staff training costs are recognised as an expense when incurred.

(e) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised if the estimated recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset, where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows, and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential. The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

the revaluation reserve, the debit balance is recognised in the statement of comprehensive income. For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of comprehensive income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the statement of comprehensive income, a reversal of the impairment loss is also recognised in the statement of comprehensive income. For assets not carried at a revalued amount (other than goodwill), the reversal of an impairment loss is recognised in the statement of comprehensive income.

(f) Financial assets

Auckland Transport classifies its financial assets in the following categories:

- Financial assets at fair value through surplus or deficit
- Available-for-sale financial assets
- Loans and receivables
- Held-to-maturity investments.

The classification depends on the reason behind acquiring the investment. Auckland Transport decides how to classify its investments when they are acquired.

Purchases and sales of investments are recorded on the value date at fair value plus transaction costs, unless they are carried at fair value through surplus or deficit, in which case the transaction costs are recognised in the statement of comprehensive income. Financial assets are no longer recognised when the right to receive cash flows from the financial assets has expired or has been transferred.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Auckland Transport establishes fair value through valuation techniques.

At each year-end, Auckland Transport assesses whether there is evidence that a financial asset or group of financial assets is impaired. Any impairment loss is recognised in the statement of comprehensive income.

Financial assets at fair value through surplus or deficit

This category has two subcategories: financial assets held for trading and those designated at fair value through surplus or deficit on initial recognition. A financial asset is classified in this category if acquired principally to sell in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. They are classified as current assets if they are held for trading and expected to be realised within 12 months of the period end date.

After initial recognition, financial assets at fair value through surplus or deficit continue to be measured at fair value. Realised and unrealised gains and losses arising from the changes in the fair value of the financial assets at fair value through surplus or deficit category are included in the statement of comprehensive income in the period in which they arise.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets designated in this category or not classified in the other categories. After initial recognition, they are measured at fair value. They are included in non-current assets, unless Auckland Transport intends to dispose of the asset within 12 months of year-end. Auckland Transport does not have any financial assets under this category.

After initial recognition they are measured at fair value, with gains and losses recognised directly in other comprehensive income except for impairment losses, which are recognised in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market. They arise when Auckland Transport provides money, goods or services directly to a debtor with no intention of selling the receivable asset.

After initial recognition, they are measured at amortised cost using the effective interest method less impairment. Gains and losses are recognised in the statement of comprehensive income. Loans and receivables are included in current assets, except for those with maturities greater than 12 months after the year-end date, which are classified as non-current assets.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments, and fixed maturities that Auckland Transport management has the intention and ability to hold to maturity.

After initial recognition, they are measured at amortised cost using the effective interest method less impairment.

Auckland Transport does not currently have any financial assets under this category.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

(g) Derivative financial instruments

Auckland Transport uses derivative financial instruments to hedge exposure to foreign exchange. In accordance with its treasury policy, Auckland Transport does not hold or issue derivative financial instruments for trading purposes. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

When a derivative is entered into as a hedging activity, Auckland Transport documents a hedge relationship as either a cash flow hedge (hedge of a forecast transaction) or a fair value hedge (hedge of the fair value of a recognised asset or liability). Also documented is the nature of the risk being hedged, its risk-management objective, strategy for hedge transactions, identification of the hedging instrument and hedged item, and how the hedging instrument's effectiveness is to be assessed.

The fair value of financial instruments traded in active markets is based on quoted market prices at the year-end date. The quoted market price used for financial assets held by Auckland Transport is the current bid price. The quoted market price for financial liabilities is the current ask price.

The fair values of forward foreign exchange contracts is determined using a discounted cash flows valuation technique based on quoted market prices. The inputs into the valuation model are from independently sourced market parameters such as currency rates.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recorded in the statement of comprehensive income.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets accounting criteria, any cumulative gain or loss in equity at that time remains in equity and is recognised when the forecast transaction is recorded in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity transfers to the statement of comprehensive income.

Auckland Transport does not currently have cash flow hedges arising from borrowings.

Fair value hedge

Auckland Transport only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of the interest rate swaps that hedge fixed-rate borrowings is recognised in the statement of comprehensive income within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the statement of comprehensive income within 'other gains/(losses)'. Changes in the fair value of the hedged fixed-rate borrowings attributable to interest rate risk are recognised in the statement of comprehensive income within 'finance costs'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is recorded in the statement of comprehensive income.

Auckland Transport does not currently have fair value hedges arising from borrowings.

(h) Inventories

Inventories such as spare parts, stores and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Costs are assigned to individual items of inventory on the basis of weighted average cost.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion (if applicable) and the estimated costs necessary to make the sale.

Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

The amount of any write-down in the value of inventories is recognised in the statement of comprehensive income.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value, and subsequently measured at amortised cost less any provision for impairment. They are due for settlement no more than 30 days from the date of recognition.

Auckland Transport reviews the collection of trade receivables

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

on an ongoing basis and writes off debts known to be uncollectable. A provision is made for doubtful receivables when there is objective evidence that Auckland Transport will not be able to collect all amounts due according to the original terms of the receivables. The amount provided is the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount provided is recorded in the statement of comprehensive income.

The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the statement of comprehensive income. When a receivable is uncollectable, it is written off against the provision account.

(j) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions. They also include other short-term, highly liquid investments (with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value) and bank overdrafts.

(k) Equity

Equity is the shareholder's interest in the organisation and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into contributed equity from shareholder, accumulated funds, and revaluation reserves.

(l) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and amortised cost is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless Auckland Transport has an unconditional right to defer settlement of the liability for at least 12 months after the year-end date.

Auckland Transport does not currently have borrowings. Under the Local Government (Auckland Council) Act 2009 Section 55, Auckland Transport must not borrow any funds without the written agreement of the Auckland Council.

(m) Borrowing costs

Auckland Transport has elected to defer the adoption of NZ IAS 23 Borrowing Costs (Revised 2007) in accordance with its transitional provisions that are applicable to public benefit entities.

Consequently, all borrowing costs are recognised as an expense in the period in which they are incurred.

(n) Current and deferred income tax

The income tax expense is the tax payable on the current period's taxable income, based on the New Zealand tax rate, and adjusted for changes in deferred tax assets and liabilities, and adjustments to income tax payable in respect of prior years.

Deferred tax assets and liabilities account for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled. This is based on those tax rates set by the Government. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

An exception is made for certain temporary differences from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they came from a transaction, other than a business combination, that at the time of the transaction did not affect accounting profit or taxable profit and loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent it is likely that future taxable amounts will be available for Auckland Transport.

Current and deferred tax balances attributable to amounts recognised directly in equity, such as asset revaluations, are also recognised directly in equity.

(o) Provisions

Provisions are recognised when:

- Auckland Transport has a present legal or constructive obligation due to past events
- It is more likely than not that an outflow of resources will be required to settle the obligation
- The amount has been reliably estimated.

Provisions are not recognised for future operating losses.

NOTES TO THE FINANCIAL STATEMENTS
30 June 2011 contd

Provisions are measured at the present value of the expenditure expected to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Organisational

An organisational provision is recognised where there is a legal or constructive obligation to meet redundancy expenses. The amount recorded in the financial statements is the estimated cost of this expense.

Contractual

A contractual provision is recognised when legal claims have been issued against Auckland Transport for past transactions and it is probable that Auckland Transport will be liable for these claims. The amount recorded in the financial statements is the estimated cost of these claims.

(p) Creditors and other payables

These amounts represent unpaid liabilities for goods and services provided to Auckland Transport before the end of the financial year. The amounts are unsecured and usually paid within 30 days of recognition. Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

(q) Goods and services tax (GST)

Items in the financial statements are exclusive of GST, with the exception of receivables and payables. The net amount of GST receivable from, or payable to the Inland Revenue Department is included as part of receivables or payables in the statement of financial position. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

(r) Employee benefit liabilities

Short-term employee benefit liabilities

These include wages and salaries, annual leave and sick leave. These liabilities are expected to be settled within 12 months of the reporting date. They include employees' services up to the year-end date and are measured at the amounts Auckland Transport expects to pay when the liabilities are settled. A liability is recognised for bonuses where they are contractually obliged or where there is a past practice that has created a constructive obligation. Auckland Transport recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that Auckland Transport anticipates it will be used by staff to cover those future absences.

Long-term employee entitlements

Entitlements that are payable beyond 12 months such as long-service leave have been actuarially measured at the present value of expected future payments for services provided by employees up to the year-end date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

(s) Revenue

Auckland Transport measures revenue at the fair value of the amounts received or receivable, net of discounts, duties and taxes paid.

Auckland Transport receives revenue from the following main sources:

Auckland Council grants

Auckland Transport is funded by its parent the Auckland Council in order to deliver the agreed annual operational and capital programmes. This funding is recognised when the expenditure is incurred, i.e. on an accrual basis.

NZ Transport Agency (NZTA) grants

Auckland Transport receives government grants from NZTA, which funds operational and capital expenditure. Grants distribution from NZTA are recognised as income when the expenditure they cover is incurred, i.e. on an accrual basis.

Traffic and parking infringement income

Income and receivables are recognised when an infringement notice is issued based on the estimated recoverable amount. Infringement amounts not recovered after 60 days are lodged with the courts for collection. Subsequent collections from the courts which differ to estimated recoverable amounts are recognised in income as received. The estimated amount expected to be received is reviewed at least annually.

Any predecessor council traffic and parking infringement income recognition policy not in line with Auckland Transport's policy were adjusted in the current period. See note 3 for the effect of this on income.

Fare revenue

Auckland Transport receives fare box revenue from certain bus and ferry and all rail services. This revenue is recognised when the ticket is purchased.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

Vested assets

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

Vested assets arise when property developers undertake development which requires them to build roads and footpaths. When the development is complete those assets vest in the network provider. As Auckland Transport controls roads and footpaths and accounts for the asset value the income from vesting comes to Auckland Transport.

Auckland Transport accounts for revenue for the following activities:

- Licences and permits revenue – on application
- Rental revenue – for the period it relates to
- Interest income – on a time proportion basis using the effective interest method
- Other grants and subsidies – when received
- Contra transactions – are measured at the fair value of the asset received or the fair value of the goods given up.

(t) Grant expenditure

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where Auckland Transport has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of Auckland Transport's decision.

(u) Leases

Operating leases

With operating leases, the lessor retains the risks and benefits of ownership. Lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the period of the lease.

Finance leases

Finance leases effectively transfer to the lessee the risks and benefits incidental to ownership. These are capitalised at the lesser of the fair value of the asset or the present value of the minimum lease payments. The leased assets and corresponding liabilities are recognised in the statement of financial position. Interest on finance leases is charged to the statement of comprehensive income over the lease period.

Leased assets are depreciated over the period Auckland Transport is expected to benefit from their use.

Use of estimates and judgements

The preparation of financial statements requires Auckland Transport's management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Property, plant and equipment (note 12)
- Contingent liabilities (note 20).

Auckland Council-owned property, plant and equipment

Property, plant and equipment in the legal name of Auckland Council that Auckland Transport has control over are recognised as an asset in the statement of financial position. Auckland Transport considers it has assumed all the normal risks and rewards of ownership of this property, plant and equipment despite legal ownership not being transferred, and accordingly it would be misleading to exclude this property, plant and equipment from the financial statements.

Traffic and parking infringement income

Infringement notices receivable not recovered after 60 days are lodged with the courts for collection. A historic record of collection percentages for infringements lodged with the court's is not currently available for Auckland Transport as it is a new entity. Currently there is limited historic information for collections of notices issued by Auckland Transport, or available from the courts, about the age of the fines from Auckland Transport. For the 30 June 2011 year end, an estimated 25 per cent of traffic and parking infringements issued during the period and outstanding at court are recognised as income and receivables based on the information available across the period 1 November 2010 to 30 June 2011. If the estimated recoverable amount does not reflect the actual recoveries, income and receivable could be under or overstated at 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

	Note	Actual 8 months to 30 June 2011 $000
2 FUNDING FROM AUCKLAND COUNCIL		
Operational funding from Auckland Council		140,498
Capital funding from Auckland Council		10,294
		150,792

Auckland Transport receives funding from Auckland Council in order to deliver the agreed annual operational and capital programmes within Auckland Council's Long Term Plan.

	Note	Actual 8 months to 30 June 2011 $000
3 OTHER INCOME		
Parking and enforcement		40,948
Public transport income		28,826
Other operating grants and subsidies		8,209
Other capital grants		1,806
Vested asset income		37,600
Other income		10,269
		127,658

Parking and enforcement income is reduced by $1.1m, due to infringements receivable brought forward from terminating councils being reduced to align with Auckland Transport's Accounting Policy for Infringements income recognition.

	Note	Actual 8 months to 30 June 2011 $000
4 OTHER GAINS/(LOSSES)		
Foreign exchange gain		1,255
Loss on disposal of property, plant and equipment	12	(684)
Total gains/(losses)		571

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

	Note	Actual 8 months to 30 June 2011 $000
5 PERSONNEL COSTS		
Salaries and wages		47,195
Less capitalised salaries and wages		(5,206)
Defined contribution plan employer contributions		549
Increase in employee benefit liabilities		1,779
Total personnel costs		44,317

Employer contributions to defined contribution plans include contributions to Kiwisaver and Super Trust of New Zealand Fund.

	Note	Actual 8 months to 30 June 2011 $000
6 OTHER EXPENSES		
Fees to principal auditor:		
Audit fees for financial statement audit		570
Minimum lease payments under operating leases		133
Impairment of receivables		95
Directors' fees		246
Revaluation decrement	12	42,780
Public transport operations		153,429
Roading network		86,206
Other operating expenses		45,441
Total other expenses		328,900

NOTES TO THE FINANCIAL STATEMENTS
30 June 2011 contd

	Actual 8 months to 30 June 2011 $000
7 INCOME TAX	
Components of income tax expense	
Current tax	-
Deferred tax	(474)
Income tax expense	(474)
Relationship between tax income expense and accounting profit	
(Deficit)/surplus before tax	(39,937)
Tax at 30 per cent	(11,981)
Plus/(less) tax effects of:	
Non-taxable income	11,981
Non-deductible expenditure	-
Tax losses not recognised	-
Deferred tax adjustment	(474)
Income tax	(474)

	Property, plant and equipment $000	Other provisions $000	Tax losses $000	Total $000
Deferred tax liability				
Balance at 1 November 2010	(10,318)	-	329	(9,989)
Charged to profit and loss	314	25	135	474
Charged to equity	(3,260)	-	-	(3,260)
Balance at 30 June 2011	(13,264)	25	464	(12,775)

NOTES TO THE FINANCIAL STATEMENTS
30 June 2011 contd

	Actual 30 June 2011 $000
8 CASH AND CASH EQUIVALENTS	
Cash at bank	2,122
Till floats	129
Total cash and cash equivalents	2,251

The carrying value of cash and cash equivalents approximates their fair value.

The weighted average effective interest rate for cash and cash equivalents is 2.5 per cent.

	Actual 30 June 2011 $000
9 DEBTORS AND OTHER RECEIVABLES	
Trade debtors	4,635
Infringements receivable	8,779
Amounts due from related parties – capital contribution from Auckland Council	117,469
Amounts due from related parties – other	32,060
Accrued income	34,617
Goods and services tax	16,606
	214,166
Less provision for impairment of receivables	(95)
Total trade and other receivables	214,071

The carrying value of debtors and other receivables approximates their fair value.

There is no concentration of credit risk with respect to receivables as there are a large number of customers.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

	Gross $000	Impaired $000	Net $000
9 DEBTORS AND OTHER RECEIVABLES contd			
The ageing profile of receivables at 30 June 2011 is detailed below:			
2011			
Not past due	202,735	-	202,735
Past due 1 - 30 days	7,021	-	7,021
Past due 31 - 60 days	948	-	948
Past due 61 - 90 days	210	(4)	206
Past due > 90 days	3,252	(91)	3,161
	214,166	(95)	214,071

All receivables greater than 30 days in age are considered to be past due.

The provision for impairment of receivables has been calculated on an individual basis. The provision is based on a review of significant debtor balances. Receivables are assessed as impaired due to significant financial difficulties being experienced by the debtor, and Auckland Transport management concluding that it is remote that the overdue amounts will be recovered.

Movements in the provision for impairment of receivables are as follows:

	Actual $000
At 1 November 2010	31
Additional provisions made	95
Provisions reversed	(27)
Receivables written-off	(4)
At 30 June 2011	95

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

	Actual 30 June 2011 $000
10 INVENTORIES	
Spare parts for rolling stock	5,820
Other inventories at cost	6
Total inventories	5,826

Spare parts for rolling stock are held and managed by KiwiRail on Auckland Transport's behalf.

The carrying amount of spare parts for rolling stock is measured at the lower of cost and net realisable value.

No inventories are pledged as security for liabilities.

There have been no write downs of inventory to net realisable value. There have been no reversals of write downs.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

	Actual 30 June 2011 $000
11 OTHER ASSETS	
Prepayments	11,680
NZTA assets held in trust	13,146
NZTA assets held in trust transfer	(13,146)
Total other assets	11,680

Asset held in trust for NZ Transport Agency

Auckland Transport and NZ Transport Agency have a Memorandum of Understanding (MOU) covering the Auckland Integrated Fares System (AIFS). The central system of the AIFS project, which Auckland Transport is developing and NZ Transport Agency is funding 100 per cent, will pass to NZ Transport Agency as part of their national framework for automated fare collection. The MOU states that Auckland Transport will hold the asset in trust for NZ Transport Agency until such time as the project is completed. The project is expected to be completed by September 2012. Expenditure and funding across the eight months ended 30 June 2011 was $8.1m.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

2011	Cost/ revaluation 1 Nov 2010 $000	Accumulated depreciation and impairment charges 1 Nov 2010 $000	Carrying amount 1 Nov 2010 $000
12 PROPERTY, PLANT AND EQUIPMENT			
Operational assets			
Cost or valuation			
Land	393,719	-	393,719
Land – finance lease	12,531	-	12,531
Buildings	331,341	-	331,341
Rolling stock	153,207	-	153,207
Locomotive improvements	10,646	-	10,646
Motor vehicles	1,722	-	1,722
Computer hardware	80	-	80
Furniture and fittings	283	-	283
Plant and equipment	18,168	-	18,168
Wharves	60,790	-	60,790
	982,487	**-**	**982,487**
Infrastructural assets			
Cost or valuation			
Land	5,173,856	-	5,173,856
Roading	5,338,243	-	5,338,243
Street gardens	13,256	-	13,256
	10,525,355	**-**	**10,525,355**
Works under construction	325,094	-	325,094
Total property, plant and equipment	**11,832,936**	**-**	**11,832,936**

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

Current year additions $000	Current year disposals $000	Current year transfers on asset completion $000	Current year impairment charges $000	Current year depreciation $000	Revaluation surplus/ (loss) $000	Cost/ revaluation 30 June 2011 $000	Accumulated depreciation and impairment charges 30 June 2011 $000	Carrying amount 30 June 2011 $000
-	-	1,622	-	-	-	395,341	-	395,341
-	-	-	-	-	-	12,531	-	12,531
-	-	48,441	-	(8,673)	-	379,782	(8,673)	371,109
-	-	11,783	-	(13,749)	(42,780)	108,461	-	108,461
-	-	-	-	(794)	-	10,646	(794)	9,852
-	-	-	-	(556)	-	1,722	(556)	1,166
-	-	-	-	(27)	-	80	(27)	53
-	-	-	-	(81)	-	283	(81)	202
-	-	413	-	(1,865)	-	18,581	(1,865)	16,716
-	-	6,966	-	(1,334)	27,326	93,748	-	93,748
-	**-**	**69,225**	**-**	**(27,079)**	**(15,454)**	**1,021,175**	**(11,996)**	**1,009,179**
31,785	-	3,025	-	-	-	5,208,666	-	5,208,666
5,815	-	176,786	-	(116,013)	926,567	6,331,398	-	6,331,398
-	-	-	-	(295)	-	13,256	(295)	12,961
37,600	**-**	**179,811**	**-**	**(116,308)**	**926,567**	**11,553,320**	**(295)**	**11,553,025**
286,041	(684)	(249,036)	-	-	-	361,415	-	361,415
323,641	**(684)**	**-**	**-**	**(143,387)**	**911,113**	**12,935,910**	**(12,291)**	**12,923,619**

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

12 PROPERTY, PLANT AND EQUIPMENT contd

Property, plant and equipment (Auckland Council-owned)

The following property, plant, and equipment are legally owned by Auckland Council but managed and controlled by Auckland Transport.

1. Parking – includes buildings, at grade (land) and park-and-rides.
2. Roads – includes land under roads, land intended for roads, shaping, formation, foundation, surface, kerbing and channelling, drainage under roads, footpaths, lighting, signage, bridges, crossings, islands, minor structures (including railings and retaining walls), traffic facilities, traffic signals and shoulders.

The above Auckland Council-owned property, plant, and equipment are included as part of Auckland Transport's property, plant, and equipment. These were recognised on 1 November 2010 at the carrying values disclosed in the terminating entities financial statements. Although legal title has not been transferred, Auckland Transport has assumed all the normal risks and rewards of ownership.

Restrictions on Auckland Council-owned property, plant and equipment

Disposal

Under the Local Government (Auckland Council) Act 2009 Paragraph 48 Section 2, Auckland Transport must inform Auckland Council, in writing, of its decision to dispose of land not required for a road under Section 345 of the Local Government Act 1974, and the council must dispose of the land in accordance with the requirements of the Local Government Act 1974.

Acquisition

Under the Local Government (Auckland Council) Act 2009 Paragraph 48 Section 4, Auckland Transport must inform Auckland Council, in writing, of its decision to apply for compulsory acquisition of any land, or the deemed agreement, as the case may be, and any land taken or acquired as a result will be legally vested in Auckland Council but will be recognised in Auckland Transport's financial statements.

Roads, parking (excluding land and buildings) and wharves revaluation

Subsequent to the initial recognition of these assets, roads, parking (excluding land and buildings) and wharves have been revalued to ensure the carrying amount of these assets does not differ materially from their fair value as at 30 June.

The most recent valuation was performed at 30 June 2011 by Amar Singh of ANA Group Limited who has knowledge of the requirements and experience in asset valuations. Independent valuer Brian Smith, Chartered Accountant and member of the NAMS committee, has performed a peer review of the valuation approach, methodology, inputs used including the assumptions made and the outcomes of the valuation process. The total value of property, plant and equipment internally valued and peer reviewed at 30 June 2011 was $6.4b, reflecting wharves and roading. The net increase in value for roading of $927m and wharves of $27m totals $954m, and has been recognised in equity through other comprehensive income. It is also disclosed as revaluation gains taken to equity in note 17.

Rolling stock carriages revaluation

Subsequent to the initial recognition of these assets, rolling stock has been revalued to ensure the carrying amount of these assets does not differ materially from their fair value as at 30 June.

The most recent valuation was performed independently by A. Smith, Senior Consultant of Halcrow Pacific Pty (Australia), covering $108.5m of rolling stock assets and effective as at 30 June 2011. This has resulted in a net decrease in value of $42.8m which has been charged to the surplus/deficit in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

12 PROPERTY, PLANT AND EQUIPMENT contd

Valuation significant assumptions and estimates

There is not considered to be an active market for the roading and public transport assets used in the delivery of Auckland Transport's services and therefore these assets have been valued using the depreciated replacement cost method to determine their fair value.

The depreciated replacement cost valuation reflected above is calculated based on the following estimates and assumptions:

- Estimating the unit rate for construction of roading assets: The most current contracted unit rates (including rates agreed by legacy councils) for road construction have been used. Where there is no current contracted unit rate information available, the most recent rates are used indexed for the impact of inflation.
- Assumptions on the remaining useful life over which the asset will be depreciated: These assumptions are based on the age, condition information held on these assets and the asset's future service potential. For roading assets these assumptions can be affected by local conditions such as ground type, weather patterns and road usage.
- Optimisation assumption: Roading replacement costs are based on modern equivalent assets
- Rolling stock replacement values are based on price quotations of modern equivalent assets with allowance for age, asset deterioration, configuration and gauge
- Assumptions on rail rolling stock useful lives have been based on an expected vehicle replacement programme. The programme defines the expected economic and/or physical lives of the different vehicle types in future years that align with the receipt and commissioning of an anticipated fleet of Electric Multiple Units (EMUs) entering service and in meeting the expected operational demand of the Auckland rail lines. Demand has been modelled based on the patronage numbers observed over an extended period adjusted for assumptions on variables such as population growth and fuel prices. A new fleet of 57 three-car EMUs is expected to start being fully operational in Auckland between 2014-2016. Refer note 27.
- If useful lives do not reflect the actual consumption of the benefits of the assets, then Auckland Transport could be over or under estimating the annual depreciation charge recognised as an expense in the statement of comprehensive income. To minimise this risk, asset useful lives have been determined with reference to the external industry guidance and have been adjusted for local conditions based on past experience. Asset inspection, deterioration, and condition-modelling are also carried out regularly as part of asset management activities, which provides further assurance over useful life estimates.
- All other asset classes are carried at historic cost as reduced by depreciation and any impairment.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

2011	Cost 1 Nov 2010 $000	Accumulated amortisation and impairment charges 1 Nov 2010 $000	Carrying amount 1 Nov 2010 $000
13 INTANGIBLE ASSETS			
Software	2,228	-	2,228
Operating lease	21,420	-	21,420
	23,648	**-**	**23,648**
Works under construction	1,673	-	1,673
Total intangible assets	**25,321**	**-**	**25,321**

There are no restrictions over the title of Auckland Transport's intangible assets; nor are any intangible assets pledged as security for liabilities.

The operating lease is for the land at each of the rail station sites along the Auckland passenger rail network utilised by Auckland Transport. The operating lease value is being amortised over the remaining portion of the 63 year life of the underlying lease. The lease is valued at deemed cost.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

Current year additions $000	Current year disposals $000	Current year impairment charges $000	Current year amortisation $000	Cost 30 June 2011 $000	Accumulated amortisation and impairment charges 30 June 2011 $000	Carrying amount 30 June 2011 $000
-	-	-	(686)	2,228	(686)	1,542
-	-	-	(227)	21,420	(227)	21,193
-	**-**	**-**	**(913)**	**23,648**	**(913)**	**22,735**
2,304	-	-	-	3,977	-	3,977
2,304	**-**	**-**	**(913)**	**27,625**	**(913)**	**26,712**

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

14 CREDITORS AND OTHER PAYABLES

	Actual 30 June 2011 $000
Creditors	114,415
Accrued expenses	41,946
Amounts due to related parties	25,681
Income in advance	437
	182,479

Creditors and other payables are non-interest bearing and are normally settled on 20-day terms. Therefore, the carrying value of creditors and other payables approximates their fair value.

15 EMPLOYEE ENTITLEMENTS

	Actual 30 June 2011 $000
Current portion	
Accrued salaries and wages	1,032
Annual leave	5,273
Sick leave	266
Long service leave	121
Total current portion	6,692
Non-current portion	
Retirement gratuities	410
Long service leave	548
Total non-current portion	958
Total employee entitlements	7,650

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

	Actual 30 June 2011 $000
16 DERIVATIVE FINANCIAL INSTRUMENTS	
Current unrealised foreign exchange loss	2,561
Non-current unrealised foreign exchange loss	171
Total unrealised foreign exchange loss	2,732

The notional principal amount of outstanding forward foreign exchange contracts in NZD was $14.1m. The foreign currency principal amounts were USD 2.3m and EUR 4.8m.

The fair values of forward foreign exchange contracts have been determined using a discounted cash flows valuation technique based on quoted market prices. The inputs into the valuation model are from independently sourced market parameters such as currency rates. Most market parameters are implied from forward foreign exchange contract prices.

17 EQUITY

Contributed capital	
Capital contribution from ARTA on 1 November	365,294
Capital contribution from ARTNL and group on 1 November	7,219
Capital contribution from disestablished councils on 1 November	11,501,092
Contributed capital on 1 November	11,873,605
Contributed capital from Auckland Council during the period	195,377
Closing balance	**12,068,982**
Retained (loss)/surplus	
(Deficit)/surplus for the period	(39,463)
Closing balance	**(39,463)**
Asset revaluation reserve	
Valuation gains taken to equity	953,893
Deferred tax on revaluation	(3,260)
Closing balance	**950,633**
Total equity	**12,980,152**

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

	Actual 30 June 2011 $000
18 RECONCILIATION OF NET SURPLUS/(DEFICIT) AFTER TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES	
(Deficit)/surplus after tax	**(39,463)**
Add/(less) non-cash items:	
Depreciation and amortisation expense	144,300
Gain in fair value of derivatives	(1,255)
Vested assets	(37,600)
Loss on disposal of property, plant and equipment	684
Revaluation decrement	42,780
Add/(less) movements in balance sheet items:	
Debtors and other receivables	(25,653)
Inventories	91
Creditors and other payables	112,264
Income tax payable	(474)
Employee benefits payable	1,779
Other assets	(171)
Net cash from operating activities	**197,282**

NOTES TO THE FINANCIAL STATEMENTS
30 June 2011 contd

	Actual 30 June 2011 $000
19 CAPITAL COMMITMENTS AND OPERATING LEASES	
Capital commitments	
Property, plant and equipment	367,218

Capital commitments represent capital expenditure contracted for at balance date but not yet incurred.

There are no capital commitments for intangibles.

Non-lease operating commitments	
Not later than one year	147,823
Later than one year and not later than five years	1,082
Total non-lease operating commitments	**148,905**

Operating leases as lessee

Auckland Transport leases computer equipment in the normal course of its business. These leases have a non-cancellable term of 36 months. The future aggregate minimum lease payments payable under non-cancellable leases are as follows:

Not later than one year	277
Later than one year and not later than five years	420
Total non-cancellable operating leases	**697**

Leases can be renewed at Auckland Transport's option, with rents set by reference to current market rates for items of equivalent age and condition. There is no option to purchase the assets at the end of the lease term.

There are no restrictions placed on Auckland Transport by any of the leasing arrangements.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

20 CONTINGENCIES

Contingent liabilities

Litigation

Auckland Transport has received a claim in relation to the Northern Busway and the associated changes to the roading network. Auckland Transport is working to resolve this claim with its solicitors. Part of this claim has been settled, no further liability has been recognised in relation to this claim as any further amount is uncertain.

There are no other material contingent liabilities.

Contingent assets

There are no contingent assets as at 30 June 2011.

21 RELATED PARTY TRANSACTIONS

Auckland Transport is a council-controlled organisation of Auckland Council. Auckland Transport receives a significant amount of funding from Auckland Council to deliver its objectives as specified in Auckland Council's Long Term Plan.

The following transactions were carried out with related parties during the year:

	Actual 8 months to 30 June 2011 $000
Auckland Council	
Purchase of goods and services from Auckland Council	29,088
Sale of goods and services to Auckland Council	7,850
Grants received from Auckland Council	150,792
Accounts payable to Auckland Council	23,430
Accounts receivable from Auckland Council	149,017
Capital contribution from Auckland Council	195,377
Asset held for sale to Auckland Council	1,629
Watercare Services Limited	
Purchase of goods and services from Watercare Services Limited	188
Sale of goods and services to Watercare Services Limited	117
Accounts payable to Watercare Services Limited	29
Accounts receivable from Watercare Services Limited	72

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

	Actual 8 months to 30 June 2011 $000
21 RELATED PARTY TRANSACTIONS contd	
Auckland Tourism, Events and Economic Development Limited	
Purchase of goods and services from Auckland Tourism, Events and Economic Development Limited	171
Sale of goods and services to Auckland Tourism, Events and Economic Development Limited	390
Accounts payable to Auckland Tourism, Events and Economic Development Limited	174
Accounts receivable from Auckland Tourism, Events and Economic Development Limited	434
Auckland Waterfront Development Agency Limited	
Purchase of goods and services from Auckland Waterfront Development Agency Limited	3,031
Sale of goods and services to Auckland Waterfront Development Agency Limited	5
Accounts payable to Auckland Waterfront Development Agency Limited	1,951
Accounts receivable from Auckland Waterfront Development Agency Limited	6
Manukau Beautification Charitable Trust	
Purchase of goods and services from Manukau Beautification Charitable Trust	208
Accounts payable to Manukau Beautification Charitable Trust	97

Key management personnel

Key management personnel include all board members, the Chief Executive and other senior management personnel.

During the year key management personnel, as part of a normal customer relationship, were involved in minor transactions with Auckland Transport (such as parking or public transport).

During the year Auckland Transport received funding from the NZ Transport Agency (NZTA), of which Auckland Transport board member Geoff Dangerfield is Chief Executive. The funding from NZTA occurred as a result of normal NZTA funding arrangements for approved activities. The value of NZTA funding received by Auckland Transport for the eight months to 30 June 2011 totalled $198m. There is a balance of $34m outstanding receivables at year-end. Note 11 discloses an asset held in trust for NZTA. Note 27 discloses additional information.

Directors have interests in related parties of Auckland Transport, as disclosed in the directors' profiles within the governance section of this annual report. Any transactions with these related parties have been supplied or received in the normal course of business and on normal commercial terms.

Auckland Transport does not provide any post-employment benefits to key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

	Actual 8 months to 30 June 2011 $
21 RELATED PARTY TRANSACTIONS contd	
Key management personnel compensation	
Salaries and other short-term employee benefits	1,210,532
Post-employee benefits	-
Other long-term benefits	-
Termination benefits	-
Total key management personnel compensation	**1,210,532**

No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

22 BOARD MEMBER REMUNERATION

The total value of remuneration paid or payable to each board member during the period was:

Mark Ford (Chair)	17,500
Philippa Dunphy (Deputy Chair)	44,417
Geoff Dangerfield	-
Christine Fletcher	35,000
Michael Lee	35,000
Paul Lockey	35,000
Dr Ian Parton	13,125
Rabin Rabindran	35,000
Mike Williams	30,625
Total board member remuneration	245,667

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

22 BOARD MEMBER REMUNERATION contd

From 1 January Mark Ford did not accept director fees as Chair of Auckland Transport when he became Chief Executive of Watercare Services Limited.

Dr Ian Parton did not accept director fees while he was also employed by Watercare.

Geoff Dangerfield is an NZTA appointee on the Board of Auckland Transport. Under the terms of establishment legislation he does not receive any remuneration.

There have been no payments made to committee members appointed by the board who are not board members during the financial year.

Auckland Transport has provided a deed of indemnity to directors for certain activities undertaken in the performance of Auckland Transport's functions.

Auckland Transport has effected Directors' and Officers' Liability and Professional Indemnity insurance cover during the financial year in respect of the liability of costs of board members and employees.

No board members received compensation or other benefits in relation to cessation.

23 EMPLOYEE REMUNERATION

The following section shows the number of Auckland Transport employees who were paid $100,000 and above for the eight months ending 30 June 2011.

	Number of employees
$100,000 – $110,000	12
$110,001 – $120,000	5
$120,001 – $130,000	6
$140,001 – $150,000	4
$160,001 – $170,000	2
$180,001 – $190,000	2
$200,001 – $210,000	1
$230,001 – $240,000	1
$340,001 – $350,000	1

NOTES TO THE FINANCIAL STATEMENTS
30 June 2011 contd

24 OTHER FINANCIAL INSTRUMENT DISCLOSURES

24A CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments in each of the NZ IAS 39 categories are as follows:

	Actual 30 June 2011 $000
Financial assets	
Loans and receivables	
Cash and cash equivalents	2,251
Trade and other receivables	214,071
Total loans and receivables	**216,322**
Financial liabilities	
Fair value through surplus or deficit	
Derivatives	2,732
Financial liabilities measured at amortised costs	
Trade and other payables	182,479

24B FAIR VALUE HIERARCHY DISCLOSURES

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets
- Valuation technique using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active market or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable
- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

24B FAIR VALUE HIERARCHY DISCLOSURES contd

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

			Valuation technique		
	Note	Total $000	Quoted market price $000	Observable inputs $000	Significant non-observable inputs $000
Financial liabilities					
Derivatives	16	2,732	-	2,732	-

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

24C FINANCIAL INSTRUMENT RISKS

Auckland Transport's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. Auckland Transport has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Auckland Transport is not exposed to any significant price risk.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Auckland Transport is not exposed to any significant fair value interest rate risk.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Auckland Transport is not exposed to any significant cash flow interest rate risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. From time to time Auckland Transport purchases goods and services overseas which require it to enter into transactions denominated in foreign currencies. As a result of these activities, exposure to currency risk may arise.

It is Auckland Transport's policy to manage foreign currency risks arising from contractual commitments and liabilities by entering into forward foreign exchange contracts to manage the foreign currency risk exposure.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

24C FINANCIAL INSTRUMENT RISKS contd

Sensitivity analysis

The potential effect on the surplus or deficit for reasonably possible market movements, with all other variables held constant, at balance date are as follows:

	2011 NZ$000 -5%	2011 NZ$000 +5%
Foreign exchange risk		
USD derivatives	(156)	176
EUR derivatives	(680)	811
	(836)	987

The foreign exchange sensitivity is based on a reasonable possible movement in foreign exchange rates, with all other variables held constant, measured as a percentage movement in the foreign exchange rates of -5%/+5%.

Credit risk

Credit risk is the risk that a third party will default on its obligation to Auckland Transport, causing it to incur a loss.

In the normal course of business, Auckland Transport is exposed to credit risk from cash, debtors and other receivables and derivative financial instrument assets. For each of these, the maximum credit exposure is best represented by the carrying amount in the statement of financial position.

Auckland Transport has no collateral or other credit enhancements for financial instruments that give rise to credit risk.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard & Poor's credit ratings (if available) or to historical information about counterparty default rates:

	Actual 30 June 2011 $000
Counterparties with credit ratings	
Cash at bank	
AA	2,122
Counterparties without credit ratings	
Debtors and other receivables	
Existing counterparty with no defaults in the past	214,071
Existing counterparty with defaults in the past	-
	214,071

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

24C FINANCIAL INSTRUMENT RISKS contd

Liquidity risk

Management of liquidity risk

Liquidity risk is the risk that Auckland Transport will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liability risk management implies maintaining sufficient cash and the ability to close out market positions.

Auckland Transport manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

Contractual maturity analysis of financial liabilities, excluding derivatives

The table below analyses Auckland Transport's financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Carrying amount $000	Contractual cash flows $000	Less than 6 months $000	6-12 months $000	Later than 1 year $000
2011					
Trade and other payables	182,479	182,479	182,479	-	-

Contractual maturity analysis of derivative financial liabilities

The table below analyses derivative financial instrument liabilities that are settled net and all gross settled derivatives into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Carrying amount NZ$000	Contractual cash flows NZ$000	Less than 6 months NZ$000	6-12 months NZ$000	Later than 1 year NZ$000
2011					
Forward foreign exchange contracts					
– outflow	-	14,092	2,563	10,681	848
– inflow	-	14,092	2,563	10,681	848

25 CAPITAL MANAGEMENT

Auckland Transport's capital is its equity, which comprises contributed capital, retained earnings and revaluation reserves. Equity is represented by net assets.

Auckland Transport is subject to financial management and accountability provisions of the Local Government (Auckland Council) Act 2009, which imposes restrictions in relation to borrowings and the use of derivatives.

Auckland Transport manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities and general financial dealings to ensure Auckland Transport effectively achieves its objectives and purpose, while remaining a going concern.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

26 ESTABLISHMENT OF AUCKLAND TRANSPORT

Auckland Transport, together with the Auckland Council group, was formed as a result of the Local Government (Tamaki Makaurau Reorganisation) Act 2009 that was enacted 23 May 2009. The legislation provided for the dissolution of local authorities in the Auckland region on 31 October 2010 (Auckland City Council, Manukau City Council, Papakura District Council, Franklin District Council, North Shore City Council, Rodney District Council, Waitakere City Council and Auckland Regional Council) as well as the Auckland Regional Transport Authority and Auckland Regional Transport Network Limited group. The assets and liabilities of these entities were transferred to the new governing structures established on 1 November 2010. The Auckland Transition Agency was established prior to the reorganisation to oversee the transition.

The new Auckland Transport organisation combines the transport expertise and functions of the eight former local and regional councils and the Auckland Regional Transport Authority and Auckland Regional Transport Network Limited group.

On 22 April 2010, the Accounting Standards Review Board approved an amendment to NZ IFRS 3 Business Combinations (NZ IFRS 3) applying to annual periods beginning on or after 1 July 2009. This amendment applies to public benefit entities, and results in NZ IFRS 3 not applying to a local authority reorganisation where the assets and liabilities are transferred to a local authority from another local authority at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement. As the reorganisation of the predecessor councils into the new Auckland Council group meets the requirements to apply this exemption, accounting for the reorganisation was not required to be in accordance with NZ IFRS 3.

Alternative accounting options were therefore assessed and it was determined by the Auckland Transition Agency that the most appropriate way to account for the reorganisation was to use the principles of merger accounting to treat Auckland Transport as a new entity, rather than a continuation of the predecessor entities.

Under the merger accounting principles, the transport-related assets and liabilities from the predecessor entities were able to be recognised in Auckland Transport either at their current carrying values or at fair value. The Auckland Transition Agency deemed that using current carrying values would have the result of showing a balance sheet that represents the total net assets of the predecessor entities prepared on a consistent basis which is familiar to users, enabling a more transparent and meaningful assessment of Auckland Council group compared to the predecessor entities. Where necessary, adjustments were made to the carrying value of the assets and liabilities being recognised in Auckland Transport's opening balance sheet to ensure they reflect consistent accounting policies within the new Auckland Council group. The opening balance sheet is shown on the statement of financial position as at 1 November 2010.

As Auckland Transport is being treated as a new entity, comparative figures for the predecessor entities are not available, nor have the individual reserves from predecessor entities (such as asset revaluation reserves) been retained.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

27 EVENTS SUBSEQUENT TO BALANCE DATE

On 1 September 2011, a joint announcement was made by the Minister of Transport, Auckland Transport, Auckland Council and NZ Transport Agency that the Auckland region would be funded by the Crown to enable Auckland to purchase 57 three-car Electric Multiple Units (EMU) and to develop an EMU maintenance facility. The funding will be by way of a 35 year loan of $400m plus a 50 year loan of $100m. In addition to this the Crown will provide a non-repayable grant fund of $90m. If the two projects exceed the Crown funding, the balance will be met by the Auckland Council group. To date the EMU tender process has been managed by KiwiRail. Auckland Transport will now assume responsibility for the purchase by taking over the procurement process and paying the initial deposit which is expected to be in October 2011.

28 MAJOR BUDGET VARIANCES

Explanations for major variations from Auckland Councils Long Term Plan are as follows:

	Actual 8 months to 30 June 2011 $000	Plan 8 months to 30 June 2011 $000	Variance $000
Statement of comprehensive income			
Income	477,580	491,422	(13,842)
Expenditure	517,517	488,272	(29,245)
(Deficit)/surplus before tax	(39,937)	3,150	(43,087)

Budgets were inherited, with the annual budget being split between four months of the legacy entities and eight months of Auckland Transport.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2011 contd

	Actual 8 months to 30 June 2011 $000	Plan 8 months to 30 June 2011 $000	Variance $000
28 MAJOR BUDGET VARIANCES contd			
Income			
Operational funding from NZ Transport Agency NZ Transport Agency operational funding is reduced as a result of reduced operational spending.	113,957	127,748	(13,791)
Capital funding from NZ Transport Agency Transport capital projects were delayed resulting in reduced subsidy income.	84,429	133,570	(49,141)
Vested asset income Vested asset income of $37.6m not included in the plan.	37,600	-	37,600
Other income Increased other income mainly due to increased public transport patronage and additional rental income partly offset by reduced parking infringement income.	90,058	79,312	10,746
Expenditure			
Revaluation decrement Loss on revaluation of rolling stock of $42.8m.	42,780	-	(42,780)
Other expenditure Below budget costs including decreased expenditure on public transport activity.	474,737	488,272	13,535
Equity	12,980,152	11,984,981	995,171
Equity is higher than planned mainly due to the increase in the revaluation reserve of $951m.			
Statement of financial position			
Debtors and other receivables Higher than planned debtors mainly due to related parties receivables of $150m.	214,071	75,153	138,918
Creditors and other payables Higher than budgeted level of creditors and accrued expenditure, including related parties payables of $26m.	182,479	109,379	(73,100)
Property, plant and equipment The major portion is due to the net gain on revaluation of assets at 30 June of $911m.	12,923,619	11,995,392	928,227
Capital expenditure	337,611	438,312	(100,701)
Capital expenditure budgets were inherited, with the annual budget being split between four months of the legacy entities and eight months of Auckland Transport.			

AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Auckland Transport's financial statements and statement of service performance for the 8 month period ended 30 June 2011

The Auditor-General is the auditor of Auckland Transport. The Auditor-General has appointed me, David Walker, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of Auckland Transport on her behalf.

We have audited:

- the financial statements of Auckland Transport on pages 90 to 132, that comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 8 month period ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of Auckland Transport on pages 38 to 40, 60, 68 and 82.

Opinion

In our opinion:

- the financial statements of Auckland Transport on pages 90 to 132:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect Auckland Transport's:
    - financial position as at 30 June 2011; and
    - financial performance and cash flows for the 8 month period ended on that date; and
- the statement of service performance of Auckland Transport on pages 38 to 40, 60, 68 and 82:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects Auckland Transport's service performance achievements measured against the performance targets adopted for the 8 month period ended 30 June 2011.

Our audit was completed on 19 September 2011. This 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 Board and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Auckland Transport's preparation of the financial statements and statement of service performance that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Auckland Transport's internal control.

AUDIT REPORT contd

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect Auckland Transport's financial position, financial performance and cash flows; and
- fairly reflect its service performance achievements.

The Board is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board's responsibilities arise from the Local Government Act 2002.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 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 New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in Auckland Transport.

David Walker

Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE

This audit report relates to the financial statements and statement of service performance of Auckland Transport for the eight month period ended 30 June 2011 included on the Auckland Transport's website. The Auckland Transport's Board is responsible for the maintenance and integrity of the Auckland Transport's website. We have not been engaged to report on the integrity of the Auckland Transport's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. 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 statement of service performance and the related audit report dated 19 September 2011 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

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

GLOSSARY

AMETI	Auckland-Manukau Eastern Transport Initiative
ARMA	Auckland Road Maintenance Alliance
ARTA	Auckland Regional Transport Authority (disestablished)
ARTNL	Auckland Regional Transport Network Ltd (disestablished)
ATA	Auckland Transition Agency
CBD	Central Business District
CCO	Council-Controlled Organisation
CCTV	Closed Circuit TV
EMU	Electric multiple units
FTE	Full time equivalent
GDP	Gross Domestic Product
HOP	Auckland's branded integrated ticket for public transport
HOV	High-occupancy vehicle lanes
JTOC	Joint Traffic Operations Centre
LTP	Auckland Council's Long Term Plan
MAXX	Auckland Transport's public transport information and integration brand
MoT	Ministry of Transport
NZTA	NZ Transport Agency
QTN	Quality Transit Network
RLTP	Regional Land Transport Programme
RTN	Rapid Transit Network
RWC 2011	Rugby World Cup 2011
SOI	Statement of Intent
TAAG	Transport Accessibility Advisory Group
TMP	Transport management plans

Auckland Transport

An Auckland Council Organisation

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Auckland Council

Auckland Transport is a Council Controlled Organisation (CCO) of Auckland Council.