

Notice is hereby given that an ordinary Meeting of the Finance Committee will be held on:

Date: Tuesday 28 February 2017
Time: 9.30am
Meeting Room: Council Chamber
Venue: Municipal Building, Garden Place, Hamilton

Finance Committee

OPEN ATTACHMENTS

ATTACHMENTS UNDER SEPARATE COVER

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Note: The attachments contained within this document are for consideration and should not be construed as Council policy unless and until adopted. Should Councillors require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.

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Item 10



Attachment 1

**Financial statements
for the year ended 30 June 2016**

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Waikato Local Authority Shared Services Limited
Annual Directors' Report to Shareholders
30 June 2016

Annual Directors' Report to Shareholders

Waikato Local Authority Shared Services Limited (WLASS) was incorporated in December 2005. On 4 April 2016, the name registered with the Companies Office was changed to Waikato Local Authority Shared Services Ltd, to distinguish it from other local authority shared services companies around New Zealand. This is the eleventh WLASS annual report, and covers the period 1 July 2015 to 30 June 2016.

Message from the Directors

During the past year, the Company has continued to focus on demonstrating the value that WLASS delivers to the shareholding councils. A record of the benefits that have been achieved during the past year has been maintained, and is outlined in more detail in the section on Achievements later in this report. The Board has continued to focus on improving the efficiency and effectiveness of the existing shared services, initiating new projects and work streams, and facilitating the Waikato Mayoral Forum work streams. The Company continues to work collaboratively with BOPLASS, MWLASS and HBLASS, with the CEOs of each company meeting about three times per year.

The Company continues to operate cost effectively with the services of a part-time contracted CEO, part-time contracted Company Secretary and a part-time contracted Financial Accountant.

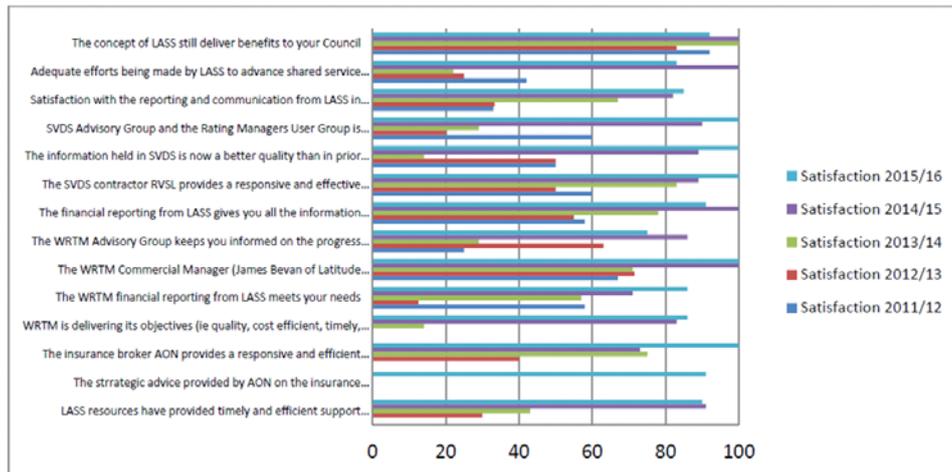
The three mature WLASS operations (the Shared Valuation Data Service (SVDS), the Waikato Regional Transportation Model (WRTM), and the Insurance Advisory Group) continue to deliver value. SVDS has successfully negotiated two additional data sales contracts, with a further sales contract in progress, which has contributed to reducing the operating cost.

The external contract for managing WRTM terminated on 30 June 2016 and WRTM will be managed by RATA from 1 July 2016. During the year, the operational contract was publicly re-tendered and a new contract was let.

The draft Statement of Intent signalled proposals to bring RATA (which was initiated by the Waikato Mayoral Forum) and the Waikato Building Consent Group into WLASS. In addition, the Board also resolved to bring Future Proof into WLASS, and these three new activities will commence from 1 July 2016, which will enable consolidated reporting on these activities to all shareholders.

The Company continues to act as the legal entity to manage contracts arising from the work of the Waikato Mayoral Forum, as well as providing administrative support to the Forum.

Each year, WLASS undertakes a survey of the shareholding councils to assess the level of satisfaction with WLASS services. These surveys have been undertaken since 2007/08, although the questions and scales have been altered from year to year. A summary of the results and trends is shown below.



Overall, the results show that the shareholding councils continue to be satisfied with the efforts being made by WLASS to advance shared services projects across the region.

Waikato Local Authority Shared Services Limited
30 June 2016
(continued)

Governance

WLASS has twelve Directors with each Director representing a shareholder Council. Each Director is currently a Chief Executive of a local authority. It is up to each shareholding Council to decide on their representative. In addition, the Board may appoint up to three professional directors to supplement the Directors' expertise. There are currently no independent Directors.

During the year, David Hammond resigned as a Director, and the Board thanks him for his contribution. Rob Williams is his replacement, transferring from being the appointee of Taupo District Council to that of Thames Coromandel District Council. The Taupo District Council position has been filled by Gareth Green.

The Board looks forward to continuing to build on the WLASS platform that has been established over the past 11 years, and will continue to consider new shared service opportunities that will help to achieve further benefits for shareholders.

The councils of the Waikato Region have put in place a Council Controlled Organisation (as defined in Part 5 of the Local Government Act 2002), to develop and deliver shared services, and to procure services which are available to be joined by any of the 12 shareholding councils that choose to do so. WLASS can also provide a company structure for any Council that wishes to develop new services, under which they can develop and promote services to other local authorities and external parties.

As part of this strategic collaboration, WLASS now provides support to the Waikato Mayoral Forum and to the working parties established by it.

Over the period that the company has been operating, a variety of benefits have been delivered in the form of:

- Improved levels and quality of service
- Co-ordinated approach to the provision of services
- Reductions in the cost of services
- Opportunity to develop new initiatives
- Opportunity for all councils, irrespective of location or size, to benefit from joint initiatives
- Leveraging procurement opportunities through economies of scale resulting from a single entity representing councils

The WLASS Directors continue to seek new opportunities, either from internal investigations or from shareholder initiatives that are presented to it with a sound business case. New services will only be adopted where a business case shows that they provide some form of benefit to the shareholders. The benefits that may be gained include the development of intellectual property through new business services, protection of Council data, improved levels of service, efficiencies and/or reduced cost. All proposals are presented to the Board for approval prior to implementation.

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30 June 2016
(continued)

Performance Measures

The following performance measures were incorporated into the Statement of Intent for the 2015/16 financial year.

TARGET	METHOD	MEASURE	OUTCOME
<p>PROCUREMENT:</p> <p>Joint procurement initiatives for goods and services for WLASS councils will be investigated and implemented.</p>	<p>Procurement is from sources offering best value, service, continuity of supply, and/or opportunities for integration.</p>	<p>A minimum of three new procurement initiatives investigated per annum and business cases developed if considered appropriate.</p> <p>Initiatives which are implemented shall provide financial savings and/or improved service levels to the participating councils.</p> <p>New suppliers are awarded contracts according to the WLASS Financial Delegations Policy.</p>	<p>Achieved: Three new procurement initiatives have been implemented (Laboratory Services (5-year term), IT Professional Services Panel (3-year term, with a 2-year right of renewal), Internal Audit Services (3-year term).</p> <p>Achieved: The Laboratory Services contract is expected to save over \$170,000 p.a. if all of the eligible councils participate. The IT Professional Services Panel provides discounted hourly rates of between and 0 – 50% off market rates, averaging 10.4% over the 22 suppliers. The Internal Audit Services contract provides discounted hourly rates of between 25 – 30% off market rates, plus a number of additional, value added services at no cost. The fees will remain unchanged for 3 years.</p> <p>Achieved: The Laboratory Services contract is an extension of an existing Waikato Regional Council contract, which was originally competitively tendered. Both of the other contracts were publicly tendered and awarded in accordance with the WLASS Financial Delegations Policy.</p>
<p>COLLABORATIVE PROJECTS:</p> <p>Priorities for collaboration are identified, business cases are developed for the highest priority projects, and the projects are implemented.</p>	<p>The focus is on shared services which will benefit all councils.</p>	<p>A minimum of three priority projects for collaboration are identified per annum.</p> <p>If considered of value, business cases are developed for approval by the Board, and the projects are implemented.</p>	<p>Achieved: Five new collaboration projects were implemented during 2015/16: EECA Collaboration Agreement; development of a regional GIS Data Portal; transfer of the Waikato Building Consent group into WLASS; the permanent establishment of RATA within WLASS; the transfer of Future Proof into WLASS.</p> <p>Achieved: All proposals were approved following the consideration of a report to, and a resolution of, the WLASS Board.</p>

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30 June 2016
(continued)

<p>EXISTING WLASS CONTRACTS:</p> <p>Existing contracts are managed and renegotiated as required.</p>	<p>Appointed vendors deliver on the terms of their contracts and deliver value to the shareholders.</p>	<p>The WLASS Contracts Register is maintained and managed.</p> <p>Contracts which are due for renewal are tested for competitiveness and either renegotiated or tendered through a competitive process.</p>	<p>Achieved: The Contracts Register is up-to-date.</p> <p>Achieved: The NZ Post contract has been extended for 2 years on the existing terms and conditions.</p>
<p>CASHFLOW:</p> <p>The company shall maintain a positive cashflow position.</p>	<p>The Financial Accountant reviews cashflow monthly.</p> <p>The WLASS Board reviews the financial statements quarterly.</p>	<p>Monthly financial statements show a positive cashflow position.</p>	<p>Not achieved: Cash flow for the year shows a decrease in total cash held of \$10,944.</p> <p>The company still maintains a safe cash position, with cash, cash equivalents and bank account balances at the end of June 2016 being \$682,673.</p>
<p>COST CONTROL:</p> <p>Administration expenditure shall be managed and monitored.</p>	<p>The Financial Accountant and Chief Executive review expenditure monthly.</p> <p>The WLASS Board reviews financial statements quarterly.</p>	<p>Administration expenditure shall not exceed budget by more than 5%, unless prior approval is obtained from the Board.</p>	<p>Achieved: Actual expenditure was 19% favourable compared to budget.</p> <p>Reports on the financial position were considered at WLASS Board meetings on 21 August and 3 November 2015, and on 15 February, 1 April and 10 June 2016.</p>
<p>REPORTING:</p> <p>Six monthly reports provided to Shareholders.</p>	<p>The Chief Executive prepares a written report for the WLASS Board every meeting.</p> <p>One 6-monthly and one Annual Report are prepared for shareholders.</p>	<p>The Board shall provide a written report on the business operations and financial position of the WLASS to the Shareholders every six months.</p> <p>Note that every second report shall be the Annual Report, which includes a report that all of the statutory requirements of the WLASS are being adhered to.</p>	<p>Achieved: The 2015/16 WLASS Annual Report is being provided.</p> <p>The 6-monthly report was sent to all shareholders on 27 January 2016.</p>

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30 June 2016
(continued)

<p>WAIKATO MAYORAL FORUM:</p> <p>The company shall provide administrative support and updates on Mayoral Forum workstreams to the Mayoral Forum.</p>	<p>Mayoral Forum projects shall be managed financially through the WLASS.</p> <p>Updates on Mayoral Forum projects shall be co-ordinated by the WLASS Chief Executive.</p> <p>Note: The current approved workstreams are:</p> <ul style="list-style-type: none"> • Roading (RATA) • Economic Development • Regulatory Bylaws and Policies • Waters • Waikato Spatial Plan 	<p>The Mayoral Forum is regularly updated on the progress of each approved workstream.</p> <p>Approved invoices for Mayoral Forum projects are paid by the 20th of the month following their receipt.</p>	<p>Achieved: Progress reports were provided to the Mayoral Forum on 7 September and 16 November 2015, and 22 February and 18 April 2016.</p> <p>Achieved: All approved invoices were paid by the 20th of the month following their receipt.</p>
<p>SHARED VALUATION DATA SERVICES (SVDS):</p> <p>The SVDS is reliable, well maintained and available to all users.</p>	<p>A Contract Manager is appointed for SVDS.</p> <p>Contract Manager monitors performance of contractor and reports quarterly to the SVDS Advisory Group.</p>	<p>The SVDS is available to users at least 99% of normal working hours.</p> <p>All capital enhancement work is supported by a business case and approved by the SVDS Advisory Group.</p> <p>The SVDS Advisory Group meets at least 6-monthly.</p>	<p>Achieved: SVDS was available to users for more than 99% of normal working hours.</p> <p>Not Applicable: No capital enhancement work was undertaken during 2015/16.</p> <p>Achieved: The SVDS Advisory Group met five times - on 6 August and 5 November 2015, 29 January (teleconference), 10 March and 2 June 2016.</p>

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(continued)

<p>WAIKATO REGIONAL TRANSPORT MODEL (WRTM):</p> <p>The WRTM is reliable, well maintained and available to all users.</p>	<p>A Contract Manager is appointed for WRTM.</p> <p>Contract Manager monitors performance of the model supplier (currently Traffic Design Group) and reports quarterly to the WRTM Project Advisory Group.</p>	<p>All modelling reports requested from the model supplier are actioned within the agreed timeframe, scope and budget.</p> <p>A report by the Contract Manager on any new developments and on the status of the model is provided to the WLASS Board at least every six months.</p> <p>The quality of the base model complies with NZTA guidelines (as set out in the NZTA's Economic Evaluation Manual), and is independently peer reviewed each time the model is updated.</p>	<p>Achieved: The model supplier reports quarterly on service performance. All modelling reports were actioned within the agreed timeframe and scope; two projects were under the budget estimate and one was slightly over.</p> <p>Not Achieved: Only one report was provided to the Board, at their meeting on 15 February 2016.</p> <p>Achieved: WRTM Census update base model was completed in August 2015. The Peer reviewer has been engaged from the outset of the project. All technical notes and the base model have been signed off by the peer reviewer. Peer reviewer is scheduled to sign off the Future Models in late 2016.</p>
<p>SHAREHOLDER SURVEY:</p> <p>Shareholders are satisfied with the performance of WLASS.</p>	<p>An annual survey of shareholders is undertaken to assess satisfaction levels with WLASS.</p>	<p>A survey of shareholders is undertaken each year, and the results are reported to all shareholders.</p>	<p>Achieved: A survey was undertaken in May 2016, and the results are included in this report.</p> <p>For the 2015/16 survey, the scale of response has been changed from yes, partially, barely, no, don't know/not applicable to very satisfied, satisfied, partially satisfied, dissatisfied and don't know/not applicable. The results for the 2015/16 year are based on the percentage of very satisfied and satisfied responses. Responses of "Don't know" and "N/A" have been excluded from the results.</p>
<p>REVIEW OF BENEFITS:</p> <p>Shareholders are informed of the benefits being provided to shareholding councils by WLASS.</p>	<p>The benefits of WLASS (including financial and non-financial achievements) are regularly analysed and reported to shareholders.</p>	<p>Information on the financial and non-financial benefits being achieved by WLASS are included in the 6-monthly and Annual Report to shareholders.</p>	<p>Achieved: Information on the achievements of WLASS over the past 12 months are included in this report and as part of these performance measures.</p>

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WCLASS Achievements

In August 2015, WCLASS published its first summary report of the benefits that WCLASS has achieved since its inception, titled "Collaboration in Action". Many of those projects are ongoing and the details are not repeated here. This overview outlines new projects and updates WCLASS's achievements during 2015/16.

PROCUREMENT

Internal Audit Services

A closed Request for Proposal for Internal Audit Services was issued to all five Tier 1 All of Government providers of audit services on 10 February 2016. Four companies responded, and following the evaluation process, KPMG were selected as the preferred provider. The contract term is 3 years, and there is no commitment on the value or volume of services required from each participating council. Each council will be invoiced directly for the services provided. Joining Agreements have been sent to each shareholding council. As at 30 June 2016, only one council had signed up, but more are expected to participate. The contract has achieved discounted hourly rates of between 25 – 30% off market rates, plus a number of additional value added services, which will be provided at no cost. The fees have been discounted to the same extent as KPMG's largest clients, and will remain unchanged for the term of the contract. The value of the additional services has been estimated at \$92,615, and includes the following:

- Meeting with Audit NZ to understand their requirements and ensuring no duplication of effort or gaps in coverage in the audit plan for each participating council
- Assistance with developing and validating the annual internal audit plans
- Hosting an annual risk event, including risk training and facilitation of a combined risk profile, for representatives from the participating councils
- Having a dedicated Programme Management Office for Waikato LASS (at no cost to the participating councils)
- Consolidating audits of similar areas to allow sharing of good practice across the participating councils
- Hosting an annual "insights" workshop to share industry updates and learnings from the audits performed
- Providing a 2-hour fraud awareness training session for nominated staff from all participating councils.

Laboratory Testing Services

The Laboratory Testing Services contract is an extension of an existing contract that Waikato Regional Council previously held with R J Hill Laboratories Limited. The scope of the services provided has been extended to include testing of trade waste, effluent and waste water (which were not included in the Regional Council's original contract). The contract term is 5 years, and there is no commitment on the value or volume of services required from each participating council. Each council will be invoiced directly for the services provided. The contract is expected to save over \$170,000 p.a. if all of the councils who initially indicated an interest participate. Joining Agreements have been sent to each shareholding council. As at 30 June 2016, two councils had signed up.

Information Technology Professional Services Panel

The IT Managers' Working Party identified the need to set up a panel of Information Technology Service providers to help meet the ongoing demand and support required for shareholders' in-house Information Services departments.

A Request for Proposal was developed and submitted onto the Government Electronic Tenders Service. Tenders closed on 15 April 2016, and an evaluation was completed. The Panel comprises 22 Information Technology service providers, each operating under individual Framework Agreements with WCLASS, similar to the WCLASS Professional Services Panel that was established two years ago. Each participating council will enter into a Joining Agreement, which will give them access to the Panel under the terms of the Framework Agreement. Projects will be offered through a Request for Service process from a participating council to the appropriate Panel member(s). A typical engagement will be on a project by project basis. However, some services may involve input to parts of projects or to a work package comprising a number of projects within a programme of work.

The range of Information Technology disciplines included in the Panel is anticipated to cover off most of the types of projects that the participating Councils typically undertake. Joining Agreements were provided to all shareholders in July 2016. Savings range from 0 – 50% off current market rates, and average 10.4% over the 22 suppliers.

Waikato Regional Aerial Photography Syndicate (WRAPS)

A Request for Proposal was developed and submitted onto the Government Electronic Tenders Service, with tenders closing on 12 June 2016. The tender evaluation is in process, with the contract expected to be let in August. External funding of \$84,000 has been secured from LINZ and the University of Waikato, which will offset the cost to shareholders.

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All-of-Government (AoG) and Syndicated Contracts

A report on the shareholders' AoG contracts spend and savings for 2015/16 will not be available until mid-August. Details will be included in the 2016/17 six-monthly report.

Eight of the 12 shareholding councils participate in the Ministry of Defence's syndicated contract with BP Oil NZ Ltd. Savings achieved by the participating councils in 2015/16 amounted to \$322,000 for a total spend of \$1,325,000 (a 24.3% saving on national pump prices). While one council cannot easily participate due to the lack of BP service stations within their district, the three other non-participating councils have been made aware of the savings potential of joining this contract.

N3

In 2015/16, N3 reported savings of \$662,000 (25%) for the group, for a total spend of just over \$2M. It should be noted that these savings are based on full retail price. The WLASS membership fee for 10 councils (Rotorua and Taupo are part of the BOPLASS scheme) is \$18,000 p.a., a saving of \$4,000 over the individual membership fees which were being paid prior to the WLASS contract.

SHARED SERVICES

Insurance

The insurance programme was renewed on 1 November 2015. Through the continued collective purchasing arrangement under the WLASS agreement, the member councils were able to achieve a saving of approximately 8.5% on total premium spend, whilst the total declared values for the Material Damage policy increased by approximately 6%. This makes the effective saving approximately 14%.

In addition to a successful renewal outcome, other work has been completed, including:

Natural Disaster Loss Modelling

With the proposed changes in Central Government funding in respect of infrastructure assets, Loss Modelling work has been undertaken to establish Probable Maximum Loss (PML) estimates for some of the member councils. This work is being done using a phased approach, with Waikato Regional, Waikato and Waipa District Councils, being the first to have this work undertaken. The impacts of these studies have been discussed with individual councils at their Audit and Risk Committee meetings. Phase two of this work is currently being undertaken and Treasury have confirmed that they will contribute 50% of the costs.

Cyber Liability Insurance

With Cyber Liability being recognised as one of the fastest growing exposures to organisations, an option for this cover was considered by the Insurance Advisory Group. Four Councils have elected to purchase this cover, being Waikato Regional, and Waikato, Waipa and Matamata Piako District Councils.

In addition to the above, following the changes in Health and Safety legislation, an option for increased limits of cover under the existing Statutory Liability Insurance (\$1,000,000 to \$2,000,000) programme is being investigated prior to the next insurance programme renewal in November.

Shared Valuation Data Service (SVDS)

At the end of the financial year, two additional data sales contracts were signed and one was still under negotiation, which should result in the revenue budget in 2016/17 being exceeded.

Last year was the first year where the full impact of the cost reductions for the software contract itself, and the other support services, have impacted favourably on the member charges. However, a note of caution needs to be sounded with respect to these reductions. With hindsight, the effect of the fixed cost portion of both supporting and managing the software, plus the changes made to the development team due to the reduction in chargeable work coming from WLASS, have probably been underestimated. The ongoing development work needed simply to keep up with new technological advances and new versions of software (for example Microsoft) may also have been underestimated. Therefore, it is considered prudent to expect that some of the surplus created by the reduced charges and the increased revenue will be required from time to time to meet further development needs.

RVSL continued to provide excellent service, as evidenced by the most recent shareholder survey, which reported high levels of satisfaction with the service provided.

Waikato Regional Transport Model (WRTM)

The model service operating contract was successfully retendered in February 2016, and includes an improved range of services for the model partners. Aside from transport modelling, model partners are now able to draw upon a wider range of transport policy, engineering design and passenger transport policy advice from the successful tenderer, Traffic Design Group Ltd.

The WRTM website has been upgraded and includes a more modern design, a new interactive map for looking up historic projects geographically, better ability to control user log-in privileges, and a more usable interface for updating and maintenance. The website went live in April 2016, and all WRTM user group members have successfully registered.

The WRTM Census Update remains uncompleted due to disagreements amongst the partners about suitable land use forecasts. This is a priority to resolve in the first half of 2016/17, as it is holding up investment decision-making.

Contractor Health & Safety Pre-qualification

Councils currently have a varied approach to the assessment and evaluation of health and safety plans submitted by contractors. Waikato LASS are in the process of developing a remotely-hosted, web-based, contractor pre-qualification scheme that will be available to all shareholding councils by early 2017, and will be capable of being rolled-out nationwide.

In November 2015, a Request for Proposal was developed and submitted onto the Government Electronic Tenders Service, seeking an IT solution to manage and maintain a contractor pre-qualification system for Waikato LASS. Eleven responses were received, with three being shortlisted and asked to deliver a demonstration and presentation. The selected provider, SHE Software Pty Ltd, demonstrated a solution that met all of the requirements specified in the project scope, with very little risk and a high number of benefits.

The scheme will require each council contractor to make an on-line application (for a small fee) that will be assessed by a qualified health and safety practitioner. This service will be provided by SHE Software Ltd., at no cost to shareholders. Once qualified, a contractor will be eligible to work for any of the councils participating in the shared service, without any requirement to submit further paperwork, thus significantly reducing the cost of compliance both for councils and for contractors.

The benefits of this new shared service include:

- The availability of a standardised, easy-to-use, low cost, and robust pre-qualification scheme that minimises the resources required, both for contractors and for councils
- Reduced health and safety risks, both for councils and contractors
- Improved health and safety compliance
- Improved contractor engagement in health and safety compliance and improvement
- A regionally (and potentially nationally) consistent approach to contractor health and safety pre-qualification.

The new scheme will be progressively rolled out across the Waikato LASS councils from September through to February. After that, it is planned to take the scheme nationwide.

EFFICIENCY AND EFFECTIVENESS GAINS

EECA Collaboration Agreement

In February 2016, nine of the WLASS councils entered into a Collaboration Agreement with the Energy Efficiency and Conservation Authority (EECA) to develop and implement an Energy Efficiency Policy and an Energy Management Plan, and to undertake a range of energy audits and implement action plans to achieve specified energy savings over a 3-year timeframe. This programme will bring up to \$210,000 in EECA funding to WLASS, subject to achieving certain milestones.

Preliminary assessments of the energy-saving opportunities and the establishment of baseline data at each participating council are in progress, with the first projects scheduled to begin in 2016/17.

Waikato GIS Data Portal

This project arose because all of the Waikato councils provide some form of public web mapping. While these services are very similar, their quality is highly variable. Waikato LASS identified that it would be more resource efficient to provide this service from a single point source, which would improve the user experience through consistency, provide a single point of access and ensure that the information is current.

During 2015/16, a fully functioning data portal has been developed, which has demonstrated the capability of a spatial data warehouse to:

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- Meet open data publishing standards
- Make data available to support economic development
- Reduce the duplication of Council effort and resources in developing web mapping systems and deploying web services exposing source data
- Make high value data accessible to a wide spectrum of users, from basic to advanced consumers, and to provide a practical tool for cross-council collaborative projects
- Potentially, provide a Waikato Regional Civil Defence capability.

The initial work programme has resulted in the development of three basic modules: Property Information, Long-term Projections and Utilities. These modules will be made public using the URL of waikatolass.co.nz within the next few months. Over the coming year, a further eight modules will be developed and added to the portal.

Shared Health & Safety Training

In November 2015, the WLASS Health & Safety Working Party organised shared training in the new Health & Safety legislation for elected members and council staff. Four workshops were conducted by Paul Jarvie (Employment Relations and Safety Manager for the EMA). This proved a very cost effective method of training over 400 attendees from across the region. The total cost was \$11,680 (excl. GST), which was shared equally across all 12 councils (only \$973.28 per council).

Further shared health and safety training initiatives are planned in 2016/17.

Shared Insurance and Risk Management Forum

On 17 February 2016, Waikato LASS, BOPLASS and Aon (our insurance brokers) organised a seminar in Hamilton to discuss natural hazard risks, the importance of getting insurance valuations right, an update from Treasury about the government's plans regarding the 60:40 split for natural disaster recovery, cyber crime, and insurance solutions to the new Health & Safety legislation, amongst other topics. Representatives from Lloyds of London were also present. Staff from across the Waikato and Bay of Plenty councils attended.

OTHER ACTIVITIES

Mayoral Forum

WLASS continued to provide administrative and financial support to the Mayoral Forum during 2015/16. A new Mayoral Forum website and logo was developed and implemented during the year.

New Activities

During the year, considerable time and effort has been spent on planning the transition of RATA, the Waikato Building Group, and Future Proof into WLASS, effective from 1 July 2016. This has involved assisting with preparing the business cases, developing the relevant contractual documentation, and planning how the budgets will be transferred and managed. Everything is on track for a smooth transition from 1 July.

New Company Name and Logo

Local Authority Shared Services Ltd. (LASS) was incorporated in 2005. At the time, it was the first shared services CCO to be established in New Zealand. Since then, a number of other shared services have been established, each branded with the name of their region (e.g. BOPLASS, MWLASS). It has become unclear where the home of "LASS" actually is.

Therefore, in April 2016, the name of the company was formally changed to "Waikato Local Authority Shared Services Ltd.", commonly referred to as "Waikato LASS". A new logo has been developed to complement the new name.

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LASS Financial Position

Expenditure for the LASS has been assessed on the basis of the direct cost of management and the Directors' governance role.

The LASS administration costs for this period were \$189,116 against a budget of \$233,736.

The combined LASS, SVDS, WRTM, procurement and shared service investigations service costs are shown in the financial statements.

Directors

The Directors appointed for the period that this annual report covers were:

Director	Position	Director Appointed By
Gavin Ion(Chair)	Chief Executive Waikato District Council	Waikato District Council
Langley Cavers	Chief Executive Hauraki District Council	Hauraki District Council
Geoff Williams	Chief Executive Rotorua District Council	Rotorua District Council
Chris Ryan	CEO Waitomo District Council	Waitomo District Councils
Vaughn Payne	Chief Executive Waikato Regional Council	Waikato Regional Council
Richard Briggs	Chief Executive Hamilton City Council	Hamilton City Council
Dave Clibbery	Chief Executive Otorohanga District Council	Otorohanga District Council
Rob Williams	Chief Executive Thames-Coromandel District Council	Thames-Coromandel District Council
Don McLeod	Chief Executive Matamata-Piako District Council	Matamata-Piako District Council
Craig Hobbs	Chief Executive South Waikato District Council	South Waikato District Council
Gareth Green	Chief Executive Taupo District Council	Taupo District Council
Garry Dyet	Chief Executive Waipa District Council	Waipa District Council

For and on behalf of the Board.

Director
29 September 2016

Director
29 September 2016

(continued)

(continued)

Item 10

Attachment 1

Item 10

(continued)

(continued)

Attachment 1

Waikato Local Authority Shared Services Limited
Directory
30 June 2016

Directory

Company Number

1730380

Registered office

Waikato District Council
15 Galileo Street
Ngaruawahia

Directors

CAVERS, Langley David
CLIBBERY, Dave
DYET, Garry
WILLIAMS, Geoff
HOBBS, Craig
GREEN, Gareth
BRIGGS, Richard
ION, Gavin John
PAYNE, Vaughn
MCLEOD, Don
RYAN, Chris
WILLIAMS, Rob

Bankers

Bank of New Zealand
Hamilton Banking Centre
Victoria Street
Hamilton

Auditors

Audit New Zealand on behalf of the Auditor-General

Waikato Local Authority Shared Services Limited
Statement of comprehensive revenue and expense
For the year ended 30 June 2016

Statement of comprehensive revenue and expense
For the year ended 30 June 2016

	Note	Actual 2016 \$	Budget 2016 \$	Actual 2015 \$
Revenue				
SVDS Data Sales		223,669	192,000	191,426
Interest		11,529	2,000	16,612
Other revenue	4	<u>2,275,607</u>	<u>2,137,715</u>	<u>1,903,335</u>
Total revenue		2,510,805	2,331,715	2,111,373
Expenditure				
Depreciation and amortisation expense	9	419,507	437,992	419,529
Other expenses	5	<u>2,452,014</u>	<u>2,379,611</u>	<u>2,201,144</u>
Total operating expenditure		<u>2,871,521</u>	<u>2,817,603</u>	<u>2,620,673</u>
Operating surplus/(deficit) before tax and share of equity accounted investments		<u>(360,716)</u>	<u>(485,888)</u>	<u>(509,300)</u>
Surplus/(deficit) before tax		(360,716)	(485,888)	(509,300)
Income tax expense	6	-	-	-
Surplus/(deficit) after tax		<u>(360,716)</u>	<u>(485,888)</u>	<u>(509,300)</u>
Total other comprehensive income		-	-	-
Total comprehensive income		<u>(360,716)</u>	<u>(485,888)</u>	<u>(509,300)</u>
Surplus is attributable to:				

*The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 18*

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Waikato Local Authority Shared Services Limited
Statement of changes in equity
For the year ended 30 June 2016

Statement of changes in equity

For the year ended 30 June 2016

	Note	Actual 2016 \$	Budget 2016 \$	Actual 2015 \$
Balance at 1 July		1,032,008	1,111,459	1,541,308
Total comprehensive revenue and expense previously reported		<u>(360,716)</u>	<u>(485,888)</u>	<u>(509,300)</u>
Balance at 30 June	11	<u>671,293</u>	<u>625,571</u>	<u>1,032,008</u>
Total comprehensive revenue and expense attributable to:				
Equity holders of Local Authority Shared Services Limited		671,293	625,571	1,032,008
Non-controlling interest		<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive revenue and expense		<u>671,293</u>	<u>625,571</u>	<u>1,032,008</u>

*The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 18*

-17-

Waikato Local Authority Shared Services Limited
Statement of financial position
As at 30 June 2016

Statement of Financial Position

As at 30 June 2016

	Note	Actual 2016 \$	Budget 2016 \$	Actual 2015 \$
ASSETS				
Current assets				
Cash and cash equivalents	7	682,673	398,831	693,617
Exchange trade and other receivables	8	370,003	-	792,473
Non-exchange trade and other receivables	8	66,064	-	15,375
Prepayments		148,820	2,990	149,413
Total current assets		1,267,560	401,821	1,650,878
Non-current assets				
Intangible assets	9	491,494	484,886	911,001
Total non-current assets		491,494	484,886	911,001
Total assets		1,759,054	886,707	2,561,879
LIABILITIES				
Current liabilities				
Payables and deferred revenue	10	1,087,761	244,030	1,529,871
Total current liabilities		1,087,761	244,030	1,529,871
Non-current liabilities				
Total non-current liabilities		-	-	-
Total liabilities		1,087,761	244,030	1,529,871
Net assets		671,293	642,677	1,032,008
EQUITY				
Contributed equity	11	2,957,001	2,957,001	2,957,001
Retained earnings	11	(2,285,708)	(2,331,430)	(1,924,993)
		671,293	625,571	1,032,008
Total equity		671,293	625,571	1,032,008

These financial statements have been authorised for issue by the Board of Directors on 29 September 2016

Director
29 September 2016

Director
29 September 2016

The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 18
-18-

Waikato Local Authority Shared Services Limited
Cash flow statement
For the year ended 30 June 2016

Cash flow statement

For the year ended 30 June 2016

	Actual 2016 \$	Budget 2016 \$	Actual 2015 \$
Note			
Cash flows from operating activities			
Interest Received	11,593	2,000	16,538
Receipts from other revenue	2,461,848	2,493,568	2,280,922
Payments to suppliers and employees	(2,430,722)	(2,337,965)	(2,101,635)
Income tax received / (paid)	1,170	(560)	5,330
Goods and services tax (net)	<u>(54,835)</u>	<u>(20,629)</u>	<u>59,305</u>
Net cash flow from operating activities	<u>(10,944)</u>	<u>136,414</u>	<u>260,460</u>
Purchase of intangible assets	<u>-</u>	<u>-</u>	<u>(9,441)</u>
Net cash flow from investing activities	<u>-</u>	<u>-</u>	<u>(9,441)</u>
Net (decrease)/increase in cash, cash equivalents, and bank overdrafts	(10,944)	136,414	251,019
Cash, cash equivalents, and bank overdrafts at the beginning of the year	<u>693,617</u>	<u>-</u>	<u>442,598</u>
Cash, cash equivalents, and bank overdrafts at the end of the year	7 <u>682,673</u>	<u>136,414</u>	<u>693,617</u>

*The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 18*

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Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016

1 Statement of accounting policies for the year ended 30 June 2016

1.1 Reporting entity

Waikato Local Authority Shared Services Limited ("the Company") is a Company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The Company is controlled by the councils listed on the directory page of these accounts. Local Authority Shared Services Ltd is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002, by virtue of each of the shareholding Council's right to appoint the Board of Directors.

The primary objective of the Company is to provide the Waikato region local authorities with a vehicle to develop shared services that demonstrate a benefit to the ratepayers and provide those services to local authorities.

The Company has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the Company are for the year ended 30 June 2016. The financial statements were authorised for issue by the Board of Directors on the 29 September 2016.

2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with the requirements of the LGA, which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with Tier 2 PBE accounting standards.

LASS is eligible to report in accordance with the Tier 2 PBE accounting standards as it:

- is not publicly accountable;
- has expenses more than \$2 million, but less than \$30 million.

These financial statements comply with PBE standards.

These financial statements are the second financial statements presented in accordance with the new PBE accounting standards.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Measurement base

The financial statements have been prepared on a historical cost basis.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar unless otherwise stated. The functional currency of the Company is New Zealand dollars.

Budget figures

The budget figures are those approved by the Board of Directors in the 2015/16 Statement of Intent. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Company in preparing the financial statements.

2.2 Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts and after eliminating sales within the Company. No provisions have been recorded as all revenue and trade receivables are expected to be received.

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016
(continued)

2 Summary of significant accounting policies (continued)

(f) Other revenue

User charges for the SVDS and WRTM asset are recognised when invoiced to the user, ie. councils. The recorded revenue is the net amount of the member charges payable for the transaction. Contributions to Waikato Mayoral Forum projects are recognised as revenue when the Company provides, or is able to provide, the service for which the contribution was charged. Otherwise, contributions are recognised as liabilities until such time as the Company provides, or is able to provide, the service.

2.3 Income tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in statement of financial position and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive revenue and expense or directly in equity.

2.4 Goods and services tax

All items in the financial statements are stated exclusive of goods and services tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the cash flow statement.

Commitments and contingencies are disclosed exclusive of GST.

2.5 Impairment of intangible assets

Intangible assets subsequently measured at cost that have an finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

2 Summary of significant accounting policies (continued)

Value in use for non-cash generating assets

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.7 Receivables

Receivables are recorded at their face value, less any provisions for impairment.

2.8 Intangible assets

(i) Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software are recognised as an intangible asset.

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

(ii) Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is unrecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer Software	5 to 7 years	14 to 20%
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2.9 Payables

Short-term creditors and other payables are recorded at their face value.

2.10 Other financial assets

Investments in bank deposits are initially measured at fair value plus transaction costs.

After initial recognition investments in bank deposits are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or unrecognised are recognised in the income statement.

At each balance sheet date the Company assesses whether there is any objective evidence that an investment is impaired. Any impairment losses are recognised in the income statement.

2.11 Equity

Equity is the shareholders interest in LASS and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

Contributed capital

Contributed capital is the net asset and liability position at the time the Company was formed. The allocation of capital amongst shareholders is explained in note 11.

Accumulated funds

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016
(continued)

2 Summary of significant accounting policies (continued)

Accumulated funds is the Company's accumulated surplus or deficit since formation.

LASS's objectives, policies and processes for managing capital are explained in note 17

3 Critical accounting estimates and assumptions

In preparing the financial statements the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year have been included below.

Intangible asset useful lives and residual values

At each balance date the Company reviews the useful lives and residual values of its intangible assets. Assessing the appropriateness of useful life and residual value estimates of intangible assets requires the Company to consider a number of factors such as the expected period of use of the asset by the Company, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact on the amortisation amount of an asset, therefore impacting on the amortisation expense recognised in the income statement, and carrying amount of the asset in balance sheet. The Company minimises the risk of this estimation uncertainty by reviewing that the asset technology is still relevant and there is no alternative options to recreate the asset at a lower price.

4 Other revenue

	Actual 2016 \$	Actual 2015 \$
<u>Non-exchange revenue</u>		
User Charges	525,066	636,558
Other	169,550	87,146
Total non-exchange revenue	<u>694,616</u>	<u>723,704</u>
<u>Exchange revenue</u>		
Health and Safety	11,679	-
IT Initiatives - GIS Shared Data Portal	22,334	-
Other	11,724	3,390
Insurance Brokerage Fee	147,500	147,500
ValueFinancials Fee	35,866	36,894
GSB Membership Fee	18,000	18,000
Waikato Mayoral Forum Funding	1,154,802	895,567
Infometrics Fee Recovery	62,400	70,400
Debt Management Solutions Recovery	-	7,880
Historical Aerial Photos Recovery	77,001	-
Energy Management Recovery	39,685	-
Total exchange revenue	<u>1,580,991</u>	<u>1,179,631</u>
Total other revenue	<u>2,275,607</u>	<u>1,903,335</u>

5 Other expenses

	Actual 2016 \$	Actual 2015 \$
Other fees to auditors	-	-
Audit fees for financial statement audit (current year)	15,348	15,145
Waikato Mayoral Forum Funding	1,166,735	895,567

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016
(continued)

5 Other expenses (continued)

	Actual 2016 \$	Actual 2015 \$
Insurance Brokerage Fee	147,500	147,500
ValueFinancials Fee	35,866	36,894
GSB Membership Fee	18,000	18,000
Infometrics Fee	62,400	70,400
Debt Management Solutions Fee	-	7,880
ISSP Expenses	-	947
Professional Services Panel Expenses	-	2,767
Other operating expenses	<u>1,006,165</u>	<u>1,006,044</u>
Total rental expense relating to operating leases	<u>2,452,014</u>	<u>2,201,144</u>

6 Income tax

	Actual 2016 \$	Actual 2015 \$
Components of income tax expense:		
Current tax expense	-	-
Adjustments to current tax in prior years	-	-
Deferred tax expense	-	-
Tax expense	<u>-</u>	<u>-</u>

Relationship between tax expense and accounting profit:

Net surplus (deficit) before tax	(360,716)	(509,300)
Tax at 28%	101,000	(142,604)
Plus (less) tax effect of:		
Non-deductible expenditure	-	-
Other timing adjustments	109,059	104,971
Non-taxable income	-	-
Prior year adjustment	-	-
Group loss offset	-	-
Deferred tax adjustment	(105,537)	(105,048)
Tax losses not recognised	<u>(104,522)</u>	<u>142,681</u>
Tax expense	<u>-</u>	<u>-</u>

Deferred tax asset (liability)

	Intangible assets \$	Other provisions \$	Tax losses \$	Total \$
Balance at 1 July 2014	(346,636)	-	346,636	-
Charged to surplus or deficit	105,048	-	(105,048)	-
Charged to other comprehensive income	-	-	-	-
Balance at 30 June 2015	<u>(241,588)</u>	<u>-</u>	<u>241,588</u>	<u>-</u>
	\$	\$	\$	\$
Balance at 1 July 2015	(241,588)	-	241,588	-
Charged to surplus or deficit	105,537	-	(105,537)	-
Charged to other comprehensive income	-	-	-	-
Balance at 30 June 2016	<u>(136,051)</u>	<u>-</u>	<u>136,051</u>	<u>-</u>

A deferred tax asset of \$680,324 (2015: \$589,617) has not been recognised in relation to tax losses carried forward of \$2,492,728 (2015: \$2,105,776).

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016
(continued)

7 Cash and cash equivalents

	2016	2015
	\$	\$
Cash at bank and in hand	637,271	649,221
Short term deposits maturing three months or less from date of acquisitions	<u>45,402</u>	<u>44,396</u>
Total cash and cash equivalents	<u>682,673</u>	<u>693,617</u>
Net Cash and Cash Equivalents and bank overdrafts for the purposes of the Statement of Cashflows	<u>682,673</u>	<u>693,617</u>

The carrying value of cash at bank and short-term deposits with maturities less than three months approximates their fair value.

8 Receivables

	2016	2015
	\$	\$
Gross trade and other receivables	61,821	69,934
Related Party Receivables (note 14)	337,490	733,757
Accrued Interest on Short Term Deposits and Call Accounts	281	345
IRD - RWT Tax Paid	2,642	3,812
GST Refund Due	<u>33,833</u>	-
Total debtors and other receivables	<u>436,067</u>	<u>807,848</u>
Exchange		
Receivables from exchange transactions	370,003	792,473
Non-exchange		
Receivables from non-exchange transactions	<u>66,064</u>	<u>15,375</u>
Total debtors and other receivables	<u>436,067</u>	<u>807,848</u>

9 Intangible assets

	2016	2015
	\$	\$
Computer Software		
Balance at 1 July	5,363,366	5,353,925
Additions	-	9,441
Disposals	-	-
Balance at 30 June	<u>5,363,366</u>	<u>5,363,366</u>
Accumulated amortisation and impairment losses		
Balance at 1 July	4,452,365	4,032,836
Amortisation expenses	(419,507)	(419,529)
Disposals	-	-
Impairment losses	-	-
Balance at 30 June	<u>4,871,872</u>	<u>4,452,365</u>
Carrying Amounts		
Balance at 1 July	911,001	1,321,089
Balance at 30 June	<u>491,494</u>	<u>911,001</u>

Significant intangible assets include the Shared Value Data Services (SVDS) computer software, and the Waikato Regional Transport Model (WRTM) computer software. The carrying amount of the SVDS asset as at 30 June 2016 is \$260,626. The original build cost of the SVDS asset has now been fully amortised, and there is currently 3 years remaining enhancements in the useful life of the asset. The carrying amount of the WRTM asset as at 30 June 2016 is \$218,748 and there is currently 3 year remaining in the useful life of the asset.

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016
(continued)

9 Intangible assets (continued)

The Board of Directors consider that there is no impairment of assets as at 30 June 2016. Accordingly no impairment adjustments are needed.

10 Payables and deferred revenue

	2016 \$	2015 \$
Current		
Trade payables and accrued expenses	482,003	489,381
Related party payables (note 14)	75,992	47,915
Deferred revenue	529,766	971,573
GST payable	-	21,002
Total creditors and other payables	<u>1,087,761</u>	<u>1,529,871</u>
Exchange		
Trade payables	539,595	492,202
Accrued expenses	18,400	45,094
Total creditors and other payables from exchange transactions	<u>557,995</u>	<u>537,296</u>
Non-exchange		
Deferred revenue	529,766	971,573
GST payable	-	21,002
Total creditors and other payables from non-exchange transactions	<u>529,766</u>	<u>992,575</u>
Total current creditors and other payables from exchange and non-exchange transactions	<u>1,087,761</u>	<u>1,529,871</u>

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payable approximates their fair value.

Councils were invoiced for their portion of contribution towards the Waikato Mayoral Forum projects in advance.

11 Reconciliation of equity

	2016 \$	2015 \$
Total equity		
Contributed equity	2,957,001	2,957,001
Opening retained earnings	(2,285,708)	(1,924,993)
Balance at 30 June 2016	<u>671,293</u>	<u>1,032,008</u>
(a) Contributed equity		
Shares on Issue	3,413,569	3,413,569
Uncalled capital	(456,568)	(456,568)
Balance 30 June	<u>2,957,001</u>	<u>2,957,001</u>
Balance at 1 July	2,957,001	2,957,001
Shares Issued	-	-
Balance 30 June	<u>2,957,001</u>	<u>2,957,001</u>
Retained Surpluses		
Balance at 1 July	(1,924,992)	(1,415,693)
Surplus/(deficit) for the year	(360,716)	(509,300)
Balance 30 June	<u>(2,285,708)</u>	<u>(1,924,993)</u>

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016
(continued)

11 Reconciliation of equity (continued)

The Company has issued 2,186,581 (2015 - 2,186,581) shares. The SVDS shares have been fully called and paid for at \$1.00 per share. The WRTM shares have been fully called and paid for at \$10.00 per share. The table below details the different types of shares and their value per share.

Shares are called when notice is given to shareholders by the Board of Directors.

Income	Ordinary Shares	SVDS Shares	WRAPS Shares	WRTM Shares
Hamilton City Council	1	220,514	79,152	50,625
Hauraki District Council	1	40,215	2,864	-
Matamata Piako District Council	1	56,380	4,708	4,500
Otorohanga District Council	1	-	5,716	-
Rotorua Lakes Council	1	126,703	7,516	-
South Waikato District Council	1	42,571	4,916	-
Taupo District Council	1	-	21,652	4,500
Thames Coromandel District Council	1	108,015	6,476	2,250
Waikato District Council	1	106,674	9,376	11,250
Waikato Regional Council	1	803,500	287,872	50,625
Waipa District Council	1	78,748	3,780	11,250
Waitomo District Council	1	23,681	10,540	-
	12	1,607,001	444,568	135,000
	1,000	1	1	10
	12,000	1,607,001	444,568	1,350,000
	(12,000)	-	(444,568)	-
	-	1,607,001	-	1,350,000

General Rights of Ordinary, SVDS, and WRAPS Shares

The rights conferred by section 36(1) of the Companies Act 1993 on holders of shares in the Company are altered as set out below.

- For Ordinary, SVDS and WRAPS shares the holders are entitled to participate in certain services to be provided by the Company, in terms that reflect their investment.
- Service shares (SVDS and WRAPS) do not have any right to share in the distribution of the surplus assets of the Company except to the extent provided for in Schedule 1 of the Company's constitution or in accordance with the terms of issue of those shares pursuant to Clause 6 of the Company's constitution.
- Except as provided in section 177 of the Act and Clause 6.1 of the Company's constitution, no class of service shares shall have any voting rights.

General Rights of WRTM shares

The following rights and obligations are hereby conferred on each WRTM shareholder:

- A right to one vote prior to further WRTM service shares being issued.
- A right to one vote on the application of any surpluses arising from the WRTM service (after NZTA have been allocated 40 per cent [or a portion based on NZTA's proportion of the total cost at the time] of any surpluses.)
- The right to receive monetary benefits that the Company generates through the sale of outputs of the WRTM service in proportion to the apportionment of the development costs as at that time after 40 per cent (or a portion based on NZTA's proportion of the development cost at the time) of the monetary benefits have been allocated to NZTA.
- No right to share in the distribution of the surplus assets of the Company except to the extent provided for in (c) above.
- No right to share in dividends authorised by the Company except to the extent provided for in (c) above.

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016
(continued)

12 Commitments

	2016	2015
	\$	\$
Non-cancellable operating leases as lessee		
Not later than one year	416,897	416,897
Later than one year but not later than five years	<u>612,500</u>	<u>962,500</u>
Total non-cancellable operating leases	<u>1,029,397</u>	<u>1,379,397</u>

13 Contingencies

As at 30 June 2016 the Company had no contingent liabilities or assets (2015 - \$0)

14 Related party transactions

The Company is controlled by the councils listed on the directory page.

Transactions with key management personnel

Key management personnel include the Chief Executive and directors. Directors receive no remuneration. Expenditure paid to the Chief Executive was for the provision of Chief Executive services.

	2016	2015
	\$	\$
Dial New Zealand Ltd - Acting LASS Chief Executive	-	33,075
Jowett Consulting - LASS Chief Executive	<u>119,791</u>	<u>105,170</u>
Total key management personnel compensation	<u>119,791</u>	<u>138,245</u>

Related party disclosures have been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances.

Related parties have been limited to the directors, shareholders and company related roles. The following transactions were carried out with related parties:

	Actual 2016	Actual 2015
	\$	\$
Income		
Hamilton City Council	243,641	351,198
Hauraki District Council	88,926	82,319
Matamata Piako District Council	97,920	152,349
Otorohanga District Council	110,424	94,618
Rotorua Lakes Council	68,574	30,924
South Waikato District Council	78,995	94,351
Taupo District Council	62,977	72,256
Thames Coromandel District Council	139,426	108,469
Waikato District Council	180,736	279,380
Waikato Regional Council	302,304	487,660
Waipa District Council	148,839	474,455
Waitomo District Council	<u>92,874</u>	<u>84,500</u>
	<u>1,615,637</u>	<u>2,312,477</u>

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016
(continued)

14 Related party transactions (continued)

Revenue is related to user charges, Mayoral Forum funding, joint procurement, and shared services investigation funding.

	Actual 2016 \$	Actual 2015 \$
Expenses		
Hamilton City Council	808	3,230
South Waikato District Council	1,360	6,126
Waipa District Council	151,980	132,673
Waikato District Council	5,061	4,421
Waikato Regional Council - Services Provided	<u>28,278</u>	<u>61,848</u>
	<u>187,487</u>	<u>208,299</u>

Expenses are related to services provided by the related parties.

The figures above exclude invoices of \$934 from Waikato Regional Council, \$253 from Waikato District Council and \$13,104 from Hamilton City Council that relate to bills paid on behalf of LASS (2015 - \$4,541).

	Actual 2016 \$	Actual 2015 \$
Balance Sheet		
<i>Trade & Other Receivables</i>		
Hamilton City Council	102,380	105,096
Hauraki District Council	10,367	25,538
Matamata Piako District Council	5,738	79,618
Otorohanga District Council	55,997	52,946
Rotorua Lakes Council	1,718	-
South Waikato District Council	1,819	22,872
Taupo District Council	2,655	42,163
Thames Coromandel District Council	29,751	21,654
Waikato District Council	44,920	98,885
Waikato Regional Council	26,959	137,818
Waipa District Council	28,944	112,295
Waitomo District Council	<u>26,241</u>	<u>34,872</u>
	<u>337,490</u>	<u>733,757</u>
<i>Trade & Other Payables</i>		
Jowett Consulting - LASS Chief Executive	16,493	8,521
South Waikato District Council	-	70
Waikato District Council	1,428	920
Waikato Regional Council	9,615	2,073
Waipa District Council	<u>48,457</u>	<u>36,331</u>
	<u>75,992</u>	<u>47,915</u>

15 Director and executive disclosures

No Directors fees were paid to directors during the year. Directors are not directly remunerated by Local Authority Shared Services. (2015 - \$0)

16 Events occurring after the balance date

There have been no events after balance date.

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016
(continued)

17 Financial instruments

The Company has policies to manage the risks associated with financial instruments. The Company is risk averse and seeks to minimise exposure from its treasury activities.

(a) Financial instrument categories

	2016	2015
	\$	\$
FINANCIAL ASSETS		
Loans and receivables		
Cash and cash equivalents	682,673	693,617
Debtors and other receivables	<u>436,067</u>	<u>807,848</u>
Total loans and receivables	<u>1,118,740</u>	<u>1,501,465</u>
FINANCIAL LIABILITIES		
Financial liabilities at amortised cost		
Creditors and other payables	<u>557,995</u>	<u>1,529,871</u>
Total financial liabilities at amortised cost	<u>557,995</u>	<u>1,529,871</u>

(b) Market risk

The interest rates on the Company's investments would be disclosed in the notes, but at present there are none.

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. The Company's exposure to fair value interest rate risk is limited to short-term bank deposits.

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. Borrowings and investments issued at variable interest rates expose the Company to cashflow interest rate risk.

The Company currently has no variable interest rate debt or investments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is not exposed to currency risk, as it does not enter into foreign currency transactions.

(c) Credit risk

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

Due to the timing of its cash inflows and outflows, the Company invests surplus cash with registered banks.

The Company has processes in place to review the credit quality of customers prior to the granting of credit.

The Company's maximum credit exposure for each class of financial instruments is represented by the total carrying amount of cash equivalents (note 7), investments (nil this year), and trade receivables (note 8). There is no collateral held as security against these financial instruments, including these instruments that are overdue or impaired.

The Company has no significant concentrations of credit risk, as it has a large number of credit customers and only invests funds with registered banks with specified credit ratings.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty raising funds to meet commitments as they fall due.

Prudent liquidity risk management implies maintaining sufficient cash and liquid assets, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

17 Financial instruments (continued)

(d) Liquidity risk (continued)

In meeting its liquidity requirements, the Company maintains a target level of investments that must mature within specified timeframe's.

The maturity profiles of the Company's interest bearing investments and borrowings would be disclosed in the notes, if the Company had any.

18 Explanation of major variances against budget

Explanations for major variations from the Company's budget figures in the statement of intent to 30 June 2016 are as follows:

Statement of comprehensive revenue and expense

SVDS Data Sales are higher than budgeted due additional sales data.

Interest received is higher due to a higher than budgeted cash surplus throughout the year, primarily related to revenue which was received in advance for the Waikato Mayoral Forum activities.

Other revenue is higher than budgeted primarily due to higher expenditure on Waikato Mayoral Forum projects being recognised as revenue, and transferred from deferred income.

Depreciation is lower due to no enhancements work done on the SVDS asset.

Other Expenses are higher than budgeted due to expenditure being incurred primarily on the Spatial Plan and Rooding Waikato Mayoral Forum projects, that was unquantifiable at the time of the budgeting process.

Statement of Changes in Equity

The items as noted above have meant that the Company has made a loss of \$360,716 against a budgeted loss of \$485,888.

Statement of Financial Position

Cash and cash equivalents are higher than budget due to additional funds being held for the payments of the Waikato Mayoral Forum projects which are paid as they are due.

Trade and other receivables are higher than budget due to the timing of invoicing for the final Mayoral Forum contributions for the year.

Trade and other payables are higher than budget due to the timing of payment costs due for Waikato Mayoral Forum projects, ValueFinancials.

Deferred income was unbudgeted due to the unknown contributions from Waikato Mayoral Forum projects that are still to be expensed.

Statement of Cash Flows

Both receipts from other revenue, and payments to suppliers are higher than budgeted due to unbudgeted costs for Waikato Mayoral Forum projects that were unquantifiable at the time the budget was set.

Purchase of Intangible Assets are lower than budget due to no SVDS enhancement expenditure.

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2016
(continued)

19 Adjustments to the Comparative Year Financial Statements

No adjustments have been made to the comparative year financial statements.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Waikato Local Authority Shared Services Limited's financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of Waikato Local Authority Shared Services Limited (the company). The Auditor-General has appointed me, Clarence Susan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 17 to 33, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive revenue and expense, statement of changes in equity and cash flow statement for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 5 to 8.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity International Public Sector Accounting Standards.
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2016.

Our audit was completed on 19 September 2016. 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 of Directors and our responsibilities, and 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 the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and performance information 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 the company's internal control.

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 of Directors;
- the appropriateness of the reported performance information within the company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

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

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the company.

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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



Clarence Susan
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand



value beyond boundaries™

**STATEMENT OF INTENT
FOR 2015/16**

30 June 2015

Local Authority Shared Services Limited

Introduction

This Statement of Intent is a public declaration of the activities and intentions of the Waikato Council Controlled Organisation, Local Authority Shared Services Limited (LASS). The statement outlines the Directors' accountabilities to the shareholders for corporate performance, as is intended by Schedule 8 of the Local Government Act 2002.

Objectives of LASS

During the early 2000s, the relationship between the local authorities within the Waikato Region continued to strengthen. As a result of this, it was considered desirable to set up a structure under which shared services could operate to provide strategic or other advantages to the local authorities involved. Of the structures considered, the Local Authority Shared Services Limited (LASS) was chosen, as it was considered the most appropriate mechanism to provide the Councils in the Waikato Region with a vehicle to operate shared services.

LASS provides a mechanism to develop and procure services which are available to be joined by any shareholder that chooses to do so. It also provides a company structure for any Council that wishes to develop new services, under which they can develop and promote services to other local authorities and external parties.

As part of providing a mechanism for supporting shared services and collaborative opportunities within the region, LASS also provides support to the Waikato Mayoral Forum and the working parties established by.

Nature and Scope of Current Activities

There are currently four major initiatives operating under the LASS umbrella, plus a support role for the collaborative workstreams of the Waikato Mayoral Forum.

1. **Shared Valuation Data Service (SVDS).** This operational system is providing timely and accurate valuation data to member Councils and shareholders. The SVDS has become the accepted valuation database for the region. The revenue shown in the financial statements is based on the assumption that there will continue to be external commercial sales of the SVDS data. However, central government or council decisions on open data provision could reduce or eliminate the commercial sale of SVDS data in the future.
2. **Waikato Regional Transportation Model (WRTM).** This model became fully operational in February 2010. This model provides accurate information to Councils and external users (for a charge) for their transport modelling requirements. The WRTM is the only recognised strategic transport modelling resource in the Waikato Region, and is jointly funded by the NZ Transport Agency.

3. **Joint Procurement Initiatives.** LASS is a party to a number of joint procurement contracts between the company, shareholding Councils and suppliers. Some contracts (e.g. insurance brokerage services; various collective insurance policies; courier and postal services; historic aerial photography) involve all of the shareholding councils. Other joint procurement contracts have been negotiated, involving only some of the shareholding councils (e.g. the Professional Services Panel; computer-generated print, mailhouse and e-services). Further procurement opportunities are continually being identified and a number are currently under active investigation (e.g. asset valuation services; pipe procurement).
4. **The Waikato Regional Aerial Photography Service (WRAPS).** WRAPS was set up in the 1990s for the supply of colour, digital, ortho-rectified, aerial photography for the Waikato Region. So far, there have been three WRAPS contracts – 2002, 2007 and 2012. In 2012, the WRAPS members were the councils of the Waikato Region, plus the Department of Conservation and Waikato University. The next contract is due in 2016/17. Discussions are currently being held with other parties to assess their willingness to join the syndicate. Both Land Information New Zealand (LINZ) and the NZ Transport Agency (NZTA) have indicated potential interest, which would reduce the cost to the participating councils. WRAPS became a LASS-managed project in December 2014.

The establishment of the **Waikato Mayoral Forum** in 2012 resulted in the creation of five working parties to investigate collaborative opportunities in the areas of governance, spatial planning, two waters, roading, and economic development. An additional work stream for bylaws and policies was created in 2013. (Note: The governance workstream is currently in abeyance, and the two waters project is now being run by a consortium comprising Hamilton City, Waikato and Waipa District Councils.) Each working party is led by a Council CEO in conjunction with a group of Mayors/Chairperson from the Waikato Mayoral Forum. LASS provides administrative and financial support to both the Forum and the working parties. The LASS CEO is a member of the roading governance group (RATA).

Over the period that the company has been operating benefits have been delivered in the form of:

- Improved level and quality of service
- Co-ordinated approach to the provision of services
- Reductions in the cost of services
- Development of new initiatives
- Opportunities for all Councils (irrespective of their location or size) to benefit from joint initiatives
- Leverage provided from economy of scales resulting from a single entity representing all Councils and leveraging procurement opportunities.

Based on feedback from the shareholding Councils and the CEO Forum, the LASS Directors will continue to discuss their role in the development of business cases for shared services at Board meetings. The Directors are mindful of the political environment, and see the investigation of possible future shared services as a key focus of their role.

Process for Future Developments

All new proposed shared services involving LASS will have a business case developed for consideration by the Directors. New services will only be adopted where the business case shows that they provide sufficient benefit to the shareholders, that the benefits exceed any benefits associated with other proposals, and where there are sufficient resources available to

progress the initiative. (If there are insufficient resources, the initiative may be deferred and reconsidered at such time that resources can be made available.)

Benefits may include, but are not limited to, greater strategic capacity, mitigation of risk, development of intellectual property, protection of Council data, improved levels of service, efficiencies and/or reduced cost. All proposals shall be presented to the shareholding councils for approval prior to implementation. Further approvals may be required at various phases during the development of a shared service or if material changes to the original proposal are thought desirable as the initiative is developed.

Governance

LASS has twelve Directors, with each Director representing a shareholder Council.

Unless otherwise agreed by the appointing Councils, each Director shall be the Chief Executive of a local authority. In addition, the Board may appoint up to three professional directors to supplement the Directors' expertise. At this time, no independent directors have been appointed to the Board.

LASS conducts itself in accordance with its constitution, its annual Statement of Intent as agreed with shareholders, the provisions of the Local Government Act 2002, and LASS policies.

Directors

The current Directors of LASS are:

Director	Position	Director Appointed By
Gavin Ion (Chair)	Chief Executive, Waikato District Council	Waikato District Council
Geoffrey Williams	Chief Executive, Rotorua District Council	Rotorua District Council
Chris Ryan	Chief Executive Officer, Waitomo District Council	Waitomo District Council
Vaughan Payne	Chief Executive, Waikato Regional Council	Waikato Regional Council
Langley Cavers	Chief Executive, Hauraki District Council	Hauraki District Council
Richard Briggs	Chief Executive, Hamilton City Council	Hamilton City Council
David Hammond	Chief Executive, Thames-Coromandel District Council	Thames-Coromandel District Council
Garry Dyet	Chief Executive, Waipa District Council	Waipa District Council
Don McLeod	Chief Executive Officer, Matamata-Piako District Council	Matamata-Piako District Council
Rob Williams	Chief Executive Officer, Taupo District Council	Taupo District Council
Craig Hobbs	Chief Executive Officer, South Waikato District Council	South Waikato District Council
Dave Clibbery	Chief Executive Officer, Otorohanga District Council	Otorohanga District Council

Activities for which the Board seeks Compensation

Additional shared services may be developed during the year that this Statement of Intent is current. Any such services will only be delivered by LASS after the Directors have considered a business case, including the proposed budget, and agreed that the proposed new service meets the objectives of LASS.

Any ongoing activities to identify, develop and procure shared services will be budgeted for in advance, subject to a business case, and either funded and/or staffed by individual Councils without LASS involvement, or agreed by the Directors to be funded by the LASS and/or utilising LASS resources with consequent recovery from participating Councils.

Shareholders will continue to contribute to the operational costs of the LASS on an annual basis.

Performance Targets

To ensure that the Company continues to operate effectively and efficiently, the performance targets for 2015/16 are as follows:

TARGET	METHOD	MEASURE
<p>Procurement Joint procurement initiatives for goods and services for LASS councils will be investigated and implemented.</p>	<p>Procurement is from sources offering best value, service, continuity of supply, and/or opportunities for integration.</p>	<p>A minimum of three new procurement initiatives investigated per annum and business cases developed if considered appropriate.</p> <p>Initiatives which are implemented shall provide financial savings and/or improved service levels to the participating councils.</p> <p>New suppliers are awarded contracts according to the LASS Financial Delegations Policy.</p>
<p>Collaborative Projects Priorities for collaboration are identified, business cases are developed for the highest priority projects, and the projects are implemented.</p>	<p>The focus is on shared services which will benefit all councils.</p>	<p>A minimum of three priority projects for collaboration are identified per annum.</p> <p>If considered of value, business cases are developed for approval by the Board, and the projects are implemented.</p>
<p>Existing LASS Contracts Existing contracts are managed and renegotiated as required.</p>	<p>Appointed vendors deliver on the terms of their contracts and deliver value to the shareholders.</p>	<p>The LASS Contracts Register is maintained and managed.</p> <p>Contracts which are due for</p>

		renewal are tested for competitiveness and either renegotiated or tendered through a competitive process.
Cashflow The company shall maintain a positive cashflow position.	The Financial Accountant reviews cashflow monthly. The LASS Board reviews the financial statements quarterly.	Monthly financial statements show a positive cashflow position.
Cost Control Administration expenditure shall be managed and monitored.	The Financial Accountant and Chief Executive review expenditure monthly. The LASS Board reviews financial statements quarterly.	Administration expenditure shall not exceed budget by more than 5%, unless prior approval is obtained from the Board.
Reporting Six monthly reports provided to Shareholders.	The Chief Executive prepares a written report for the LASS Board every meeting. One 6-monthly and one Annual Report are prepared for shareholders.	The Board shall provide a written report on the business operations and financial position of the LASS to the Shareholders every six months. Note that every second report shall be the Annual Report, which includes a report that all of the statutory requirements of the LASS are being adhered to.
Waikato Mayoral Forum The company shall provide administrative support and updates on Mayoral Forum workstreams to the Mayoral Forum.	Mayoral Forum projects shall be managed financially through the LASS. Updates on Mayoral Forum projects shall be co-ordinated by the LASS Chief Executive. Note: The current approved workstreams are: <ul style="list-style-type: none"> • Rooding (RATA) • Economic Development • Regulatory Bylaws and Policies • Waters • Waikato Spatial Plan 	The Mayoral Forum is regularly updated on the progress of each approved workstream. Approved invoices for Mayoral Forum projects are paid by the 20 th of the month following their receipt.

<p>Shared Valuation Data Services (SVDS) The SVDS is reliable, well maintained and available to all users.</p>	<p>A Contract Manager is appointed for SVDS.</p> <p>Contract Manager monitors performance of contractor and reports quarterly to the SVDS Advisory Group.</p>	<p>The SVDS is available to users at least 99% of normal working hours.</p> <p>All capital enhancement work is supported by a business case and approved by the SVDS Advisory Group.</p> <p>The SVDS Advisory Group meets at least 6-monthly.</p>
<p>Waikato Regional Transport Model (WRTM) The WRTM is reliable, well maintained and available to all users.</p>	<p>A Contract Manager is appointed for WRTM.</p> <p>Contract Manager monitors performance of the model supplier (currently Traffic Design Group) and reports quarterly to the WRTM Project Advisory Group.</p>	<p>All modelling reports requested from the model supplier are actioned within the agreed timeframe, scope and budget.</p> <p>A report by the Contract Manager on any new developments and on the status of the model is provided to the LASS Board at least every six months.</p> <p>The quality of the base model complies with NZTA guidelines (as set out in the NZTA's Economic Evaluation Manual), and is independently peer reviewed each time the model is updated.</p>
<p>Shareholder Survey Shareholders are satisfied with the performance of LASS.</p>	<p>An annual survey of shareholders is undertaken to assess satisfaction levels with LASS.</p>	<p>A survey of shareholders is undertaken each year, and the results are reported to all shareholders.</p>
<p>Review of Benefits Shareholders are informed of the benefits being provided to shareholding councils by LASS.</p>	<p>The benefits of LASS (including financial and non-financial achievements) are regularly analysed and reported to shareholders.</p>	<p>Information on the financial and non-financial benefits being achieved by LASS are included in the 6-monthly and Annual Report to shareholders.</p>

Policy Statements

Changes to NZ Accounting Standards

The NZ Accounting Standards Board recently released new accounting standards that will apply to LASS. LASS must transition to these new standards for the year ended 30 June 2015. The first step has been to determine which reporting tier LASS sits under. The Directors have determined that LASS should be classified as Tier 2.

Statement of Accounting Principles

Financial statements are for a company wholly owned by the 12 local authorities within the Waikato Region, in the proportion of one share per local authority. Financial statements will be prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with the New Zealand Generally Accepted Accounting Practice (NZ GAAP), the Financial Reporting Act 1993 and the NZ Financial Reporting Standard No. 42.

Specific Accounting Principles

The following particular principles, which have a significant effect on measurement of the financial position, will apply:

- Accounts Receivable are to be stated at their expected realisable value after writing off any known bad debts and providing for doubtful debts.
- Investments are to be valued at the prevailing market value.
- Fixed assets are to be recorded at cost, less accumulated depreciation.

Intangible Assets

Where intangible assets are purchased, such as intellectual property and computer software, these are to be capitalised and written off on a straight line basis over their expected life, but over no greater than seven years.

Depreciation / Amortisation is to be provided on a straight-line basis on all assets other than land, and shall align with normal accepted depreciation for the types of services being developed.

Impairment Testing

Assets with a finite life are reviewed annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Balance Sheet Ratios

The Local Government Act 2002 requires the Statement of Intent to include the projected ratio of shareholders' funds to total assets within the Forecast Statement of Financial Position.

LASS is budgeted to have an accumulated shareholders fund of \$637,041 at 30 June 2016, which relates to 73.6% of total assets. The only liabilities of the LASS are trade creditors.

The Forecast Financial Statements for 2015/16 are attached to this Statement of Intent.

Procedures for the Purchase and Acquisition of Shares

The Board will give approval before LASS subscribes for, purchases, or otherwise acquires shares in any company or other organisation, which is external to the group.

Inventories

It is not envisaged that the company will hold inventories, other than those that might relate to providing computer-based services to a number of parties. They will be valued at net realisable value.

Taxation

Taxation will be provided as required against the company in line with the required legislation.

In accordance with the Public Audit Act 2001 and the Local Government Act 2002, the Auditor General will be responsible for the audit of the company's financial statements.

As the current shared services are on a cost recovery basis, it is not envisaged that any dividends will be paid.

Value of Shareholders' Investment

The Directors' estimate of the commercial value of the shareholders' investment in the LASS is equal to the shareholders equity in the company. Reassessment of the value of this shareholding shall be undertaken on or about 1 April each year.

Distributions to Shareholders

The Company is not expected to make profits that would ordinarily be distributed by way of dividends. Any surplus funds remaining from an activity or the annual operations of the Company shall be carried forward to the ensuing year and may be used to reduce service costs, invest in further developing other services, and/or as the Directors may decide.

Compensation

Directors of the LASS will not receive any fees or expenses for work undertaken on behalf of the LASS.

As the basis of funding for LASS, payment will be sought from all local authorities that receive services from LASS.

Information to be provided to Shareholders

The company will deliver the following information to shareholders:

- Within two months of the end of the first half of the financial year, a 6-monthly report, including a Statement of Financial Performance, a Statement of Changes in Equity, a Statement of Financial Position, and a Statement of Cashflows and Service Performance.
- Within three months of the end of the financial year, an audited Statement of Financial Performance, Statement of Changes in Equity, Statement of Financial Position, a Statement of Cashflows and Service Performance, plus a summary of how the company has fared against its objectives, its prospects for the next financial year, and a report on the company's medium to long-term plans.

Review of Statement of Intent

The Directors shall approve by 1 March of each year a Draft Statement of Intent for consideration by the shareholders.

The Directors must consider any comments on the Draft Statement of Intent that are made to it by the shareholders within two months of 1 March, and shall deliver the completed Statement of Intent to the shareholders by 30 June.

Local Authority Shared Services					
Company Summary					
For the Year Ended 30 June 2016					
	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
Income					
Company Administration Member Charges	87,146	169,550	82,404	183,795	189,024
Recovery of Admin Costs	44,405	62,686	18,281	54,552	56,020
SVDS Member Charges	561,516	290,293	(271,223)	288,152	303,146
SVDS Data & Software Sales	125,964	192,000	66,036	196,704	201,681
TA Valuation Services Recovery	0	78,500	(300)	80,423	82,458
SVDS Enhancements Recovery	0	10,000	(116,987)	10,245	10,504
WRTM Member Charges	56,702	128,143	71,441	85,468	87,674
WRTM External User Recovery	0	12,000	12,000	12,294	12,605
Mayoral Forum Funding	248,370	1,051,245	802,875	996,583	1,054,564
N3 Membership Fee Recovery	18,000	18,000	0	18,000	18,000
ValueFinancials Fee Recovery	46,750	46,750	0	46,750	46,750
Insurance Brokerage Fee Recovery	147,500	147,500	0	147,500	147,500
Infometrics Recovery	0	70,400	70,400	70,400	70,400
Asset Valuation Services	0	0	0	0	0
Energy Management	0	16,000	16,000	0	0
Health and Safety Working Party	0	0	0	0	0
IT Initiatives - GIS Shared Data Portal	0	22,334	22,334	4,000	4,000
LG Collaboration Portal	0	0	0	0	0
WRAPS Recovery	0	0	0	0	0
Historical Aerial Photos Recovery	0	77,000	77,000	77,000	77,000
Interest Received	800	2,000	(300)	1,700	1,700
Total Income	1,337,153	2,394,401	849,961	2,273,566	2,363,026
Operating Expenditure					
Company Admin Operating Expenditure	213,955	233,736	19,781	239,547	246,244
SVDS Operating Expenditure	609,637	561,293	(48,344)	565,779	587,785
WRTM Operating Expenditure	106,702	186,773	80,071	97,762	100,279
Mayoral Forum Operating Expenditure	248,370	1,051,245	802,875	996,583	1,054,564
Procurement Operating Expenditure	212,250	409,250	197,000	363,650	363,650
Total Operating Expenditure	1,390,914	2,442,297	1,051,383	2,263,321	2,352,522
Earnings before interest, tax and depreciation/ amortisation (EBITA)					
	(53,761)	(47,896)	(201,422)	10,245	10,504
Non-Cash Operating Expenditure					
Company Admin Non-Cash Expenditure	171	171	(0)	171	171
SVDS Non-Cash Expenditure	143,725	109,699	(34,026)	109,699	109,699
WRTM Non-Cash Expenditure	328,122	328,122	0	218,748	0
Total Non-Cash Operating Expenditure	472,017	437,992	(34,026)	328,618	109,870
Earnings before interest and tax (EBIT)					
	(525,778)	(485,888)	(167,396)	(318,372)	(99,365)
Net Surplus (Deficit) before tax					
	(525,778)	(485,888)	(167,396)	(318,372)	(99,365)
Company Admin Net Surplus (Deficit) before tax	(82,575)	(171)	82,404	(171)	(171)
SVDS Net Surplus (Deficit) before tax	(65,082)	(99,699)	(34,617)	(99,453)	(99,195)
WRTM Net Surplus (Deficit) before tax	(378,122)	(374,752)	3,370	(218,748)	0
Mayoral Forum Net Surplus (Deficit) before tax	0	0	0	0	0
Procurement Net Surplus (Deficit) before tax	0	(11,266)	(11,266)	0	0
Net Surplus (Deficit) before tax	(525,778)	(485,888)	39,891	(318,372)	(99,365)
Capital Expenditure					
Enhancements	78,643	10,000	(68,643)	10,245	10,504
Total Capital Expenditure	78,643	10,000	(68,643)	10,245	10,504

Local Authority Shared Services						
Company Admin						
For the Year Ended 30 June 2016						
	Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
Income						
Company Administration Member Charges	1	87,146	169,550	82,404	183,795	189,024
Recovery of Admin Costs		44,405	62,686	18,281	54,552	56,020
Mayoral Forum Interest		0	1,500	1,500	1,200	1,200
Total Income		131,551	233,736	102,185	239,547	246,244
Expenses						
Accounting/ Financial Services	2	17,510	27,500	9,990	28,174	28,805
External Accounting/ Financial Services		3,998	4,000	2	4,098	4,190
Audit Fees		15,500	15,349	(151)	15,725	16,077
IT Services		45	92	47	94	96
Bank Charges		438	280	(158)	287	293
Printing, Stationery & Postage		250	0	(250)	0	0
Legal Fees		2,560	2,500	(60)	2,561	2,619
Value Financials Licence Fee		2,250	2,600	350	2,600	2,600
Sundry Expenses		500	1,200	700	1,200	1,200
Insurance		2,048	2,800	752	2,869	2,933
Shared Services Contractors		156,000	156,000	0	160,000	165,000
Company Secretary Fees		11,856	11,415	(441)	11,695	11,957
Mileage Costs	3	1,000	10,000	9,000	10,245	10,474
Total Expenses		213,955	233,736	19,781	239,547	246,244
Earnings before interest, tax and depreciation/ amortisation (EBITA)	4	(82,404)	0	82,404	0	0
Non-Cash Expenses						
Depreciation		171	171	(0)	171	171
Earnings before interest and tax		(82,575)	(171)	82,404	(171)	(171)
Net Surplus (Deficit) before tax		(82,575)	(171)	82,404	(171)	(171)

Notes

- 1) 2014/15 Member Charges were reduced by prior year surpluses.
- 2) Financial services have increased due to additional workload from new initiatives.
- 3) Increased mileage costs for shared services contractor.
- 4) Prior year surpluses utilised to offset member charges.

Local Authority Shared Services						
Shared Valuation Data Service						
For the Year Ended 30 June 2016						
	Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
Income						
SVDS Member Charges	1	561,516	290,293	(271,223)	288,152	303,146
TA Valuation Services Recovery	2	0	78,500	78,500	80,423	82,458
SVDS Enhancements Recovery	3	0	10,000	10,000	10,245	10,504
SVDS Data & Software Sales	4	125,964	192,000	66,036	196,704	201,681
Interest Received - SVDS		800	500	(300)	500	500
Total Income		688,280	571,293	(116,987)	576,024	598,289
Expenses						
Hosting Contract		69,509	49,200	(20,309)	50,405	51,681
Software Contract		117,965	95,000	(22,965)	97,328	99,790
Management Services		381,711	276,500	(105,211)	283,274	290,441
TA Valuation Services		0	78,500	78,500	80,423	82,458
Consultancy Fees		16,000	16,000	0	16,000	16,000
Software Support Contingency		0	6,250	6,250	6,462	6,681
Insurance		1,500	1,500	0	1,537	1,576
Legal Fees	5	0	4,000	4,000	0	8,000
Secretarial Services		0	3,000	3,000	3,074	3,149
On charge of LASS Admin Costs		22,952	31,343	8,391	27,276	28,010
Total Expenses		609,637	561,293	(48,344)	565,779	587,785
Earnings before interest, tax and depreciation/ amortisation (EBITA)		78,643	10,000	(68,643)	10,245	10,504
Non-Cash Expenses						
Depreciation	6	143,725	109,699	(34,026)	109,699	109,699
Earnings before interest and tax		(65,082)	(99,699)	(34,617)	(99,453)	(99,195)
Net Surplus (Deficit) before tax		(65,082)	(99,699)	(34,617)	(99,453)	(99,195)
Capital Expenditure						
Enhancements	3	78,643	10,000	(68,643)	10,245	10,504
Total Capital Expenditure		78,643	10,000	(68,643)	10,245	10,504
Total Cash Expenditure (Opex, Interest & Capital)		688,280	571,293	(116,987)	576,024	598,289

Notes

- 1) 2014/15 Member Charges were reduced by prior year surpluses. Member charges from 2015/16 onwards are reduced due to new contracts negotiated.
- 2) Valuation Services to now be billed to LASS and then recovered, rather than individual council due to new contract terms.
- 3) Enhancement work to be recovered by individual councils.
- 4) Increase due to new contract with Headway.
- 5) Provision for 2017/18 to tie in with contract review terms.
- 6) Decrease in depreciation due to change to the life of the NBV of the SVDS asset by an additional 5 years.

Local Authority Shared Services						
Waikato Regional Transport Model						
For the Year Ended 30 June 2016						
	Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
Income						
WRTM Member Charges	1	56,702	128,143	71,441	85,468	87,674
External User Recovery		0	12,000	12,000	12,294	12,605
Total Income		56,702	140,143	83,441	97,762	100,279
Expenses						
WRTM Project Manager		18,000	18,000	0	18,441	18,908
Minor Model Upgrades		30,000	30,000	0	30,735	31,513
Peer Review		5,000	5,000	0	5,123	5,252
Annual Scheduling of Works Review		4,500	4,500	0	4,610	4,727
Insurance		2,000	1,300	(700)	1,332	1,366
WRTM Base Model Testing		0	15,000	15,000	0	0
External User Costs		0	10,000	10,000	10,245	10,504
Census Update	2	0	14,959	14,959		
Future Land Use Client Input	3	0	43,000	43,000	0	0
Tendering for WRTM Contract	4	25,000	13,671	(11,329)	0	0
On charge of LASS Admin Costs		22,202	31,343	9,141	27,276	28,010
Total Expenses		106,702	186,773	80,071	97,762	100,279
Earnings before interest, tax and depreciation/ amortisation (EBITA)						
	1	(50,000)	(46,630)	3,370	0	0
Non-Cash Expenses						
Depreciation	5	328,122	328,122	0	218,748	0
Earnings before interest and tax		(378,122)	(374,752)	3,370	(218,748)	0
Net Surplus (Deficit) before tax		(378,122)	(374,752)	3,370	(218,748)	0

Notes

- 1) Member Charges reduced by prior year surpluses. Prior year surpluses utilised to offset member charges
- 2) Forecasted unspent funds of \$14,959 for 2014/15 to be carried over to complete work in 2015/16.
- 3) Forecasted unspent funds of approximately \$18,000 for 2014/15 to be carried over to complete work in 2015/16, and an additional \$25,000 was requested and approved through the WRTM User & Advisory Group.
- 4) Forecasted unspent funds of \$15,671 for 2014/15 to be carried over to complete work in 2015/16 due to WRTM contract being pushed out for one year.
- 5) WRTM asset to be fully depreciated by February 2017.

Local Authority Shared Services						
Mayoral Forum Projects						
For the Year Ended 30 June 2016						
	Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
Income						
Spatial Plan	1	241,370	319,000	77,630	425,000	425,000
Economic Development		0	0	0	0	0
Waters		0	0	0	0	0
Roading (RATA)		0	611,245	611,245	544,583	602,564
Policy & Bylaws	2	0	114,000	114,000	20,000	20,000
Meeting Expenses		7,000	7,000	0	7,000	7,000
Total Income		248,370	1,051,245	802,875	996,583	1,054,564
Expenses						
Spatial Plan	1	241,370	319,000	77,630	425,000	425,000
Economic Development		0	0	0	0	0
Waters		0	0	0	0	0
Roading (RATA)		0	611,245	611,245	544,583	602,564
Policy & Bylaws	2	0	114,000	114,000	20,000	20,000
Meeting Expenses		7,000	7,000	0	7,000	7,000
Total Expenses		248,370	1,051,245	802,875	996,583	1,054,564
Earnings before interest, tax and depreciation/ amortisation (EBITA)		0	0	0	0	0
Earnings before interest and tax		0	0	0	0	0
Net Surplus (Deficit) before tax		0	0	0	0	0

Notes

- 1) The budget for the 2015/16 year is based on the budget approved by the Joint Committee in early 2015. Implementation phase from 1 Jul 16 - midpoint of \$350-500K proposal from J.Bevan - subject to outcome of Waikato Plan.
- 2) Policy & Bylaws - includes \$94,000 in 2015/16 for Regional Infrastructure Technical Specifications work

Local Authority Shared Services						
Procurement of Shared Services						
For the Year Ended 30 June 2016						
	Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
Income						
N3 Membership Fee Recovery		18,000	18,000	0	18,000	18,000
Value Financials Fee Recovery		46,750	46,750	0	46,750	46,750
Insurance Brokerage Fee Recovery		147,500	147,500	0	147,500	147,500
Infometrics	1	0	70,400	70,400	70,400	70,400
Asset Valuation Services		0	0	0	0	0
Energy Management	2	0	16,000	16,000	0	0
Health and Safety Working Party		0	0	0	0	0
IT Initiatives - GIS Shared Data Portal	3	0	22,334	22,334	4,000	4,000
LG Collaboration Portal		0	0	0	0	0
WRAPS Recovery	4	0	0	0	0	0
Historical Aerial Photos Recovery		0	77,000	77,000	77,000	77,000
Total Income		212,250	397,984	185,734	363,650	363,650
Expenses						
N3 Membership Fee		18,000	18,000	0	18,000	18,000
Value Financial Fees		46,750	46,750	0	46,750	46,750
Insurance Brokerage Fee Payable		147,500	147,500	0	147,500	147,500
Infometrics	1	0	70,400	70,400	70,400	70,400
Asset Valuation Services		0	0	0	0	0
Energy Management	2	0	16,000	16,000	0	0
Health and Safety Working Party		0	0	0	0	0
IT Initiatives - GIS Shared Data Portal	3	0	33,600	33,600	4,000	4,000
LG Collaboration Portal		0	0	0	0	0
WRAPS Services	4	0	0	0	0	0
Historical Aerial Photos Services		0	77,000	77,000	77,000	77,000
Total Expenses		212,250	409,250	197,000	363,650	363,650
Earnings before interest, tax and depreciation/ amortisation (EBITA)		0	(11,266)	(11,266)	0	0
Earnings before interest and tax		0	(11,266)	(11,266)	0	0
Net Surplus (Deficit) before tax		0	(11,266)	(11,266)	0	0

Notes

- 1) Infometrics not budgeted for in 2014/15, but actual costs of \$70,400 were incurred. The budgeted involved councils are Hamilton City Council, Waikato District Council, Thames-Coromandel District Council, and Waikato Regional Council.
- 2) Budget in 2015/16 for development of a business case to secure funding from EECA. If successful, both income and expenditure are likely to increase.
- 3) Budget for GIS Shared Data Portal. Initial setup in 2015/16 of \$14,200, with \$11,266 to be funded from prior years IT surplus, and remainder from participating councils. Initial one-off cost of \$1,400 per council to set up on portal, and annual cost to LASS of \$4,000 to be recovered from participating councils.
- 4) WRAPS working party are currently developing the tender document and it is unknown at this stage what the costs will be.

Local Authority Shared Services					
Balance Sheet					
For the Year Ended 30 June 2016					
	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
CAPITAL					
Shares - SVDS	1,607,001	1,607,001	0	1,607,001	1,607,001
Shares - WRTM	1,350,000	1,350,000	0	1,350,000	1,350,000
Profit and Loss	(1,566,237)	(1,845,542)	(279,305)	(2,331,430)	(2,649,802)
Plus Current Year Operating Surplus/(Deficit)	(525,778)	(485,888)	39,890	(318,372)	(99,365)
TOTAL CAPITAL FUNDS	864,986	625,571	(239,415)	307,199	207,834
ASSETS					
CURRENT ASSETS					
Prepayments	1,868	2,990	1,122	2,990	2,990
Accounts Receivable	3,557	15,167	11,610	15,329	15,703
RWT On Interest	224	560	336	476	476
Local Authority Shared Services 00	6,731	0	(6,731)	0	0
Local Authority Shared Services On-Call	47,103	398,831	351,729	379,248	398,878
GST Paid	(9,522)	(32,833)	(23,311)	(30,236)	(41,462)
TOTAL CURRENT ASSETS	49,960	384,716	334,755	367,808	376,585
NON-CURRENT ASSETS					
SVDS - Intangible Asset	3,142,359	3,080,875	(61,484)	3,091,120	3,101,625
WRTM - Intangible Asset	2,296,855	2,296,855	0	2,296,855	2,296,855
MoneyWorks Software	1,195	1,195	0	1,195	1,195
Accumulated Depreciation	(4,548,273)	(4,894,039)	(345,766)	(5,222,656)	(5,332,526)
TOTAL NON-CURRENT ASSETS	892,136	484,886	(407,250)	166,514	67,149
NET ASSETS	942,096	869,602	(72,494)	534,322	443,734
LESS CURRENT LIABILITIES					
Accounts Payable	67,035	234,053	167,018	216,902	225,450
Accounts Payable Accrual	10,075	9,977	(98)	10,221	10,450
TOTAL CURRENT LIABILITIES	77,110	244,030	166,920	227,123	235,900
NET WORKING CAPITAL	864,986	625,571	(239,415)	307,199	207,834

Local Authority Shared Services					
Statement of Cashflows					
For the Year Ended 30 June 2016					
	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
Cashflows from Operating Activities					
Interest Received	500	2,000	1,500	1,700	1,700
Receipts from Other Revenue	1,184,191	2,493,568	1,309,377	2,342,965	2,437,384
Payments to Suppliers	(1,329,850)	(2,337,965)	(1,008,115)	(2,335,025)	(2,399,993)
Taxes Paid	(224)	(560)	(336)	(476)	(476)
Goods & Services tax (net)	(3,173)	(20,629)	(17,456)	(18,501)	(8,481)
Net cash from operating activities	(148,556)	136,415	284,971	(9,338)	30,134
Purchase of Intangible Assets	(78,643)	(10,000)	68,643	(10,245)	(10,504)
Net cash from investing activities	(78,643)	(10,000)	68,643	(10,245)	(10,504)
Net increase in cash, cash equivalents and bank accounts	(226,899)	126,415	353,314	(19,583)	19,630
Opening cash and cash equivalents and bank overdrafts	280,733	272,416	(8,317)	398,831	379,248
Closing cash, cash equivalents and bank accounts	53,834	398,831	344,998	379,248	398,878
Summary of Bank Accounts					
BNZ - Cheque a/c	6,731	0	(6,731)	0	0
BNZ - Call a/c	47,103	398,831	351,729	379,248	398,878
Closing Balance of Bank	53,834	398,831	344,998	379,248	398,878

Item 11

Attachment 1



 **Waikato Innovation Park**
Growing Technology Business

FOODWAIKATO 

**INNOVATION
WAIKATO LIMITED**

Annual Report 2016





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DIRECTORY

As at 30 June 2016

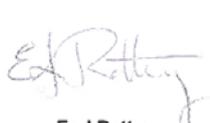
Nature of Business	The development and operation of an Innovation Park in Hamilton, New Zealand.	
Address	Waikato Innovation Park Ruakura Lane Hamilton 3216	
Registered Office	Waikato Innovation Park Ruakura Lane Hamilton 3216	
Authorised Capital	1,247 Ordinary Shares	
Directors	Earl Rattray Andrew West Anthony Steele Martin Udale Helen Cross	
Shareholder	Hamilton City Council	1,247 Ordinary Shares
Auditors	Audit New Zealand on behalf of the Auditor-General PO Box 256 Hamilton 3240	
Bankers	BNZ 354 Victoria Street Hamilton	
Solicitors	Tompkins Wake 430 Victoria Street Hamilton	
IRD Number	080-105-991	



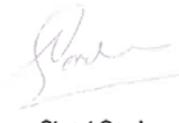
CHAIRMAN'S AND CHIEF EXECUTIVE'S ANNUAL REPORT

Major Milestones for the year include:

- Achievement of Group Comprehensive Income after tax of \$2,571,000 compared with last year of \$1,590,000
- New Tetra Pak building completed in January 2016 on time and within budget
- Opening of the new Tetra Pak building by the Prime Minister on 7th April 2016
- Back-fill of space as result of Tetra Pak migration to new building 100% completed by June 2016
- Waikato Innovation Park's (WIPL) Masterplan completed with associated future infrastructure and building costs established. This will be submitted as part of Hamilton City Council District Plan. This plan will also ensure future developments are aligned and coordinated in a carefully managed way, and will form part of the development package proposed in the documents prepared for the raising of equity for future development
- The Third annual survey of tenants was completed, and indicated the gross turnover of all Park companies is greater than \$300 million, with 67% engaged in research and development, 70% actively engaged in exporting, 36% of the park companies are working collaboratively together, and 479 people are employed at the Park.
- Food Waikato undertook 416 days of production
- First fresh sheep milk manufacture at Food Waikato
- Manufacture of encapsulated Omega 3 and 6 powders under contract to Nu Mega of Australia
- WIPL's contract to Callaghan Innovation and New Zealand Trade and Enterprise for regional partner funding renewed for a further five years
- A Contract signed with NZTE for five years for supervision of Businesses Mentors in the Waikato
- \$42 million of grants issued by Callaghan Innovation for Research and Development for the Waikato and \$400,000 of grants for capability building from NZTE allocated to clients in the Waikato
- Ten events hosted by the Business Growth team, including 4 seminars, 2 workshops and 4 open homes



Earl Rattray
Chairman



Stuart Gordon
Chief Executive



Earl Rattray
Chairman



Stuart Gordon
Chief Executive





Financial Performance:

The year ending June 2016 produced excellent financial performance for the Innovation Waikato Limited group. Group Revenue increased by 53% from last year's \$6,595,000 to \$10,093,000 this year. Group Total Comprehensive Income for the year just ended was \$2,571,000 compared to a \$1,590,000 profit last year. The Comprehensive Income included \$2,075,000 from revaluations and \$496,000 from trading profits. More importantly Net Cash Flow from operating activities increased from last year's \$1,671,000 to \$1,679,000 this year. As part of the Group, Food Waikato revenue grew 85% from \$3,659,000 last year to \$6,758,000 this year. Food Waikato's Total Comprehensive Income was a net profit of \$456,000 compared to last year's loss of \$49,000. Food Waikato's net cash from operating activities was \$1,392,000.

The Groups Total Assets increased by \$10,085,000 to \$50,061,000 with \$787,000 coming from a revaluation of our investment properties, \$1,288,000 from revaluation of NZFIW plant, and \$9,266,000 to build a new building for Tetra Pak

As a result of the above excellent performance the groups equity improved by \$2,572,000.



Board of Directors:

Earl Rattray was appointed by the Board of Directors in May 2015 to the position of Chairman. Earl is supported by a strong experienced Board of Martin Udale, Tony Steele and Andy West. Helen Cross joined the team in June 2015. Given the unique role Food Waikato is performing as part of the New Zealand Food Innovation Network and the issue of shares to Callaghan Innovation three Directors with specialist skills were appointed to the Food Waikato Board. Richard Perry (CFO Callaghan Innovation), Barry Harris and Peter Hobman along with Earl constitute the Food Waikato board.

The Board of Directors met formally six times through the year. In addition, the three standing committees of the Board, Remuneration and Appointments, Audit Risk and Finance, and Capital Raising committees met as required to provide governance oversight and support to management as needed. The Board also met key Stakeholders, the auditors (the Government Audit Office) and its bankers (the Bank of New Zealand). The Board has signed a best practice set of policies and monitors those policies and the company risk register to ensure compliance.

The Board takes seriously its obligation to ensure public safety and a safe working environment. A strategic review of workplace hazards has been undertaken and health and safety monitoring is a priority for the board.

Strategic Direction :

The Waikato Innovation Park has identified its core purpose and key objectives that recognise the strategic intent of the business:

Core Purpose

To promote research, development, commercialisation and marketing by new and existing entities or individuals of new products, processes, technologies and or quality improvements. To actively promote economic development by supporting the growth of business that contributes to New Zealand's export economy.

The focus of the Park is on innovation and technology-led businesses that enhance New Zealand's competitive advantage and alignment with the region's economic export development strategy, particularly in areas such as:

- Agriculture
- Agribusiness
- Food Processing
- Value add to food products from primary production
- Horticulture
- Environmental sustainability
- Enabling Information and Communication Technology

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Waikato Innovation Park has continued to contribute to the Waikato economic growth strategy, in collaboration with other regional agencies, NZTE and Callaghan Innovation. Our focus has been to specialise in funding grants, incubation, clustering, business attraction and business to business collaboration.

The Board of Waikato Innovation Park through its Statement of Intent for the 2016 year has set out clear aspirations to grow the park. In the next year it will, after consultation with its parent Hamilton City Council, seek private equity to match these ambitions.

Statement of Service Performance for year ending 2016

The Key Objectives set out in our Statement of Intent and our performances against those goals were:

1. 300 days of product development production days budgeted via the spray dryer contributing \$50 million to the regional economy
 - 416 production days achieved with \$49.1 million of exports sales estimated from production at NZFIW
2. A new \$9 million building completed and occupied
 - The new Tetra Pak building completed under budget at \$9.2 million
3. Existing buildings 98% occupied
 - Average occupancy 96% during the year
4. A major company attracted to the park and agreement to lease in place
 - Shareholder agreement for capital raise not in place so expansion delayed
5. Commitment to fund a new building and enable the repayment of HCC 19% direct shareholding
 - Shareholder agreement for capital raise delayed
6. Financial performance

	Actual 2016 \$000	Target 2016 \$000	Actual 2015 \$000
Group EBITDA	\$3,768	\$3,056	\$3,588
Group cash from operating activities	\$1,679	\$1,423	\$1,671
Retained earnings increase	\$902	\$670	New
Shareholders' funds (including deferred income)/ Tangible assets	41%	42%	New

More detail provided in Note 32 of these financial statements.

Masterplan:

In November 2016, in a program lead by BECA, a Masterplan was adopted by the Board of Directors which sets the vision for the future growth of the Park. The Brief was to design an Innovation Park that fosters sustainable business growth and innovation through an exciting, stimulating, interconnected, vibrant environment that encourages collaboration, knowledge sharing and chance encounters.

The site has been defined into three distinct precincts:

- *The Innovation and Research precinct* which is the campus and business growth hub
- *The Food and Technical development centre* focuses on the development for food innovation and manufacturing
- *Green Car parking and recreation amenity area*



At the heart of The Park a Hub is proposed- a multifunctional and dynamic meeting space for visitors and employees. The masterplan is supported by guidelines for land use, movement, landscaping, shared spaces and Built Form guidelines.



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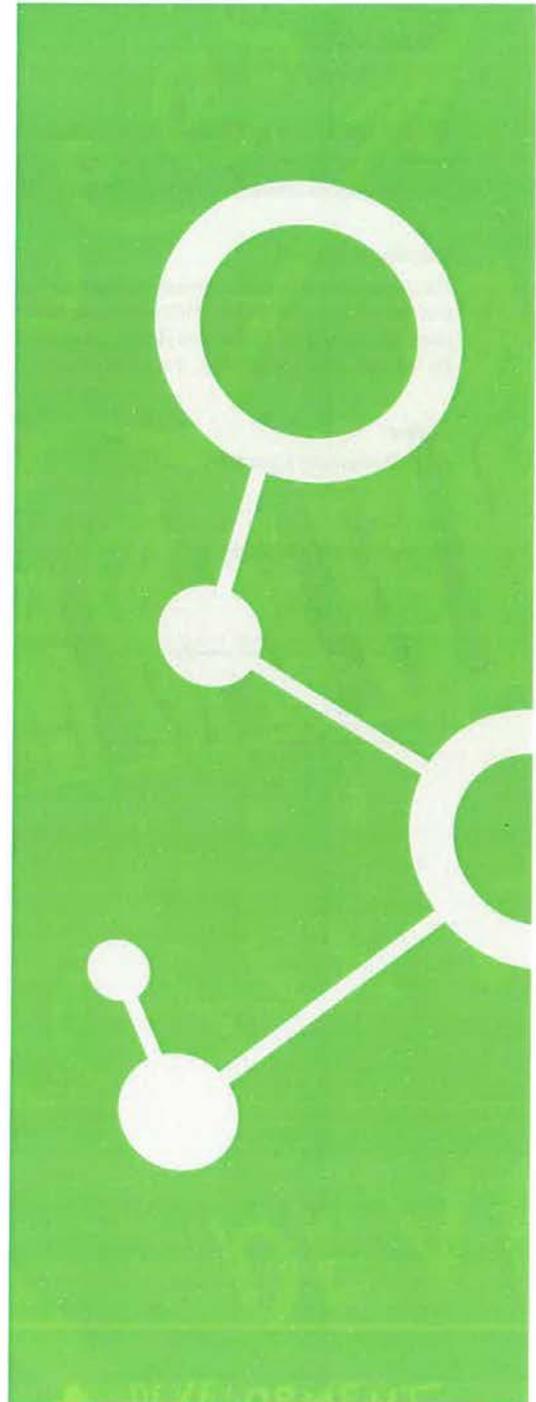
Food Waikato:

Food Waikato's open access spray dryer is operating at capacity, helping companies using it for research and initial market commercialisation to grow their export markets. An estimated \$49.1 million of export sales can be attributed to NZFIW manufacture in the 2016 financial year. The upgrade a year ago has meant a switch to drying formulated dairy cow, goat and sheep milk products. It is been used to make high value powders in a diverse range of products. The plant processed fresh milk from eleven different goat and sheep milk suppliers. Over 45 different projects, made up of 359 different product runs, were facilitated through the plant in the 2016 financial year.



Management:

Waikato Innovation Park Team had an excellent year and the Board thanks them for their dedication and achievements. Lead by our Chief Executive, Stuart Gordon, the team can be proud of the 2016 year achievements which mean we are now well placed strategically for the future.



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ANNUAL REPORT

For the Year Ended 30 June 2016

Approval and issue of consolidated financial statements

On this date the Directors approve and issue the annual report including the attached consolidated financial statements for Innovation Waikato Limited for the year ended 30 June 2016.

Reporting concessions

The shareholders of Innovation Waikato Limited have unanimously agreed to take advantage of the reporting concessions available to them under section 211(3) of the Companies Act 1993 whereby the annual report need not comply with any of paragraphs (a) and (e)- (j) of section 211(1), namely not to disclose information otherwise required concerning the activities of the Directors, employees, auditors, if any, and donations.

Auditor

An auditor has been appointed.

For and on behalf of the Board



Director

26 Aug 2016 Date



Director

26.08.16 Date





STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2016

	NOTE	Group \$000		Company \$000	
		2016	2015	2016	2015
Revenue					
Operating revenue	4	10,093	6,595	-	-
Cost of sales		(778)	-	-	-
Gross profit		9,315	6,595	-	-
Other income	5	179	179	-	-
Other gains	9	787	1,186	-	-
Share of profit from associate	17	(3)	9	-	-
Total Revenue		10,278	7,969	-	-
Expenses					
Operating expenses		(3,691)	(2,348)	-	-
Personnel costs	6	(2,100)	(1,788)	-	-
Depreciation	20	(1,085)	(827)	-	-
Audit fees		(43)	(46)	-	-
Directors fees	7	(253)	(178)	-	-
Bad and doubtful debts		(22)	(6)	-	-
Other losses	9	(420)	(17)	-	-
Total operating expenses		(7,614)	(5,210)	-	-
Finance income	8	9	13	-	-
Finance costs	8	(1,194)	(1,005)	-	-
Net finance costs	8	(1,185)	(992)	-	-
Profit/(loss) before tax		1,479	1,767	-	-
Less: Income tax	10	(196)	(177)	-	-
Profit/(loss) for the year		1,283	1,590	-	-
Other comprehensive income					
Gain/(loss) on property revaluation		1,789	-	-	-
Income tax on other comprehensive income	10	(501)	-	-	-
Total Other Comprehensive Income		1,288	-	-	-
Total comprehensive income for the year		2,571	1,590	-	-

The accompanying notes form part of these financial statements.



STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 30 June 2016 (continued)

	NOTE	Group \$000		Company \$000	
		2016	2015	2016	2015
Total profit/(loss) attributable to:					
Innovation Waikato Limited		902	1,267	-	-
Non-controlling interest		381	323	-	-
Total comprehensive income attributable to:					
Innovation Waikato Limited		1,626	1,267	-	-
Non-controlling interest		946	323	-	-

The accompanying notes form part of these financial statements.



STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2016

Group	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Non- controlling interest	\$000 Total equity
Balance as at 1 July 2014		2,400	2,006	5,132	498	10,036
<i>Total comprehensive income</i>						
Profit for the year		-	-	1,267	323	1,590
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	1,267	323	1,590
<i>Transactions with owners of the company</i>						
Non-controlling interest from issue of NZFIW shares		-	-	1,685	1,315	3,000
Balance as at 30 June 2015		2,400	2,006	8,084	2,136	14,626
Balance as at 1 July 2015		2,400	2,006	8,084	2,136	14,626
<i>Total comprehensive income</i>						
Profit for the year		-	-	902	381	1,283
Other comprehensive income for the year		-	723	-	565	1,288
Total comprehensive income for the year		-	723	902	946	2,571
Balance as at 30 June 2016		2,400	2,729	8,986	3,082	17,197

Company	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Total equity
Balance as at 1 July 2014		2,400	-	5,215	7,615
<i>Total comprehensive income</i>					
Profit for the year		-	-	-	-
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	-	-
Balance as at 30 June 2015		2,400	-	5,215	7,615
Balance as at 1 July 2015		2,400	-	5,215	7,615
<i>Total comprehensive income</i>					
Profit for the year		-	-	-	-
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	-	-
Balance as at 30 June 2016		2,400	-	5,215	7,615

The accompanying notes form part of these financial statements.



STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	NOTE	Group \$000		Company \$000	
		2016	2015	2016	2015
ASSETS					
Non-current assets					
Investment in associates	17	18	20	-	-
Investment in subsidiaries	18	-	-	9,776	9,776
Work in progress	19	531	3,552	-	-
Property, plant and equipment	20	20,585	19,488	-	-
Investment property	21	25,650	15,700	-	-
Total non-current assets		46,784	38,760	9,776	9,776
Current assets					
Cash and cash equivalents	12	1,982	168	-	-
Inventories	13	344	-	-	-
Trade and other receivables	14	847	907	-	-
Prepayments		104	141	-	-
Total current assets		3,277	1,216	-	-
Total assets		50,061	39,976	9,776	9,776
EQUITY AND LIABILITIES					
Equity					
Share capital	11	2,400	2,400	2,400	2,400
Revaluation reserve	11	2,729	2,006	-	-
Retained earnings		8,986	8,084	5,215	5,215
Total equity attributable to the Company		14,116	12,489	7,615	7,615
Non-controlling interest	11	3,082	2,136	-	-
Total equity		17,197	14,626	7,615	7,615
Non-current liabilities					
Deferred tax liability	10	1,693	1,053	-	-
Deferred income	22	3,684	3,769	-	-
Term loans	23	8,890	9,483	-	-
Other loans	24	450	300	-	-
Provisions	25	189	171	-	-
Total non-current liabilities		14,906	14,776	-	-

The accompanying notes form part of these financial statements.



STATEMENT OF FINANCIAL POSITION
As at 30 June 2016 (Continued)

	NOTE	Group \$000		Company \$000	
		2016	2015	2016	2015
Current liabilities					
Cash and cash equivalents	12	-	209	-	-
Payables and accruals	15	1,580	4,111	-	-
Term loans	23	15,628	6,255	-	-
Other loans	24	750	-	-	-
Related parties	16	-	-	2,161	2,161
Total current liabilities		17,958	10,575	2,161	2,161
Total liabilities		32,864	25,351	2,161	2,161
Total equity and liabilities		50,061	39,976	9,776	9,776

The accompanying notes form part of these financial statements.


Director
26 August 2016


Director
26 August 2016





STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2016

	NOTE	Group \$000		Company \$000	
		2016	2015	2016	2015
Cash flow from operating activities					
Receipts from customers		9,952	7,013	-	-
Payments to suppliers and employees		(6,861)	(4,272)	-	-
Interest received		9	13	-	-
Interest paid		(1,182)	(1,007)	-	-
Tax payments		(290)	(4)	-	-
GST (net)*		51	(72)	-	-
Net cash from operating activities	28	1,679	1,671	-	-
Cash flow from investing activities					
Purchase of property, plant and equipment		(394)	(5,246)	-	-
Purchase of investment property		(9,443)	(14)	-	-
Purchase of assets under construction		483	(559)	-	-
Loans to related parties		-	-	-	-
Net cash from/(used in) investing activities		(9,354)	(5,819)	-	-
Cash flow from financing activities					
Proceeds from issue of shares	11	-	3,000	-	-
Proceeds from borrowing		9,961	9,532	-	-
Repayment of borrowings		(263)	(8,416)	-	-
Net cash from/(used in) financing activities		9,698	4,116	-	-
Net increase/(decrease) in cash and cash equivalents		2,023	(32)	-	-
Cash and cash equivalents at 1 July		(41)	(9)	-	-
Cash and cash equivalents at 30 June	12	1,982	(41)	-	-

*The GST (net) component of operating activities reflects the net GST transactions 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.

The accompanying notes form part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

1. REPORTING ENTITY

Innovation Waikato Limited (the 'Company') is a company registered under the Companies Act 1993, and a Council-Controlled Organisation under the Local Government Act 2002 with effect from the 9th October 2013. The Company's parent and ultimate parent entity is Hamilton City Council.

The Group consists of Innovation Waikato Limited and its subsidiaries Waikato Innovation Park Limited ('WIPL') and New Zealand Food Innovation (Waikato) Limited ('NZFIW').

The financial statements of Innovation Waikato Limited are for the year ended 30 June 2016. The financial statements were authorised for issue by the Board of Directors on the 26th August 2016. The owners or others do not have the power to amend the financial statements after issue.

2. BASIS OF PREPARATION

a. Statement of Compliance

The financial statements for the Group have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ('NZ IFRS RDR'), and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The Group qualifies for NZ IFRS (RDR) as it does not have public accountability and it is not a large for-profit public sector entity. The Company has elected to apply NZ IFRS (RDR) and has applied disclosure concessions. The Group early adopted the Reduced Disclosure regime framework for the financial year ended 30 June 2015.

b. Basis of Measurement

The financial statements have been prepared on an historical cost basis except for investment property and property, plant and equipment which are measured to fair value.

c. Functional and Presentational Currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

d. Use of Estimates and Judgements

The preparation of the financial statements in conformity with NZ IFRS RDR requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 20: Determination of fair value of property, plant and equipment

Note 21: Classification and fair value of investment property

Note 22: Recognition of deferred income

Note 25: Recognition of provisions

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

e. Change in Accounting Policies

Accounting policies have been applied on a consistent basis with those of the previous year.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all periods presented in these financial statements.

a. Basis of Consolidation

The consolidated financial statements are prepared adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

Subsidiaries

Subsidiaries are those entities that are controlled by the Company. Subsidiaries are consolidated from the date control is transferred to the Group. They are de-consolidated from the date that control ceases. All significant intercompany accounts and transactions are eliminated on consolidation. Control exists when the Company has power over the entity, exposure or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to offset the amount of the entity's returns.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised on acquisition together with the minority interest's share of post acquisition surpluses.

Associates

An associate is an investee, not being a subsidiary or joint venture arrangement, over which the group has the capacity to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Associates are recognised using the equity method which recognises the Group's share of the associate's net surplus or deficit in the profit or loss and its share of other comprehensive income. The Group Associate is:

- New Zealand Food Innovation Network Ltd. This company is 25% owned by New Zealand Food Innovation (Waikato) Limited.

Non-controlling interest (NCI)

The interests of the parent and the NCI in the subsidiaries are adjusted to reflect the relative change in their interests in the subsidiaries equity. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owner of the parent.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Investment in subsidiaries

Investments in subsidiaries are recorded at cost less the amount of estimated value of impairment in the parent company's financial statements.





NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

b. Revenue

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Grants received are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the Statement of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants relating to investment property are recognised as revenue with no deferred income once all conditions under the grant are met.

Rental income is recognised on a straight line basis over the life of the lease in profit or loss. Interest income is accounted for on an accrual basis.

c. Foreign Currency Translation

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the date of the transactions.

d. Finance Costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other finance costs (which consists of interest) are recognised in profit or loss in the period in which they are incurred and are accrued on a time basis using the effective interest method.

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

f. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

g. Trade and Other Receivables

Trade and other receivables are stated initially at fair value then at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off during the period in which they are identified. Trade and Other Receivables are classed as 'Loans and Receivables' financial assets (Note 25).





NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

h. Assets under Construction

Assets under construction are valued at cost.

i. Investment Property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery options, rather than to earn rentals or for capital appreciation.

Investment property is recognised at fair value as determined by an independent valuer.

Gains or losses arising from changes in the fair value of investment property are recognised in the profit or loss.

Investment property is not depreciated.

j. Property, Plant & Equipment

Property, plant & equipment is recognised at fair value less subsequent depreciation. Computer and office equipment is recognised at cost price less depreciation and impairment losses.

Depreciation is calculated on a diminishing value or straight line basis to allocate the asset's cost or revalued amount over their estimated useful lives, as follows:

Property	25 years straight line
Plant & Equipment	20 years straight line; 13.8% diminishing value
Computer & Office Equipment	20 years straight line; 17.8% - 39.8% diminishing value

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Revaluation

Property, plant & equipment is revalued with sufficient regularity and at least every 3 years to ensure that its carrying amount does not differ materially from fair value.

The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference during an off-cycle year then the asset classes are revalued.

Property, plant and equipment revaluation movements are accounted for on a class-of-asset basis.

The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the profit or loss. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the profit or loss will be recognised first in the profit or loss up to the amount previously expensed, and then recognised in other comprehensive income.

k. Leased Assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

l. Trade and Other Payables

Trade and other payables are stated at cost.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

m. Goods and Services Taxation (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST receivable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the balance sheet.

n. Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

o. Short-term Employee Benefits

Short-term (settled within 12 months) Employee benefit obligations are measured in an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

p. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

q. Impairment

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

4. REVENUE	Group \$000		Company \$000	
	2016	2015	2016	2015
Revenue from sale of goods	519	458	-	-
Revenue from the rendering of services	9,574	6,137	-	-
Total operating revenue	10,093	6,595	-	-

5. OTHER INCOME	Group \$000		Company \$000	
	2016	2015	2016	2015
Deferred Grant income	179	179	-	-
Total other income	179	179	-	-

6. PERSONNEL COSTS	Group \$000		Company \$000	
	2016	2015	2016	2015
Salaries and wages	2,063	1,758	-	-
Defined contribution plan	37	30	-	-
Total personnel costs	2,100	1,788	-	-

7. DIRECTORS FEES	Group \$000		Company \$000	
	2016	2015	2016	2015
Directors fees	253	178	-	-
Total directors fees	253	178	-	-

Directors fees increased in 2016 due to additional independent board members being appointed on the New Zealand Food Innovation (Waikato) Limited board at the end of 2015.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
8. FINANCE COSTS				
<i>Finance income</i>				
Interest income of short-term bank deposit	9	13	-	-
Total finance income	9	13	-	-
<i>Finance costs</i>				
Bank fees	(10)	(17)	-	-
Interest on finance lease liabilities	(20)	(15)	-	-
Interest on bank overdraft	(2)	(6)	-	-
Interest on bank borrowings	(1,162)	(967)	-	-
Total finance costs	(1,194)	(1,005)	-	-
Net finance costs	(1,185)	(992)	-	-

	Group \$000		Company \$000	
	2016	2015	2016	2015
9. OTHER GAINS AND LOSSES				
<i>Other gains</i>				
Gain on changes in fair value of investment property	787	1,186	-	-
Total other gains	787	1,186	-	-
<i>Other losses</i>				
Foreign exchange loss	(15)	(1)	-	-
Loss on disposal of fixed assets	(280)	(16)	-	-
Loss on disposal of capital work in progress	(125)	-	-	-
Total other losses	(420)	(17)	-	-

	Group \$000		Company \$000	
	2016	2015	2016	2015
10. INCOME TAX				
<i>Current tax</i>				
Current year	92	136	-	-
Adjustment for prior years	1	-	-	-
<i>Deferred tax</i>				
Current year	103	41	-	-
Total tax expense recognised in the current year	196	177	-	-

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

The income tax expense for the year can be reconciled to the accounting profit as follows:

	Group \$000		Company \$000	
	2016	2015	2016	2015
Profit before tax	1,479	1,767	-	-
Income tax expense at 28%	414	495	-	-
Effect of income that is exempt from tax	-	(2)	-	-
Effect of expenses that are not deductible in determining taxable profit	45	(316)	-	-
Deferred tax not recognised on investment property	(263)	-	-	-
Income tax expense recognised in profit or loss	196	177	-	-

	Group \$000		Company \$000	
	2016	2015	2016	2015
Current tax assets and liabilities				
Income tax payable	(98)	132	-	-
Benefit of tax loss transferred from NZFIW	-	-	-	-
	(98)	132	-	-

Deferred tax balances

Group (\$000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
<i>Deferred tax assets/(liabilities) in relation to:</i>				
Property, plant and equipment	(1,879)	(3)	(501)	(2,383)
Provisions	26	(2)	-	24
Investment property	(153)	(65)	-	(218)
Deferred income	912	(50)	-	862
Tax losses	36	(25)	-	11
Finances leases	(3)	3	-	-
Doubtful debts	8	3	-	11
Balance as at 30 June 2016	(1,053)	(139)	(501)	(1,693)



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

Group (\$000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
<i>Deferred tax assets/(liabilities) in relation to:</i>				
Property, plant and equipment	(1,929)	50	-	(1,879)
Provisions	41	(15)	-	26
Investment property	(107)	(46)	-	(153)
Deferred income	962	(50)	-	912
Tax losses	21	15	-	36
Finances leases	(5)	2	-	(3)
Doubtful debts	6	2	-	8
Balance as at 30 June 2015	(1,011)	(42)	-	(1,053)

11. EQUITY	Group \$000		Company \$000	
	2016	2015	2016	2015
Share capital				
<i>Ordinary shares (1,247 shares)</i>				
Balance of shares 1 July	2,403	2,403	2,401	2,401
less uncalled shares	(3)	(3)	(1)	(1)
Issued and called shares 30 June	2,400	2,400	2,400	2,400

All ordinary shares carry equal dividend and voting rights and share equally in any surplus on winding up. The shares have no par value.

Revaluation reserve

This reserve relates to the revaluation of Property, Plant and Equipment.

Non-controlling interest (NCI)

Non-controlling interest relates to Hamilton City Council's 19.8% ownership in Waikato Innovation Park Limited and Callaghan Innovation 30% ownership in New Zealand Food Innovation (Waikato) Ltd.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
12. CASH AND CASH EQUIVALENTS				
BNZ Bank account 96	1,419	(69)	-	-
BNZ Bank oncall accounts	422	168	-	-
BNZ Bank account 75	141	(140)	-	-
Total cash and cash equivalents	1,982	(41)	-	-
Current assets	1,982	168	-	-
Current liabilities	-	(209)	-	-
Total cash and cash equivalents	1,982	(41)	-	-

The group has an overdraft facility with BNZ with a limit of \$550,000.

	Group \$000		Company \$000	
	2016	2015	2016	2015
13. INVENTORIES				
Goods in transit	178	-	-	-
Raw materials	166	-	-	-
Total trade and other receivables	344	-	-	-

	Group \$000		Company \$000	
	2016	2015	2016	2015
14. TRADE AND OTHER RECEIVABLES				
Gross trade and other receivables	788	933	-	-
Provision for doubtful debts	(39)	(26)	-	-
Income tax receivable	98	-	-	-
Total trade and other receivables	847	907	-	-

	Group \$000		Company \$000	
	2016	2015	2016	2015
15. PAYABLES AND ACCRUALS				
Accounts payable	547	3,146	-	-
Accruals	936	519	-	-
Income tax payable	-	132	-	-
Other payables	97	314	-	-
Total payables and accruals	1,580	4,111	-	-



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
16. RELATED PARTIES				
Waikato Innovation Park Limited	-	-	2,161	2,161
Total related parties	-	-	2,161	2,161

Parent Entity:

Waikato Innovation Park Limited is owned by Innovation Waikato Limited (80.2%) and Hamilton City Council (19.8%).

The related parties amount relates to day-to-day expenses paid by Waikato Innovation Park Limited on behalf of Innovation Waikato Limited.

	Group \$000		Company \$000	
	2016	2015	2016	2015
17. INVESTMENT IN ASSOCIATES				
<i>New Zealand Food Innovation Network Ltd</i>				
Interest held by the group	25%	25%	-	-
Opening balance	20	11	-	-
Share of revenue and expenses	(3)	9	-	-
Balance at 30 June	17	20	-	-
Total investment in associates	18	20	-	-

The Company has no contingencies or commitments in relation to its involvement in New Zealand Food Innovation Network Ltd. New Zealand Food Innovation Network Ltd is a company incorporated in New Zealand.

	Group \$000		Company \$000	
	2016	2015	2016	2015
18. INVESTMENT IN SUBSIDIARIES				
<i>Shares at cost</i>				
Waikato Innovation Park Limited	-	-	9,776	9,776
Total investment in subsidiaries	-	-	9,776	9,776



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
19. WORK IN PROGRESS				
Piazza concept plan	-	110	-	-
Infrastructure for new park	377	565	-	-
Park concept plan	-	18	-	-
Building D	-	2,859	-	-
Wet-side of spray dryer	154	-	-	-
Total assets under construction	531	3,552	-	-

20. PROPERTY, PLANT AND EQUIPMENT

Group (\$000)	Property	Plant & Equipment	Office & Computer	Total
As at 30 June 2015				
Cost or valuation	4,008	17,737	104	21,849
Accumulated depreciation	(437)	(1,873)	(51)	(2,361)
Net book amount	3,571	15,864	53	19,488
For the year ended 30 June 2016				
Opening net book amount	3,571	15,864	53	19,488
Additions	21	322	52	395
Revaluation	247	1,542	-	1,789
Disposals	-	-	(2)	(2)
Depreciation charge	(161)	(909)	(15)	(1,085)
Closing net book amount	3,678	16,819	88	20,585
As at 30 June 2016				
Cost or valuation	4,276	19,601	151	24,028
Accumulated depreciation	(598)	(2,782)	(63)	(3,443)
Net book amount	3,678	16,819	88	20,585

Property, plant & equipment shown at valuation was valued by North Langley & Associates Ltd, an independent registered valuer on 1 June 2016. (2015: NIL). The valuation technique used was the Optimised Depreciated Replacement Cost as the spray dryer has specialised equipment and comparable sale information is limited. North Langley & Associates Ltd are a reputable valuation company specialising in the valuation of plant, machinery and equipment

There was no impairment in 2016 (2015: NIL). No borrowing costs were capitalised during the year. (2015: NIL)

The group's property, plant and equipment is noted as security against the bank loans.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
21. INVESTMENT PROPERTY				
Balance at 1 July	15,700	14,500	-	-
Additions/(disposals)	9,163	14	-	-
Fair value gain/(loss) on valuation	787	1,186	-	-
Balance at 30 June	25,650	15,700	-	-

Total investment property held under operating leases was \$25,650,000 (2015: \$15,700,000)

The Company's investment properties are valued annually at fair value effective 30 June. All investment properties were valued based on open market evidence. The valuation is based on the current market value of the "Lessee's Interest" (subject to short term leases). The valuations were performed by Ian Colcord, a Registered Valuer at Seagar & Partners Limited, registered valuers and property consultants. Seagar & Partners Limited are experienced valuers with extensive knowledge in the types of investment property owned by the Company.

Innovation Waikato Limited received \$2,000,000 in funding during the 2004 year from central government under a Regional Development Initiative. Under the terms of this grant, Innovation Waikato Limited is prohibited from selling the Core Facilities building without government consent. This restriction is in place for a period of 20 years. This restriction has passed to Waikato Innovation Park Ltd on sale of buildings to Waikato Innovation Park Limited.

	Group \$000		Company \$000	
	2016	2015	2016	2015
22. DEFERRED INCOME				
Original Grant	3,794	3,794	-	-
less Deferred income recognised prior years	(537)	(358)	-	-
	3,257	3,436	-	-
Opening balance	3,257	3,436	-	-
Less deferred income recognised	(179)	(179)	-	-
Total deferred grant	3,078	3,257	-	-
Revenue received in advance	606	512	-	-
Total deferred income	3,684	3,769	-	-

Deferred income relates to a Government Grant provided to develop the Spray Dryer Facility (part of property, plant and equipment). The Deferred income is written off over 20 and 25 years respectively for the Spray Dryer Facility being the estimated useful life of the assets.





NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
23. TERM LOANS				
BNZ 67378152-01 loan	6,200	6,200	-	-
BNZ 67378152-03 loan	122	177	-	-
BNZ 67378152-04 loan	8,894	-	-	-
BNZ 92346126-01 loan	7,833	8,000	-	-
BNZ 92346126-02 loan	1,469	1,361	-	-
Total term loans	24,518	15,738	-	-
Total current portion	15,628	6,255	-	-
Total non current portion	8,890	9,483	-	-
Total term loans	24,518	15,738	-	-

Term loans are secured by a mortgage over the property at Ruakura Road, Hamilton certificate of title No. 135745. A Credit Approved Letter of Offer was signed 30 June 2016 which extended the Maturity Date for BNZ loan 67378152-01:04 and BNZ loan 92346126-01:02 to August 2021.

	2016		2015	
	Interest Rate	Maturity Date	Interest Rate	Maturity Date
BNZ 67378152-01 loan	5.42%	July 2016	6.40%	April 2016
BNZ 67378152-03 loan	5.88%	June 2018	6.92%	June 2018
BNZ 67378152-04 loan	5.18%	July 2016	-	-
BNZ 92346126-01 loan	6.05%	June 2019	6.40%	June 2019
BNZ 92346126-02 loan	4.97%	June 2019	5.88%	June 2019

	Group \$000		Company \$000	
	2016	2015	2016	2015
24. OTHER LOANS				
Bonds	900	-	-	-
Technopak - Equipment loan	300	300	-	-
Total other loans	1,200	300	-	-
Total current portion	750	-	-	-
Total non current portion	450	300	-	-
Total other loans	1,200	300	-	-

Technopak Ltd has supplied packing equipment to NZFIW with payment required in July 2016. In the meantime no interest is payable on the balance owing. During this period Technopak will have access to the equipment to show potential clients and NZFIW will be responsible for all maintenance.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
25. PROVISIONS				
Nu Mega Limited	189	171	-	-
Total provisions	189	171	-	-

NZFIW entered into a contract with Nu Mega Limited for use of the factory for five years and to loan NZFIW \$604,373 for equipment in the wet-side of the factory. If the contract is not renewed on 1st September 2019, one third of the loan is repayable on that date. NZFIW has created a provision (discounted to present value) for one third of the loan.

26. COMMITMENTS

The following amounts have been committed to by the group but are not recorded in either the Statement of Comprehensive Income or the Statement of Financial Position.

	Group \$000		Company \$000	
	2016	2015	2016	2015
Non-cancellable operating lease commitments				
No later than one year	24	25	-	-
Later than one year and not later than five years	68	75	-	-
Later than five years	117	134	-	-
	209	234	-	-

A significant proportion of the total non-cancellable operating lease amounts relates to the lease of land at Ruakura Road. The lease represents the first 25 years of a 4 x 25 year lease entered into in June 2003.

Total lease expense for 2016 was \$182,733 (2015: \$35,826).

	Group \$000		Company \$000	
	2016	2015	2016	2015
27. FINANCIAL INSTRUMENTS				
Loans and receivables				
Cash and cash equivalents	1,982	168	-	-
Trade and other receivables	847	907	-	2
Total loans and receivables	2,829	1,075	-	2
Financial liabilities at amortised cost				
Cash and cash equivalents	-	209	-	-
Payables and accruals	1,580	4,111	-	-
Term Loans	24,518	15,738	-	-
Other loans	1,200	300	-	-
Provisions	189	171	-	-
Related parties	-	-	2,161	2,161
Total financial liabilities at amortised cost	27,487	20,529	2,161	2,161

There are no financial instruments classified as available for sale or fair value through profit or loss.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
28. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH				
Profit/(loss) for the year	1,283	1,590	-	-
Add/(less) non-cash items				
Depreciation and amortisation	1,085	827	-	-
Fair value loss/(gain) on investment property	(787)	(1,186)	-	-
Other losses	420	16	-	-
Income tax expense recognised in profit or loss	196	177	-	-
Share of associates (surplus)/deficit	3	(8)	-	-
Deferred income	(179)	(179)	-	-
Total non-cash items	738	(354)	-	-
Add/(less) movements in working capital				
Trade debtors and other receivables	157	(528)	-	-
Prepayments	38	(59)	-	-
Trade creditors and other payables	(287)	512	-	-
Revenue received in advance	94	510	-	-
Inventories	(344)	-	-	-
Total movement in working capital	(342)	435	-	-
Net cash flow from operating activities	1,679	1,671	-	-

29. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on normal commercial terms during the year:

Shareholders

Waikato Innovation Park Limited pays rates to the Hamilton City Council.

Waikato Innovation Park Limited paid \$267,800 (2015: \$124,674) to Hamilton City Council for rates, trade waste and water rates; there is a balance of \$604 outstanding at 30 June 2016 (2015: \$971).

Subsidiaries and associates

Waikato Innovation Park Limited

70% of New Zealand Food Innovation (Waikato) Limited (NZFIW) shares are held by Waikato Innovation Park Limited

Waikato Innovation Park Limited has provided unlimited inter-company guarantees to New Zealand Food Innovation (Waikato) Limited.

New Zealand Food Innovation (Waikato) Limited paid expenses of \$252,373 (2015: \$385,294) to Waikato Innovation Park Limited for corporate management services. The amount outstanding at balance date was \$24,471 (2015: \$7,255).



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

New Zealand Food Innovation (Waikato) Limited

Waikato Innovation Park Limited tax liability in relation to 2015 was decreased by a subvention payment of \$126,352 to NZFIW.

New Zealand Food Innovation Network Ltd

NZFIW made sales of \$61,733 (2015: \$60,000) to New Zealand Food Innovation Network Ltd for Business Development Management services. The amount outstanding at balance date was \$10,618 (2015: \$11,021).

Other

Earl Rattray is a Director of Quantec Ltd, a private company which rents office space from Waikato Innovation Park Limited. During the year Waikato Innovation Park Limited charged Quantec Ltd \$49,649 (2015: \$30,900) for rent and operating expenses; a balance of \$609 (2015: \$428) was outstanding at 30 June 2016.

Andrew West is the Chairman of Herd Homes Ltd, a private company which rents office space from Waikato Innovation Park Limited. During the year Waikato Innovation Park Limited charged Herd Homes Ltd \$18,518 (2015: \$14,487) for rent and operating expenses; a balance of \$1,400 was outstanding at 30 June 2016 (2015: -\$20).

Waikato Innovation Park Limited has paid Directors fees of \$25,000 to Essentia Consulting Group Limited for the services of Martin Udale (2015: \$23,500).

Peter Maxwell (resigned April 2016), an employee of Waikato Innovation Park Limited is a Trustee of Greenfields Network Incorporated, Innovation Waikato Limited is a member of Greenfields Network Incorporated. Waikato Innovation Park Limited received \$2,309 (2015: NIL) from the dissolution of Greenfields Network Incorporated.

Key Management Personnel Disclosure

Key Management personnel compensation	2016: \$928,385	2015: \$792,718
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30. CONTINGENCIES

No contingencies have been identified at balance date (2015: NIL).

31. COMMITMENTS

As at 30 June 2016 Waikato Innovation Park Limited has capital commitments of \$93,688 to Hawkins for the completion of Building D (2015: \$5,642,542).

32. PERFORMANCE TARGETS AND RESULTS

The Group prepares an annual Statement of Corporate Intent (based on the Group's management report), which is approved by the Shareholder and incorporates financial and performance measures for the ensuing year.

A comparison of the Group's actual results for the year (excluding abnormal items) with those forecasted is given below:

Key objectives and actual results to 30 June 2016 (Group)

Key objective	Actual results
1. 300 days of product development production via the spray dryer contributing \$50 million to the regional economy	416 days of manufacture with \$49.1 million of exports sales derived from manufacture at NZFIW
2. A new \$9 million building completed and occupied	Building completed under budget
3. Existing buildings 98% occupied	Buildings on average 96% occupied. Occupancy rate was down 2% due to the change over of tenancy with the moving of Tetra Pak to the new building. All spaces had to be repainted and some refurnished.

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

4. A major company attracted to the Park and signed Agreement to Lease in place	Due to delay in capital raising the company attraction strategy has been delayed
5. Commitment of capital to fund a new building and enable the repayment of Hamilton City Council 19% direct shareholding	Awaiting agreement from shareholders for sale of shares and capital raising

(These key objectives differ from the previous financial year)

Financial performance targets and actual results to 30 June 2016 (Group)	2016	2016	2015	2015
	Actual \$000	Statement of Corporate Intent \$000	Actual \$000	Statement of Corporate Intent \$000
Earnings before interest, taxation and depreciation	3,758	3,055	3,599	2,035
Cash from operating activities	1,679	1,423	1,671	1,020
Increase in retained earnings	902	670	1,590	171
Shareholders' funds (including deferred income)/Tangible assets	41%	42%	45%	52%

Budget and actual results to 30 June 2016 (Group)	2016	2016	2015	2015
	Actual \$000	Statement of Corporate Intent \$000	Actual \$000	Statement of Corporate Intent \$000
EBITDA Property	1,558	1,338	2,280	1,023
EBITDA Economic development	44	37	24	24
EBITDA NZFIW	2,156	1,680	1,295	987
Group EBITDA	3,758	3,055	3,599	2,034
Depreciation	1,085	1,078	827	1,112
Interest	1,194	1,256	1,005	1,102
Total other overheads	2,279	2,334	1,832	2,214
Net profit before tax	1,479	721	1,767	(180)
Dividends	-	(51)	-	-
Income tax	(196)	-	177	-
Profit from sale of shares	-	-	-	350
Profit for the year	1,283	670	1,590	170

The favourable EBITDA for the property Division is due to a \$787,000 investment property revaluation. The favourable variation for NZFIW is due to more days of manufacture and achievement of higher average selling prices.

Cash from operating activities is over target due to higher profits. Favourable interest rates have also improved net profit. Shareholders Funds ratio is on target.

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

Budget and actual results to 30 June 2016 (Group)	2016	2016	2015	2015
	Actual \$000	Statement of Corporate Intent \$000	Actual \$000	Statement of Corporate Intent \$000
Total current assets	3,277	768	1,216	783
Non-current assets				
Buildings and plant	29,328	28,911	38,687	33,320
Plant and equipment	16,907	15,492	53	320
Total tangible assets	46,235	44,403	38,740	33,640
Intangible assets	-	-	-	3
Investment in associate	18	-	20	-
Work in progress	531	-	-	-
Total non-current assets	46,784	44,403	38,760	33,643
Total assets	50,061	45,171	39,976	34,426
Total current liabilities	17,958	925	10,575	749
Term liabilities				
Bank loans	8,890	24,210	9,783	16,147
Deferred income	3,684	4,799	3,769	1,766
Customer financing	450	1,104	-	-
Provisions	189	-	171	-
Deferred tax liability	1,693	152	1,053	-
Total term liabilities	14,906	30,265	14,776	17,913
Total liabilities	32,864	31,190	25,351	18,662
Net Assets	17,197	13,981	14,625	15,764
Total equity	17,197	13,981	14,625	15,764

The variances in the statement of Financial Position are due to:

Current assets increase due to extra cash from extra profits and inventories held at Balance date.

Non-current asset increase due to the Statement of Intent underestimated the cost of plant in NZFIW associated with the upgrade in 2015 year.

Current asset increase due to term borrowings treated as short term borrowings due to the expiry of BNZ funding lines in July 2016. These funding lines have subsequently been extended for a further five years.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Innovation Waikato Limited group's financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of Innovation Waikato Limited Group (the Group). The Auditor-General has appointed me, Leon Pieterse, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Group, consisting of Innovation Waikato Limited and its subsidiaries and other controlled entities, on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 9 to 34, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on page 6.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.
- the performance information of the Group presents fairly, in all material respects, the Group's actual performance, compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2016.

Our audit was completed on 26 August 2016. 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 of Directors and our responsibilities, and 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 the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information 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 the Group's internal control.

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 of Directors;
- the appropriateness of the reported performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the Group.

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and the performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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



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

Item 11

Attachment 2



Waikato Innovation Park
"Growing Technology Business"

WAIKATO
INNOVATION PARK
LIMITED

Annual Report 2016





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Waikato Innovation Park Limited **Annual Report 2**



DIRECTORY

As at 30 June 2016

Nature of Business	The development and operation of an Innovation Park in Hamilton, New Zealand.	
Address	Waikato Innovation Park Ruakura Lane Hamilton 3216	
Registered Office	Waikato Innovation Park Ruakura Lane Hamilton 3216	
Authorised Capital	1,247 Ordinary Shares	
Directors	Earl Rattray Andrew West Anthony Steele Martin Udale Helen Cross	
Shareholders	Innovation Waikato Limited	1,000 Ordinary Shares
	Hamilton City Council	<u>247 Ordinary Shares</u>
		1,247
Auditors	Audit New Zealand on behalf of the Auditor-General PO Box 256 Hamilton 3240	
Bankers	BNZ 354 Victoria Street Hamilton	
Solicitors	Tompkins Wake 430 Victoria Street Hamilton	
IRD Number	109-396-680	



ANNUAL REPORT

For the Year Ended 30 June 2016

Approval and issue of consolidated financial statements

On this date the Directors approve and issue the annual report including the attached consolidated financial statements for Waikato Innovation Park Limited for the year ended 30 June 2016.

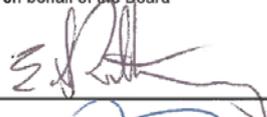
Reporting concessions

The shareholders of Waikato Innovation Park Limited have unanimously agreed to take advantage of the reporting concessions available to them under section 211(3) of the Companies Act 1993 whereby the annual report need not comply with any of paragraphs (a) and (e)-(j) of section 211(1), namely not to disclose information otherwise required concerning the activities of the Directors, employees, auditors, if any, and donations.

Auditor

An auditor has been appointed.

For and on behalf of the Board

 _____	Director	<u>26.08.16</u> Date
 _____	Director	<u>26.08.16</u> Date



STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2016

	NOTE	Group \$000		Company \$000	
		2016	2015	2016	2015
Revenue					
Operating revenue	4	10,093	6,595	3,729	3,377
Cost of sales		(778)	-	-	-
Gross profit		9,315	6,595	3,729	3,377
Other income	5	179	179	-	-
Other gains	8	787	1,186	787	1,186
Share of profit from associate	16	(3)	9	-	-
Total revenue		10,278	7,969	4,516	4,563
Expenses					
Operating expenses		(3,690)	(2,348)	(1,428)	(1,070)
Personnel costs	6	(2,100)	(1,788)	(903)	(1,009)
Depreciation	19	(1,085)	(827)	(39)	(39)
Audit fees		(43)	(46)	(25)	(29)
Directors fees		(253)	(178)	(138)	(129)
Bad and doubtful debts		(22)	(6)	(22)	(6)
Other losses	8	(420)	(17)	(405)	(16)
Total operating expenses		(7,613)	(5,210)	(2,960)	(2,298)
Finance income	7	9	13	9	-
Finance costs	7	(1,194)	(1,005)	(593)	(438)
Net finance costs	7	(1,185)	(992)	(584)	(438)
Profit/(loss) before tax		1,480	1,767	972	1,827
Subvention payment paid		-	-	(126)	-
Income tax	9	(196)	(177)	(19)	(189)
Profit/(loss) for the year		1,284	1,590	827	1,638
Other comprehensive income					
Gain/(loss) on property revaluation	19	1,789	-	-	-
Income tax on other comprehensive income	9	(501)	-	-	-
Total other comprehensive income		1,288	-	-	-
Total comprehensive income for the year		2,572	1,590	827	1,638

The accompanying notes form part of these financial statements.



STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 30 June 2016 (Continued)

NOTE	Group \$000		Company \$000	
	2016	2015	2016	2015
Total profit/(loss) attributable to:				
Waikato Innovation Park Limited	1,147	1,580	827	1,638
Non-controlling interest	137	10	-	-
Total comprehensive income attributable to:				
Waikato Innovation Park Limited	2,049	1,580	827	1,638
Non-controlling interest	524	10	-	-

The accompanying notes form part of these financial statements.



STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2016

Group	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Non- controlling Interest	\$000 Total equity
Balance as at 1 July 2014		9,776	2,500	(81)	-	12,195
<i>Total comprehensive income</i>						
Profit for the year		-	-	1,580	10	1,590
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	1,580	10	1,590
<i>Transactions with owners of the Company</i>						
Non-controlling interest from issue of NZFIW shares		-	-	1,709	1,291	3,000
Balance as at 30 June 2015		9,776	2,500	3,208	1,301	16,785
Balance as at 1 July 2015		9,776	2,500	3,208	1,301	16,785
<i>Total comprehensive income</i>						
Profit for the year		-	-	1,147	137	1,284
Other comprehensive income for the year		-	902	-	386	1,288
Total comprehensive income for the year		-	902	1,147	524	2,572
Balance as at 30 June 2016		9,776	3,402	4,355	1,825	19,357

Company	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Total equity
Balance as at 1 July 2014		9,776	-	1,369	11,145
<i>Total comprehensive income</i>					
Profit for the year		-	-	1,638	1,638
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	1,638	1,638
Balance as at 30 June 2015		9,776	-	3,007	12,783
Balance as at 1 July 2015		9,776	-	3,007	12,783
<i>Total comprehensive income</i>					
Profit for the year		-	-	827	827
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	827	827
Balance as at 30 June 2016		9,776	-	3,834	13,610

The accompanying notes form part of these financial statements.

Waikato Innovation Park Limited **Annual Report 7**





STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	NOTE	Group \$000		Company \$000	
		2016	2015	2016	2015
ASSETS					
Non-current assets					
Investment in associates	16	17	20	-	-
Investment in subsidiaries	17	-	-	333	333
Investment property	18	25,650	15,700	25,650	15,700
Property, plant and equipment	19	20,585	19,488	248	224
Work in progress	20	531	3,552	531	3,552
Total non-current assets		46,783	38,760	26,762	19,809
Current assets					
Cash and cash equivalents	11	1,982	168	563	168
Inventories	12	344	-	-	-
Trade and other receivables	13	847	907	301	425
Prepayments		104	140	40	78
Related parties	15	2,161	2,161	2,161	2,161
Total current assets		5,438	3,376	3,065	2,832
Total assets		52,221	42,136	29,827	22,641
EQUITY AND LIABILITIES					
Equity					
Share capital	10	9,776	9,776	9,776	9,776
Revaluation reserve	10	3,402	2,500	-	-
Retained earnings		4,355	3,208	3,834	3,007
Equity attributable to owners of the Company		17,533	15,484	13,610	12,783
<i>Non-controlling interest</i>	10	1,825	1,301	-	-
Total equity		19,357	16,785	13,610	12,783
Non-current liabilities					
Deferred tax liability	9	1,693	1,053	183	130
Deferred income	21	3,684	3,769	-	146
Term loans	22	8,890	9,483	63	122
Other loans	23	450	300	-	-
Provisions	24	189	171	-	-
Total non-current liabilities		14,906	14,776	246	398

The accompanying notes form part of these financial statements.

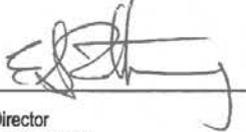
Waikato Innovation Park Limited  Annual Report 8



STATEMENT OF FINANCIAL POSITION
As at 30 June 2016 (Continued)

	NOTE	Group \$000		Company \$000	
		2016	2015	2016	2015
Current liabilities					
Cash and cash equivalents	11	-	209	-	140
Payables and accruals	14	1,580	4,111	814	3,065
Related parties	15	-	-	4	-
Term loans	22	15,628	6,255	15,153	6,255
Other loans	23	750	-	-	-
Total current liabilities		17,958	10,575	15,971	9,460
Total Liabilities		32,864	25,351	16,217	9,858
Total equity and liabilities		52,221	42,136	29,827	22,641

The accompanying notes form part of these financial statements.


Director
26 August 2016


Director
26 August 2016



STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2016

	NOTE	Group \$000		Company \$000	
		2016	2015	2016	2015
Cash flow from operating activities					
Receipts from customers		9,952	7,013	3,547	4,104
Payments to suppliers and employees		(6,861)	(4,272)	(2,345)	(2,266)
Interest received		9	13	9	-
Interest paid		(1,182)	(1,007)	(581)	(441)
Tax payments		(290)	(4)	(218)	-
Subvention payment paid		-	-	(126)	-
GST (net)*		51	(72)	(3)	142
Net cash from operating activities	26	1,679	1,671	283	1,539
Cash flow from investing activities					
Purchase of property, plant and equipment		(394)	(5,246)	(60)	(29)
Purchase of investment property		(9,443)	(14)	(9,443)	(18)
Purchase of assets under construction		483	(559)	916	(637)
Loans to related parties		-	2	-	7,293
Shares in subsidiary		-	-	-	(41)
Net cash from/(used in) investing activities		(9,354)	(5,817)	(8,587)	6,568
Cash flow from financing activities					
Proceeds from issues of shares	10	-	3,000	-	-
Proceeds from borrowing		9,961	9,532	8,904	-
Repayment of borrowings		(263)	(8,418)	(65)	(8,051)
Net cash from/(used in) financing activities		9,698	4,114	8,839	(8,051)
Net increase/(decrease) in cash and cash equivalents		2,023	(32)	535	56
Cash and cash equivalents at 1 July		(41)	(9)	28	(28)
Cash and cash equivalents at 30 June	11	1,982	(41)	563	28

*The GST (net) component of operating activities reflects the net GST transactions 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.

The accompanying notes form part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

1. REPORTING ENTITY

Waikato Innovation Park Limited (the 'Company') is a company registered under the Companies Act 1993, and a Council-Controlled Organisation under the Local Government Act 2002 with effect from the 9th October 2013. The Company's parent is Innovation Waikato Limited and ultimate parent entity is Hamilton City Council.

The Group consists of Waikato Innovation Park Limited and its subsidiary New Zealand Food Innovation (Waikato) Limited.

The financial statements of Waikato Innovation Park Limited are for the year ended 30 June 2016. The financial statements were authorised for issue by the Board of Directors on the 26th August 2016. The owners or others do not have the power to amend the financial statements after issue.

2. BASIS OF PREPARATION

a. Statement of Compliance

The financial statements for the Group have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ("NZ IFRS RDR"), and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The Group qualifies for NZ IFRS (RDR) as it does not have public accountability and it is not a large for-profit public sector entity. The Company has elected to apply NZ IFRS (RDR) and has applied disclosure concessions. The Group early adopted the Reduced Disclosure regime framework for the financial year ended 30 June 2015.

b. Basis of Measurement

The financial statements have been prepared on an historical cost basis except for investment property and property, plant and equipment which are measured to fair value.

c. Functional and Presentational Currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

d. Use of Estimates and Judgements

The preparation of the financial statements in conformity with NZ IFRS RDR requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumption are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any further periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 18 - classification and fair value of investment property
- Note 19 - determination of fair value of property, plant and equipment
- Note 21 - recognition of deferred income
- Note 24 - recognition of provision

e. Change in Accounting Policies

Accounting policies have been applied on a consistent basis with those of the previous year.

Waikato Innovation Park Limited **Annual Report 11**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all periods presented in these financial statements.

a. Basis of Consolidation

The consolidated financial statements are prepared adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

Subsidiaries

Subsidiaries are those entities that are controlled by the Company. Subsidiaries are consolidated from the date control is transferred to the Group. They are de-consolidated from the date that control ceases. All significant intercompany accounts and transactions are eliminated on consolidation. Control exists when the Company has power over the entity, exposure or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to offset the amount of the entity's returns.

Associates

An associate is an investee, not being a subsidiary or joint venture arrangement, over which the group has the capacity to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Associates are recognised using the equity method which recognises the Group's share of the associate's net surplus or deficit in the profit or loss and its share of other comprehensive income. The Group Associate is:

- New Zealand Food Innovation Network Ltd. This company is 25% owned by New Zealand Food Innovation (Waikato) Limited.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interest (NCI)

The interests of the parent and the NCI in the subsidiaries are adjusted to reflect the relative change in their interests in the subsidiaries equity. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Investment in subsidiaries

Investments in subsidiaries are recorded at cost less the amount of estimated value of impairment in the parent company's financial statements.

b. Revenue

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Grants received are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the Statement of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.



Waikato Innovation Park Limited Annual Report 12



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government Grants relating to investment property are recognised as revenue with no deferred income once all conditions under the grant are met.

Rental income is recognised on a straight line basis over the life of the lease in profit or loss. Interest income is accounted for on an accrual basis.

Interest income is accounted for as earned

c. Foreign Currency Translation

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the date of the transactions.

d. Finance Costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other finance costs (which consists of interest) are recognised in profit or loss in the period in which they are incurred and are accrued on a time basis using the effective interest method.

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

f. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

g. Trade and Other Receivables

Trade and other receivables are stated initially at fair value then at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off during the period in which they are identified. Trade and other receivables are classed as 'Loans and Receivables' financial instruments (Note 26).

h. Investment Property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery options, rather than to earn rentals or for capital appreciation.

Investment property is recognised at fair value as determined by an independent valuer.

Gains or losses arising from changes in the fair value of investment property are recognised in the profit or loss.

Investment property is not depreciated.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

i. Assets under Construction

Assets under construction are valued at cost.

j. Property, Plant & Equipment

Property, plant & equipment is recognised at fair value less subsequent depreciation. Computer and office equipment is recognised at cost price less depreciation and impairment losses.

Depreciation is calculated on a diminishing value or straight line basis to allocate the asset's cost or revalued amount over their estimated useful lives, as follows:

Property	25 years straight line
Plant & Equipment	20 years straight line; 13.8% diminishing value
Computer & Office Equipment	20 years straight line; 17.8% - 39.8% diminishing value

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Revaluation

Property, plant & equipment is revalued with sufficient regularity and at least every three years to ensure that its carrying amount does not differ materially from fair value.

The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued.

Property, plant and equipment revaluation movements are accounted for on a class-of-asset basis.

The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the profit or loss. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the profit or loss will be recognised first in the profit or loss up to the amount previously expensed, and then recognised in other comprehensive income.

k. Leased Assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset

Other leases are operating leases and are not recognised in the Group's Statement of Financial Position.

l. Trade and Other Payables

Trade and other payables are stated at cost.

m. Goods and Services Taxation (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST receivable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the balance sheet.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

n. Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

o. Short-term Employee Benefits

Short-term (settled within 12 months) Employee benefit obligations are measured in an undiscounted basis and are expense⁴ as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

p. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

q. Impairment

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Waikato Innovation Park Limited **Annual Report 16**



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

4. REVENUE	Group \$000		Company \$000	
	2016	2015	2016	2015
Revenue from sale of goods	519	458	-	-
Revenue from the rendering of services	9,574	6,137	3,729	3,377
Total operating revenue	10,093	6,595	3,729	3,377

5. OTHER INCOME	Group \$000		Company \$000	
	2016	2015	2016	2015
Deferred Grant income	179	179	-	-
Total other income	179	179	-	-

6. PERSONNEL COSTS	Group \$000		Company \$000	
	2016	2015	2016	2015
Salaries and wages	2,063	1,758	885	992
Defined contribution plan	37	30	18	17
Total personnel costs	2,100	1,788	903	1,009

7. FINANCE COSTS	Group \$000		Company \$000	
	2016	2015	2016	2015
<i>Finance income</i>				
Interest income of short-term bank deposit	9	13	9	-
Total finance income	9	13	9	-
<i>Finance costs</i>				
Bank fees	(10)	(17)	(6)	(9)
Interest on other payables	(20)	(15)	(16)	(6)
Interest on bank overdrafts	(2)	(6)	(1)	(5)
Interest on bank borrowings	(1,162)	(967)	(570)	(418)
Total finance costs	(1,194)	(1,005)	(593)	(438)
Net finance costs	(1,185)	(992)	(584)	(438)



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
8. OTHER GAINS AND LOSSES				
<i>Other gains</i>				
Gain on changes in fair value of investment property	787	1,186	787	1,186
Total other gains	787	1,186	787	1,186
<i>Other losses</i>				
Net foreign exchange loss	(15)	(1)	-	-
Loss on disposal of fixed assets	(280)	(16)	(280)	(16)
Loss on disposal of capital work in progress	(125)	-	(125)	-
Total other losses	(420)	(17)	(405)	(16)

	Group \$000		Company \$000	
	2016	2015	2016	2015
9. INCOME TAX				
<i>Current tax</i>				
Current year	92	136	-	136
Adjustment for prior years	1	-	1	-
<i>Deferred tax</i>				
Current year	103	41	53	53
Adjustment for prior years	-	-	(35)	-
Total tax expense recognised in the current year	196	177	19	189

	Group \$000		Company \$000	
	2016	2015	2016	2015
<i>The income tax expense for the year can be reconciled to the accounting profit as follows:</i>				
Profit before tax	1,480	1,767	972	1,827
Income tax expense at 28%	414	495	272	512
Effect of income that is exempt from tax	-	(2)	-	-
Effect of expenses that are not deductible in determining taxable profit	45	(316)	44	(323)
Deferred tax not recognised on investment property	(263)	-	(263)	-
Prior period adjustments	-	-	(34)	-
Income tax expense recognised in profit or loss	196	177	19	189



NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 30 June 2016

Deferred tax balances

Group (\$000)

Deferred tax assets/(liabilities) in relation to:

Property, plant and equipment

Provisions

Investment property

Deferred income

Tax losses

Finances leases

Doubtful debts

Balance as at 30 June 2016

	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Property, plant and equipment	(1,879)	(3)	(501)	(2,383)
Provisions	26	(2)	-	24
Investment property	(153)	(65)	-	(218)
Deferred income	912	(50)	-	862
Tax losses	36	(25)	-	11
Finances leases	(3)	3	-	-
Doubtful debts	8	3	-	11
Balance as at 30 June 2016	(1,053)	(139)	(501)	(1,693)

Group (\$000)

Deferred tax assets/(liabilities) in relation to:

Property, plant and equipment

Provisions

Investment property

Deferred income

Tax losses

Finances leases

Doubtful debts

Balance as at 30 June 2015

	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Property, plant and equipment	(1,929)	50	-	(1,879)
Provisions	41	(15)	-	26
Investment property	(107)	(46)	-	(153)
Deferred income	962	(50)	-	912
Tax losses	21	15	-	36
Finances leases	(5)	2	-	(3)
Doubtful debts	6	2	-	8
Balance as at 30 June 2015	(1,011)	(42)	-	(1,053)

Company (\$000)

Deferred tax assets/(liabilities) in relation to:

Property, plant and equipment

Provisions

Investment property

Finances leases

Doubtful debts

Tax loss

Balance as at 30 June 2016

	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Property, plant and equipment	-	(4)	-	(4)
Provisions	18	(1)	-	17
Investment property	(153)	(65)	-	(218)
Finances leases	(3)	3	-	-
Doubtful debts	8	3	-	11
Tax loss	-	11	-	11
Balance as at 30 June 2016	(130)	(53)	-	(183)



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

Company (\$000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
<i>Deferred tax assets/(liabilities) in relation to:</i>				
Property, plant and equipment	1	(1)	-	-
Provisions	29	(11)	-	18
Investment property	(107)	(46)	-	(153)
Finances leases	(5)	2	-	(3)
Doubtful debts	6	2	-	8
Balance as at 30 June 2015	(76)	(54)	-	(130)

Current tax assets and liabilities	Group \$000		Company \$000	
	2016	2015	2016	2015
Income tax payable	(98)	132	(121)	136
Benefit of tax loss transferred from NZFIW	-	-	-	-
	(98)	132	(121)	136

10. EQUITY	Group \$000		Company \$000	
	2016	2015	2016	2015
Share capital				
<i>Ordinary shares (1,247 shares)</i>				
Balance of shares 1 July	9,777	9,777	9,776	9,776
less uncalled shares	(1)	(1)	-	-
Issued and called shares 30 June	9,776	9,776	9,776	9,776

All ordinary shares carry equal dividend and voting rights and share equally in any surplus on winding up. The shares have no par value.

Revaluation reserve

This reserve relates to the revaluation of Property, Plant and Equipment.

Non-controlling Interest (NCI)

Non-controlling interest relates to Callaghan Innovation 30% ownership in New Zealand Food Innovation (Waikato) Limited.



NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
11. CASH AND CASH EQUIVALENTS				
BNZ Bank account 96	1,419	(69)	-	-
BNZ Bank oncall account	422	168	422	168
BNZ Bank account 75	141	(140)	141	(140)
Total cash and cash equivalents	1,982	(41)	563	28
Current assets	1,982	168	563	168
Current liabilities	-	(209)	-	(140)

The group has an overdraft facility with BNZ with a limit of \$550,000.

	Group \$000		Company \$000	
	2016	2015	2016	2015
12. INVENTORIES				
Good in transit	178	-	-	-
Raw materials	166	-	-	-
Total inventories	344	-	-	-

The cost of inventories recognised as an expense during the year was \$778,840 (2015: NIL)

	Group \$000		Company \$000	
	2016	2015	2016	2015
13. TRADE AND OTHER RECEIVABLES				
Gross trade and other receivables	788	933	197	444
Inter-entity receivables	-	-	22	7
Provision for doubtful debts	(39)	(26)	(39)	(26)
Income tax receivable	98	-	121	-
Total trade and other receivables	847	907	301	425

	Group \$000		Company \$000	
	2016	2015	2016	2015
14. PAYABLES AND ACCRUALS				
Accounts payable	547	3,146	291	2,578
Accruals	936	519	492	271
Income tax payable	-	132	-	136
Other payables	97	314	31	80
Total payables and accruals	1,580	4,111	814	3,065

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

15. RELATED PARTIES	Group \$000		Company \$000	
	2016	2015	2016	2015
New Zealand Food Innovation (Waikato) Limited	-	-	(4)	-
Innovation Waikato Limited	2,161	2,161	2,161	2,161
Total related parties	2,161	2,161	2,157	2,161

Parent Entity:

Waikato Innovation Park Limited is owned by Innovation Waikato Limited (80.2%) and Hamilton City Council (19.8%).

70% of New Zealand Food Innovation (Waikato) Limited (NZFIW) shares are held by Waikato Innovation Park Limited, 30% are held by Callaghan Innovation.

The related parties amount relates to tax transferred from NZFIW to Waikato Innovation Park Limited. Waikato Innovation Park Limited has paid operating costs of \$252,373 (2015: \$385,294) on behalf of NZFIW. NZFIW also owes Waikato Innovation Park Limited \$22,471 (2015: \$7,255) for day-to-day expenses, this amount is recorded in receivables.

The Company's tax liability in relation to 2015 was decreased by losses of \$90,973 transferred from NZFIW by loss offset and a subvention payment of \$126,352 to NZFIW.

16. INVESTMENT IN ASSOCIATES	Group \$000		Company \$000	
	2016	2015	2016	2015
<i>New Zealand Food Innovation Network Ltd</i>				
Interest held by the group	25%	25%	-	-
Opening balance	20	11	-	-
Share of revenue and expenses	(3)	9	-	-
Balance at 30 June	17	20	-	-
Total investment in associates	18	20	-	-

The Company has no contingencies or commitments in relation to its involvement in New Zealand Food Innovation Network Ltd. New Zealand Food Innovation Network Ltd is a company incorporated in New Zealand.

17. INVESTMENT IN SUBSIDIARIES	Group \$000		Company \$000	
	2016	2015	2016	2015
<i>Shares at cost</i>				
New Zealand Food Innovation (Waikato) Limited	-	-	333	333
Total investment in subsidiaries	-	-	333	333



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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

18. INVESTMENT PROPERTY	Group \$000		Company \$000	
	2016	2015	2016	2015
Balance at 1 July	15,700	14,500	15,700	14,500
Additions/(disposals)	9,163	14	9,163	14
Fair value gain/(loss) on valuation	787	1,186	787	1,186
Balance at 30 June	25,650	15,700	25,650	15,700

Total investment property held under operating leases is \$25,650,000 (2015: \$15,700,000).

The Company's investment properties are valued annually at fair value effective 30 June. All investment properties were valued based on open market evidence. The valuation is based on the current market value of the "Lessee's Interest" (subject to short term leases). The valuations were performed by Ian Colcord, a Registered Valuer at Seagar & Partners Limited, registered valuers and property consultants. Seagar & Partners Limited are experienced valuers with extensive knowledge in the types of investment property owned by the Company.

Innovation Waikato Limited received \$2,000,000 in funding during the 2004 year from central government under a Regional Development Initiative. Under the terms of this grant, Innovation Waikato Limited is prohibited from selling the Core Facilities building without government consent. This restriction is in place for a period of 20 years. This restriction has passed to Waikato Innovation Park Ltd on purchase of the buildings.

19. PROPERTY, PLANT AND EQUIPMENT

Group (\$000)	Property	Plant & Equipment	Office & computer	Total
As at 30 June 2015				
Cost or valuation	4,008	17,737	104	21,849
Accumulated depreciation	(437)	(1,873)	(51)	(2,361)
Net book amount	3,571	15,864	53	19,488
For the year ended 30 June 2016				
Opening net book amount	3,571	15,864	53	19,488
Additions	21	322	52	395
Revaluation	247	1,542	-	1,789
Disposals	-	-	(2)	(2)
Depreciation charge	(161)	(909)	(15)	(1,085)
Closing net book amount	3,678	16,819	88	20,585
As at 30 June 2016				
Cost or valuation	4,276	19,601	151	24,028
Accumulated depreciation	(598)	(2,782)	(63)	(3,443)
Net book amount	3,678	16,819	88	20,585



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

Company (\$000)	Property	Plant & Equipment	Office and computer	Total
As at 30 June 2015				
Cost or valuation	-	253	99	352
Accumulated depreciation	-	(77)	(51)	(128)
Net book amount	-	176	48	224
For the year ended 30 June 2016				
Opening net book amount	-	176	48	224
Additions	-	15	50	65
Disposals	-	-	(2)	(2)
Depreciation charge	-	(25)	(14)	(39)
Closing net book amount	-	166	82	248
As at 30 June 2016				
Cost or valuation	-	268	144	412
Accumulated depreciation	-	(102)	(62)	(164)
Net book amount	-	166	82	248

Property, plant & equipment shown at valuation was valued by North Langley & Associates Ltd, an independent registered valuer on 1 June 2016. (2015: NIL). The valuation technique used was the Optimised Depreciated Replacement Cost as the spray dryer has specialised equipment and comparable sale information is limited. North Langley & Associates Ltd are a reputable valuation company specialising in the valuation of plant, machinery and equipment

There was no impairment in 2016. (2015: NIL).

No borrowing costs were capitalised during the year. (2015: NIL)

	Group \$000		Company \$000	
	2016	2015	2016	2015
20. WORK IN PROGRESS				
Piazza concept plan	-	110	-	110
Infrastructure for new park	377	565	377	565
Park concept plan	-	18	-	18
Building D	-	2,859	-	2,859
Co-lab at the park	154	-	154	-
Total assets under construction	531	3,552	531	3,552



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
21. DEFERRED INCOME				
Deferred Grant				
Original Grant	3,794	3,794	-	-
less Deferred income recognised prior years	(537)	(358)	-	-
	3,257	3,436	-	-
Opening balance	3,257	3,436	-	-
Less deferred income recognised	(179)	(179)	-	-
Total deferred grant	3,078	3,257	-	-
Revenue received in advance	606	512	-	146
Total deferred income	3,684	3,769	-	146

Deferred income relates to a Government Grant provided to develop the Spray Dryer Facility (part of property, plant and equipment). The Deferred income is written off over 20 and 25 years respectively for the Spray Dryer Facility being the estimated useful life of the assets.

	Group \$000		Company \$000	
	2016	2015	2016	2015
22. TERM LOANS				
BNZ 67378152-01 loan	6,200	6,200	6,200	6,200
BNZ 67378152-03 loan	122	177	122	177
BNZ 67378152-04 loan	8,894	-	8,894	-
BNZ 92346126-01 loan	7,833	8,000	-	-
BNZ 92346126-02 loan	1,469	1,361	-	-
	24,518	15,738	15,216	6,377
Total current portion	15,628	6,255	15,153	6,255
Total non-current portion	8,890	9,483	63	122
Total term loans	24,518	15,738	15,216	6,377

Term loans are secured by a mortgage over the property at Ruakura Road, Hamilton certificate of title No. 135745. A Credit Approved Letter of Offer was signed 30 June 2016 which extended the Maturity Date for BNZ loan 67378152-01:04 and BNZ loan 92346126-01:02 to August 2021.

	2016		2015	
	Interest Rate	Maturity Date	Interest Rate	Maturity Date
BNZ 67378152-01 loan	5.42%	July 2016	6.40%	April 2016
BNZ 67378152-03 loan	5.88%	June 2018	6.92%	June 2018
BNZ 67378152-04 loan	5.18%	July 2016	-	-
BNZ 92346126-01 loan	6.06%	June 2019	6.40%	June 2019
BNZ 92346126-02 loan	4.97%	June 2019	5.88%	June 2019

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
23. OTHER LOANS				
Bonds	900	-	-	-
Technopak - Equipment loan	300	300	-	-
Total other loans	1,200	300	-	-
Total current portion	750	-	-	-
Total non current portion	450	300	-	-
Total other loans	1,200	300	-	-

Technopak Ltd has supplied packing equipment to NZFIW with payment required in July 2016. In the meantime no interest is payable on the balance owing. During this period Technopak will have access to the equipment to show potential clients and NZFIW will be responsible for all maintenance.

	Group \$000		Company \$000	
	2016	2015	2016	2015
24. PROVISIONS				
Nu Mega Limited	189	171	-	-
Total provisions	189	171	-	-

NZFIW entered into a contract with Nu Mega Limited for use of the factory for five years and to loan NZFIW \$604,373 for equipment in the wet-side of the factory. If the contract is not renewed on 1st September 2019, one third of the loan is repayable on that date. NZFIW has created a provision (discounted to present value) for one third of the loan.

25. COMMITMENTS

The following amounts have been committed to by the group but are not recorded in either the Statement of Comprehensive Income or the Statement of Financial Position.

	Group \$000		Company \$000	
	2016	2015	2016	2015
Non-cancellable operating lease commitments				
No later than one year	24	25	24	25
Later than one year and no later than five years	68	75	68	75
Later than five years	117	134	117	134
	209	234	209	234

A significant proportion of the total non-cancellable operating lease amounts relates to the lease of land at Ruakura Road. The lease represents the first 25 years of a 4 x 25 year lease entered into in June 2003.

Total lease expense for 2016 was \$182,733 (2015: \$35,826).





NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	Group \$000		Company \$000	
	2016	2015	2016	2015
26. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH				
Profit/(loss) for the year	1,284	1,590	827	1,638
Add/(less) non-cash items				
Depreciation and amortisation	1,085	827	39	39
Fair value loss/(gain) on investment property	(787)	(1,186)	(787)	(1,186)
Other losses	420	16	405	16
Income tax expense and subvention payment	196	177	145	189
Share of associates (surplus)/deficit	3	(9)	-	-
Debt to equity conversion	-	-	-	(292)
Deferred income	(179)	(179)	-	-
Total non-cash items	738	(354)	(198)	(1,234)
Add/(less) movements in working capital				
Trade debtors and other receivables	158	(528)	245	726
Prepayments	36	(59)	38	(48)
Trade creditors and other payables	(287)	512	(483)	311
Revenue received in advance	94	510	(146)	146
Inventories	(344)	-	-	-
Total movement in working capital	(343)	435	(346)	1,135
Net cash flow from operating activities	1,679	1,671	283	1,539
27. FINANCIAL INSTRUMENTS				
Loans and receivables				
Cash and cash equivalents	1,982	168	563	168
Trade and other receivables	847	907	301	425
Related parties	2,161	2,161	2,161	2,161
Total loans and receivables	4,990	3,236	3,025	2,754
Financial liabilities at amortised cost				
Cash and cash equivalents	-	209	-	140
Payables and accruals	1,580	4,111	814	3,065
Term loans	24,518	15,738	15,216	6,377
Other loans	1,200	300	-	-
Provisions	189	171	-	-
Total financial liabilities at amortised cost	27,487	20,529	16,030	9,582

There are no financial instruments classified as available for sale or fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

28. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on normal commercial terms during the year:

Shareholders

Waikato Innovation Park Limited pays rates to the Hamilton City Council.

Waikato Innovation Park Limited paid \$267,800 (2015: \$124,674) to Hamilton City Council for rates, trade waste, water rates and development costs; there is a balance of \$604 outstanding at 30 June 2016 (2015: \$971).

Subsidiaries and associates

New Zealand Food Innovation (Waikato) Limited

Waikato Innovation Park Limited has provided unlimited inter-company guarantees to New Zealand Food Innovation (Waikato) Limited.

New Zealand Food Innovation (Waikato) Limited paid expenses of \$252,373 (2015: \$385,294) to Waikato Innovation Park Limited for corporate management services.

The Company's tax liability in relation to 2015 was decreased by a subvention payment of \$126,352 to NZFIW.

New Zealand Food Innovation Network Ltd

NZFIW made sales of \$61,733 (2015: \$60,000) to New Zealand Food Innovation Network Ltd for Business Development Manager services. The amount outstanding at balance date was \$10,618 (2015: \$11,021).

Other

Earl Rattray is a Director of Quantec Ltd, a private company which rents office space from Waikato Innovation Park Limited. During the year Waikato Innovation Park Limited charged Quantec Ltd \$49,649 (2015: \$30,900) for rent and operating expenses; a balance of \$609 (2015: \$428) was outstanding at 30 June 2016.

Andrew West is the Chairman of Herd Homes Ltd, a private company which rents office space from Waikato Innovation Park Limited. During the year Waikato Innovation Park Limited charged Herd Homes Ltd \$18,518 (2015: \$14,487) for rent and operating expenses; a balance of \$1,400 was outstanding at 30 June 2016 (2015: -\$20).

Waikato Innovation Park Limited has paid Directors fees of \$25,000 to Essentia Consulting Group Limited for the services of Martin Udale (2015: \$23,500).

Peter Maxwell (resigned April 2016), an employee of Waikato Innovation Park Limited is a Trustee of Greenfields Network Incorporated, Innovation Waikato Limited is a member of Greenfields Network Incorporated. Waikato Innovation Park Limited received \$2,309 (2015: NIL) from the dissolution of Greenfields Network Incorporated.

Key Management Personnel Disclosure

Key management personnel compensation	2016: \$928,385	2015: \$792,718
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29. CONTINGENCIES

No contingencies have been identified at balance date (2015: NIL).

30. CAPITAL COMMITMENTS

As at 30 June 2016 Waikato Innovation Park Limited has capital commitments of \$93,688 to Hawkins for the completion of Building D (2015: \$5,642,542).



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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

31. PERFORMANCE TARGETS AND RESULTS

The Company's parent entity, Innovation Waikato Limited prepares an annual Statement of Corporate Intent that covers Innovation Waikato Limited, the Company and New Zealand Food Innovation (Waikato) Limited. This is in accordance with section 64 (5) of the Local Government Act 2002. The 2015/16 Statement of Corporate Intent was approved by Hamilton City Council.

Performance information relevant to the Company and its subsidiary is disclosed below:

Budget and actual results (Group)	2016	2016	2015	2015
	Actual \$000	Statement of Corporate Intent \$000	Actual \$000	Statement of Corporate Intent \$000
EBITDA - Company: Property	1,434	1,338	2,280	1,023
EBITDA - Company: Economic Development	44	37	24	24
EBITDA - NZFIW	2,156	1,680	1,295	987
Existing buildings occupied	96%	98%	-	-

The favourable EBITDA for the property Division is due to a \$787,000 investment property revaluation. The favourable variation for NZFIW is due to 116 more days of manufacture and Achievement of higher average selling margins.

Occupancy rate was down 2% due to the change over of tenancy with the moving of Tetra Pak to the new building. All spaces had to be repainted and some refurbished.

Cash from operating activities is over target due to higher profits. Favourable interest rates have also improved net profit.



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Waikato Innovation Park Limited group's financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of Waikato Innovation Park Limited Group (the Group). The Auditor-General has appointed me, Leon Pieterse, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Group, consisting of Waikato Innovation Park Limited and its subsidiaries and other controlled entities, on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 5 to 28, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on page 29.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalent to International Financial Reporting Standards Reduced Disclosure Regime.
- the performance information of the Group presents fairly, in all material respects, the Group's actual performance, compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2016.

Our audit was completed on 26 August 2016. 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 of Directors and our responsibilities, and 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 the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information 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 the Group's internal control.

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 of Directors;
- the appropriateness of the reported performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the Group.

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and the performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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



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

Item 11

Attachment 3



FOODWAIKATO



**NEW ZEALAND
FOOD INNOVATION
(WAIKATO) LIMITED**

Annual Report 2016





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DIRECTORY

As at 30 June 2016

Nature of Business	Development and operating of a pilot spray dryer in the Waikato Region	
Address	Waikato Innovation Park Ruakura Lane Hamilton 3216	
Registered Office	Waikato Innovation Park Ruakura Lane Hamilton 3216	
Authorised Capital	105 Ordinary Shares 45 Preference Shares	
Directors	Barry Harris Earl Rattray Stuart Gordon Richard Perry Peter Hobman	
Shareholders	Waikato Innovation Park Limited	105 Ordinary Shares
	Callaghan Innovation	45 Preference Shares
		<u>150</u>
Auditors	Audit New Zealand on behalf of the Auditor-General PO Box 256 Hamilton 3240	
Bankers	BNZ 354 Victoria Street Hamilton	
Solicitors	Tompkins Wake 430 Victoria Street Hamilton	
IRD Number	105-220-731	



ANNUAL REPORT

For the Year Ended 30 June 2016

Approval and issue of financial statements

On this date the Directors approve and issue the annual report including the attached financial statements for New Zealand Food Innovation (Waikato) Limited for the year ended 30 June 2016.

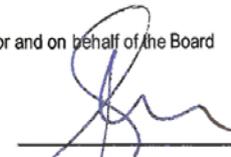
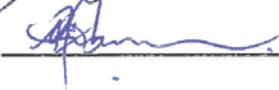
Reporting Concessions

The shareholders of New Zealand Food Innovation (Waikato) Limited have unanimously agreed to take advantage of the reporting concessions available to them under section 211(3) of the Companies Act 1993 whereby the annual report need not comply with any of paragraphs (a) and (e)-(j) of section 211(1), namely not to disclose information otherwise required concerning the activities of the Directors, employees, auditors, if any, and donations.

Auditor

An auditor has been appointed.

For and on behalf of the Board

 _____	Director	<u>24/8/16</u>	Date
 _____	Director	<u>24/8/16</u>	Date







STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2016

	NOTE	\$000	
		2016	2015
Revenue			
Revenue	4	6,758	3,659
Cost of sales		(778)	-
Gross profit		5,980	3,659
Share of profit/(loss) from associate	15	(3)	9
Total revenue		5,977	3,668
Expenses			
Operating expenses		(2,476)	(1,541)
Personnel costs	5	(1,197)	(779)
Depreciation	16	(1,046)	(788)
Audit fees		(18)	(17)
Directors fees		(115)	(49)
Other gains and losses	7	(15)	(1)
Total operating expenses		(4,867)	(3,175)
Finance income	6	-	13
Finance costs	6	(601)	(567)
Net finance costs	6	(601)	(554)
Profit/(loss) before tax		509	(61)
Subvention payment received		126	-
Income tax	8	(179)	12
Profit/(loss) for the year		456	(49)
Other comprehensive income			
Gain/(loss) on property revaluation	16	1,789	-
Income tax on other comprehensive income	8	(501)	-
Total other comprehensive income		1,288	-
Total comprehensive income for the year		1,744	(49)

The accompanying notes form part of these financial statements.



STATEMENT OF CHANGES IN EQUITY
For the Year Ended 30 June 2016

	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Total equity
Balance at as 1 July 2014		-	2,500	(1,448)	1,052
<i>Total comprehensive income</i>					
Profit for the year		-	-	(49)	(49)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	(49)	(49)
<i>Transaction with owners of the company</i>					
Proceeds from shares issued		3,333	-	-	3,333
Balance as at 30 June 2015		3,333	2,500	(1,497)	4,336
<i>Balance as at 1 July 2015</i>					
		3,333	2,500	(1,497)	4,336
<i>Total comprehensive income</i>					
Profit for the year		-	-	456	456
Other comprehensive income for the year		-	1,288	-	1,288
Total comprehensive income for the year		-	1,288	456	1,744
<i>Transaction with owners of the company</i>					
Proceeds from shares issued		-	-	-	-
Balance as at 30 June 2016		3,333	3,788	(1,041)	6,080

The accompanying notes form part of these financial statements.



STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	NOTE	\$000	
		2016	2015
ASSETS			
Non-current assets			
Related parties	14	4	-
Investment in associates	15	17	20
Property, plant and equipment	16	20,337	19,264
Total non-current assets		20,358	19,284
Current assets			
Cash and cash equivalents	10	1,419	-
Inventories	11	344	-
Trade and other receivables	12	568	493
Prepayments		64	63
Total current assets		2,395	556
Total assets		22,753	19,840
EQUITY AND LIABILITIES			
Equity			
Share capital	9	3,333	3,333
Revaluation reserve	9	3,788	2,500
Retained earnings		(1,041)	(1,497)
Total equity		6,080	4,336
Non-current liabilities			
Deferred tax liabilities	8	1,510	923
Deferred income	17	3,684	3,623
Term loans	18	8,827	9,361
Other loans	19	450	300
Provisions	20	189	171
Total non-current liabilities		14,660	14,378
Current liabilities			
Cash and cash equivalents	10	-	69
Payables and accruals	13	788	1,057
Term loans	18	475	-
Other loans	19	750	-
Total current liabilities		2,013	1,126

The accompanying notes form part of these financial statements.

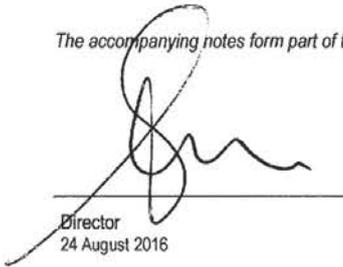


STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	NOTE	\$000 2016	2015
Total liabilities		16,673	15,504
Total equity and liabilities		22,753	19,840

The accompanying notes form part of these financial statements.



Director
24 August 2016



Director
24 August 2016





STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2016

	NOTE	\$000	
		2016	2015
Cash flow from operating activities			
Receipts from customers		6,617	3,742
Payments to suppliers and employees		(4,732)	(2,842)
Interest received		-	13
Interest paid		(601)	(567)
Tax payments		(72)	(4)
Subvention payment received		126	-
GST (net)*		54	(213)
Net cash from operating activities	21	1,392	129
Cash flow from investing activities			
Purchase of property, plant and equipment		(763)	(5,131)
Loans to related parties		-	(7,291)
Net cash from/(used in) investing activities		(763)	(12,422)
Cash flow from financing activities			
Proceeds from issue of share capital	9	-	3,041
Proceeds from borrowing		1,057	9,531
Repayment of borrowings		(198)	(367)
Net cash from/(used in) financing activities		859	12,205
Net increase/(decrease) in cash and cash equivalents		1,488	(88)
Cash and cash equivalents at 1 July		(69)	19
Cash and cash equivalents at 30 June	10	1,419	(69)

*The GST (net) component of operating activities reflects the net GST transactions 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.

The accompanying notes form part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

1. REPORTING ENTITY

New Zealand Food Innovation (Waikato) Limited (the "Company") is a company domiciled and incorporated in New Zealand under the Companies Act 1993, and a Council-Controlled Organisation under the Local Government Act 2002 with effect from the 9th October 2013. The Company's parent entity is Waikato Innovation Park Limited and the ultimate parent entity is Hamilton City Council.

The financial statements of New Zealand Food Innovation (Waikato) Limited are for the year ended 30 June 2016. The financial statements were authorised for issue by the Board of Directors on the 24th August 2016. The owners or others do not have the power to amend the financial statements after issue.

2. BASIS OF PREPARATION

a. Statement of Compliance

The financial statements for the Company have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ("NZ IFRS RDR"), and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The Company qualifies for NZ IFRS (RDR) as it does not have public accountability and it is not a large for-profit public sector entity. The Company has elected to apply NZ IFRS (RDR) and has applied disclosure concessions. The Company early adopted the Reduced Disclosure regime framework for the financial year ended 30 June 2015.

b. Basis of Measurement

The financial statements have been prepared on historical basis except for property, plant and equipment which is measured to fair value.

c. Functional and Presentational currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

d. Use of Estimates and Judgements

The preparation of the financial statements in conformity with NZ IFRS RDR requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 16: Determination of fair value of property, plant and equipment

Note 17: Recognition of deferred income

Note 20: Provisions

e. Change in Accounting Policies

Accounting policies have been applied on a consistent basis with those of the previous year.

New Zealand Food innovation (Waikato) Limited Annual Report 10



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all periods presented in these financial statements.

a. Accounting for Associates

An associate is an investee, not being a subsidiary or joint venture arrangement, over which the group has the capacity to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Associates are recognised using the equity method which recognises the Group's share of the associate's net surplus or deficit in the profit or loss and its share of other comprehensive income. The Company Associate is:

- New Zealand Food Innovation Network Ltd.

This company is 25% owned by New Zealand Food Innovation (Waikato) Limited.

b. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates or similar allowances. Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Interest income is accounted for as earned.

Grants received are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the Statement of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

c. Foreign Currency Translation

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the date of the transactions.

d. Finance Costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other finance costs are recognised in profit or loss in the period in which they are incurred.





NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

f. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

g. Trade and Other Receivables

Trade and other receivables are stated initially at fair value then at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off during the period in which they are identified. Trade and Other Receivables are classed as 'Loans and receivables' financial instruments (Note 22).

h. Property, Plant & Equipment

Property, plant & equipment is measured at fair value less subsequent depreciation. Computer and office equipment is recognised at cost price less depreciation and impairment losses.

Depreciation is calculated on a straight line basis to allocate the cost or revalued amounts over the estimated useful lives, as follows:

Buildings	25 years
Plant & Equipment	20 years
Computer & Office Equipment	20 years

The assets' residual values, depreciation method and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Revaluation

Property, plant & equipment is revalued with sufficient regularity and at least every three years to ensure that its carrying amount does not differ materially from fair value.

The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued.

Property, plant and equipment revaluation movements are accounted for on a class-of-asset basis.

The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the profit or loss. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the profit or loss will be recognised first in the profit or loss up to the amount previously expensed, and then recognised in other comprehensive income.

i. Work in progress

Work in progress is valued at cost.

j. Trade and Other Payables

Trade and other payables are stated at cost.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

k. Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST receivable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the balance sheet.

l. Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

m. Short-term Employee Benefits

Short-term (settled within 12 months) employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

n. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

o. Impairment

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.



NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 30 June 2016

	\$000	
	2016	2015
4. REVENUE		
Revenue from the sale of goods	519	458
Revenue from the rendering of services	6,060	3,022
Deferred Grant income	179	179
Total operating revenue	6,758	3,659
5. PERSONNEL COSTS		
Salaries and wages	1,178	766
Defined contribution plan	19	13
Total personnel costs	1,197	779
6. FINANCE COSTS		
<i>Finance income</i>		
Interest income on short-term bank deposit	-	13
Total finance income	-	13
<i>Finance costs</i>		
Bank fees	(4)	(8)
Interest on other payables	(4)	(9)
Interest on bank overdraft	(1)	(1)
Interest on bank borrowings	(592)	(549)
Total finance costs	(601)	(567)
Net finance costs	(601)	(554)
7. OTHER GAINS AND LOSSES		
<i>Losses</i>		
Net foreign exchange loss	(15)	(1)
Total other gains and losses	(15)	(1)





NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

8. INCOME TAX	\$000	
	2016	2015
Current tax	92	-
Deferred tax		
Current year	52	(12)
Adjustment for prior year	35	-
Total income tax expense recognised	179	(12)

The income tax expense for the year can be reconciled to the accounting profit as follows:	\$000	
	2016	2015
Profit before tax	509	(61)
Income tax expense at 28%	143	(17)
Effect of income that is exempt from tax	-	(2)
Effect of expenses that are not deductible in determining taxable profit	1	7
Adjustment for prior year - subvention payment	35	-
Income tax expense recognised in profit or loss	179	(12)

Deferred tax balances

(\$000)

Deferred tax assets/(liabilities) in relation to:

	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Property, plant and equipment	(1,879)	1	(501)	(2,379)
Provisions	8	(1)	-	7
Deferred income	912	(50)	-	862
Tax losses	36	(36)	-	-
Balance as at 30 June 2016	(923)	(86)	(501)	(1,510)

(\$000)

Deferred tax assets/(liabilities) in relation to:

	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Property, plant and equipment	(1,930)	51	-	(1,879)
Provisions	12	(4)	-	8
Deferred income	962	(50)	-	912
Tax losses	21	15	-	36
Balance as at 30 June 2015	(935)	12	-	(923)



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	\$000	
	2016	2015
9. EQUITY		
Share capital		
<i>Ordinary shares (105 shares)</i>		
Balance 1 July	334	1
Shares issued (5 shares)	-	333
less uncalled shares	(1)	(1)
Total Ordinary shares	333	333
<i>Preference shares (45 shares)</i>		
Balance 1 July	3,000	-
Shares issued (45 shares)	-	3,000
less uncalled shares	-	-
Total Preference shares	3,000	3,000
Total issued and called shares 30 June	3,333	3,333

Ordinary Shares

All ordinary shares carry equal voting rights and the right to share in any surplus on winding up. The shares have no par value.

Preference Shares

On a liquidation or winding up of NZFIW, the holders of Preference Shares are entitled to receive an amount equal to the subscription price paid for the Preference Shares held by them as at the date of liquidation or winding up (Preference) before any payments (including the payment of any debts or other amounts owing) are made to: any other Shareholder; any related party of any other Shareholder.

Other than the liquidation preference, each Preference Share confers on the holder the same rights, privileges and restrictions as are conferred on the holder of Ordinary Shares in NZFIW under the Constitution, including voting rights, rights in relation to the receipt of notices, reports and audited accounts and the right to attend and speak at any meeting of shareholders of the Company.

The holders of the Preference Shares agree that those Preference Shares will, unless otherwise agreed between the parties, convert on a 1:1 basis to Ordinary Shares on the fourth anniversary of the Completion Date per the Subscription and Shareholders' agreement, provided that NZFIW is solvent and none of the following has occurred or is pending or threatened at that date:

- a. the submission by a Shareholder of a winding-up notice under clause 13.3b or 13.4 or a Dispute Notice under Clause 18.5 or 21.1;
- b. the passing of a resolution to liquidate NZFIW;
- c. an order for the winding up or liquidation of NZFIW; or
- d. the appointment of a statutory manager, receiver, liquidator or similar of the whole or any part of NZFIW's business.

Revaluation Reserve

This reserve relates to the revaluation of property, plant and equipment.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	\$000	
	2016	2015
10. CASH AND CASH EQUIVALENTS		
BNZ Bank account	1,419	(69)
Total cash and cash equivalents	1,419	(69)

The Company has an overdraft facility with BNZ with a limit of \$250,000.

	\$000	
	2016	2015
11. INVENTORIES		
Goods in transit	178	-
Raw materials	166	-
Total inventories	344	-

The cost of inventories recognised as an expense during the year was \$778,840. (2015: NIL)

	\$000	
	2016	2015
12. TRADE AND OTHER RECEIVABLES		
Gross trade and other receivables	568	489
Income tax receivable	-	4
Total trade and other receivables	568	493

	\$000	
	2016	2015
13. PAYABLES AND ACCRUALS		
Accounts payable	233	568
Accruals	444	248
Income tax payable	23	-
Inter-entity payable	22	7
Other payables	66	234
Total payables and accruals	788	1,057

	\$000	
	2016	2015
14. RELATED PARTIES		
Waikato Innovation Park Limited	4	-
Total related parties	4	-

New Zealand Food Innovation (Waikato) Ltd owes Waikato Innovation Park Limited \$22,472 (2015: \$7,092) for day-to-day expenses. The related parties amount relates to tax transferred to Waikato Innovation Park Limited from New Zealand Food Innovation (Waikato) Ltd.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

	\$000	
	2016	2015
15. INVESTMENT IN ASSOCIATES		
<i>New Zealand Food Innovation Network Ltd</i>		
Interest held by the group	25%	25%
Opening balance	20	11
Share of revenue and expenses	(3)	9
Balance at 30 June	17	20
Total investment in associates	17	20

The Company has no contingencies or commitments in relation to its involvement in New Zealand Food Innovation Network Ltd. New Zealand Food Innovation Network Ltd is a company incorporated in New Zealand.

16. PROPERTY, PLANT AND EQUIPMENT

\$000	Property	Plant & Equipment	Computer & Office	Total
As at 30 June 2015				
Cost or valuation	4,008	17,484	5	21,497
Accumulated depreciation	(437)	(1,796)	-	(2,233)
Net book amount	3,571	15,688	5	19,264
For the year ended 30 June 2016				
Opening net book amount	3,571	15,688	5	19,264
Additions	21	307	2	330
Revaluation	247	1,542	-	1,789
Depreciation charge	(161)	(884)	(1)	(1,046)
Closing net book amount	3,678	16,653	6	20,337
As at 30 June 2016				
Cost or valuation	4,276	19,333	7	23,616
Accumulated depreciation	(598)	(2,680)	(1)	(3,279)
Net book amount	3,678	16,653	6	20,337

Property, plant & equipment shown at valuation was valued by North Langley & Associates Ltd, an independent registered valuer on 1 June 2016. (2015: NIL). The valuation technique used was the Optimised Depreciated Replacement Cost as the spray dryer has specialised equipment and comparable sale information is limited. North Langley & Associates Ltd are a reputable valuation company specialising in the valuation of plant, machinery and equipment

There was no impairment in 2016. (2015: NIL) No borrowing costs were capitalised during the year. (2015: NIL)

The spray dryer plant is noted as security against the Bank loans to Waikato Innovation Park Ltd.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

17. DEFERRED INCOME	\$000	
	2016	2015
Original Grant	3,794	3,794
less Deferred income recognised prior years	(537)	(358)
	3,257	3,436
Opening balance	3,257	3,436
less Deferred income recognised	(179)	(179)
Total deferred grant	3,078	3,257
Revenue received in advance	606	366
Total deferred income	3,684	3,623

Deferred income relates to Government Grants provided to develop the Spray Dryer Facility (part of property, plant and equipment). The Deferred income is written off over 20 and 25 years respectively for the Spray Dryer Facility being the estimated useful life of the assets.

18. TERM LOANS	\$000	
	2016	2015
BNZ 92346126-01 loan	7,833	8,000
BNZ 92346126-02 loan	1,469	1,361
	9,302	9,361
Total current portion	475	-
Non current portion	8,827	9,361
Total term loan	9,302	9,361

Term loans are secured by a mortgage over the property at Ruakura Road, Hamilton certificate of title No. 135745.

	2016		2015	
	Interest rate	Maturity Date	Interest rate	Maturity Date
BNZ 92346126-01 loan	6.06%	June 2019	6.40%	June 2019
BNZ 92346126-02 loan	4.97%	June 2019	5.88%	June 2019

A Credit Approved Letter of Offer was signed 30 June 2016 which extended the Maturity Date for BNZ 92346126-01 loan and BNZ 92346126-02 loan to August 2021.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

19. OTHER LOANS	\$000	
	2016	2015
Bonds	900	-
Technopak - Equipment loan	300	300
Total other loans	1,200	300
Total current portion	750	-
Total non current portion	450	300
Total other loans	1,200	300

Technopak Ltd has supplied packing equipment to NZFIW with payment required in July 2016. In the meantime no interest is payable on the balance owing. During this period Technopak will have access to the equipment to show potential clients and NZFIW will be responsible for all maintenance.

20. PROVISIONS	\$000	
	2016	2015
Nu Mega Limited	189	171
Total provisions	189	171

NZFIW entered into a contract with Nu Mega Limited for use of the factory for five years and to loan NZFIW \$604,373 for equipment in the wet-side of the factory. If the contract is not renewed on 1st September 2019, one third of the loan is repayable on that date. NZFIW has created a provision (discounted to present value) for one third of the loan.

21. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH	\$000	
	2016	2015
Profit/(loss) for the year	456	(49)
Add/(less) non-cash items		
Depreciation and amortisation	1,046	788
Share of associates (surplus)/deficit	3	(9)
Income tax expense and subvention payment in profit or loss	53	(12)
Deferred income	(179)	(179)
Conversion of debt to equity	-	292
Total non-cash items	923	880
Add/(less) movements in working capital		
Revenue received in advance	240	366
Trade debtors and other receivables	(75)	(262)
Prepayments	(1)	(10)
Trade creditors and other payables	193	(796)
Inventories	(344)	-
Total movement in working capital	13	(702)
Net cash flow from operating activities	1,392	129



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

22. FINANCIAL INSTRUMENTS

\$000	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale	Total
Assets as per balance sheet					
	1,419	-	-	-	1,419
	568	-	-	-	568
Balance as at 30 June 2016	1,987	-	-	-	1,987

\$000	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet				
	-	-	-	-
	-	-	788	788
	-	-	1,200	1,200
	-	-	9,302	9,302
	-	-	189	189
Balance as at 30 June 2016	-	-	11,479	11,479

\$000	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale	Total
Assets as per balance sheet					
	-	-	-	-	-
	493	-	-	-	493
Balance as at 30 June 2015	493	-	-	-	493

\$000	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet				
	-	-	69	69
	-	-	1,057	1,057
	-	-	300	300
	-	-	9,361	9,361
	-	-	171	171
Balance as at 30 June 2015	-	-	10,958	10,958



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

23. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on normal commercial terms during the year:

New Zealand Food Innovation Network Ltd

The Company made sales of \$61,733 (2015: \$60,000) to New Zealand Food Innovation Network Ltd for Business Development Manager services. The amount outstanding at balance date was \$10,618 (2015: \$11,021).

Waikato Innovation Park Limited

Waikato Innovation Park Limited has provided unlimited inter-company guarantees to New Zealand Food Innovation (Waikato) Limited.

New Zealand Food Innovation (Waikato) Limited paid expenses of \$252,373 (2015: \$385,294) to Waikato Innovation Park Limited for corporate management services.

New Zealand Food Innovation (Waikato) Limited received a subvention payment of \$126,352 (2015: NIL) from its parent entity: Waikato Innovation Park Limited for the 2015 tax year.

Key Management Personnel Disclosure

Key management personnel compensation 2016: \$353,927 2015: \$271,468

24. CONTINGENCIES

No contingencies have been identified at balance date (2015: NIL).

25. COMMITMENTS

No commitments have been identified at balance date (2015: NIL).

26. PERFORMANCE TARGETS AND RESULTS

The Company's parent entity, Innovation Waikato Limited, prepares an annual Statement of Corporate Intent that covers the Company, Waikato Innovation Park Limited and Innovation Waikato Limited. This is in accordance with section 64(5) of the Local Government Act 2002. The 2015/16 Statement of Corporate Intent was approved by Hamilton City Council.

Performance information relevant to the Company is disclosed below:

Budget and actual results	2016	2016	2015	2015
	Actual \$000	Statement of Corporate Intent \$000	Actual \$000	Statement of Corporate Intent \$000
EBITDA NZFIW	2,156	1,680	1,294	987
Days of production	416 days	300 days	-	-
Estimated exports derived from NZFIW Plant	49,100	50,000	-	-

The favourable variation for NZFIW is due to 116 more of days of production and the achievement of higher average selling margin. Estimated exports sales derived from manufacture at NZFIW was 98% of target at \$49.1m

Food Waikato revenue grew 85% from \$3,659,000 last year to \$6,758,000 this year. Food Waikato's Total Comprehensive Income was a net profit of \$456,000 compared to last year's loss of \$49,000. Food Waikato's net cash from operating activities was \$1,329,000.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of New Zealand Food Innovation (Waikato) Limited's financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of New Zealand Food Innovation (Waikato) Limited (the company). The Auditor-General has appointed me, Leon Pieterse, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 5 to 23, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on page 23.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2016.

Our audit was completed on 24 August 2016. 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 of Directors and our responsibilities, and 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 the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and performance information 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 the company's internal control.

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 of Directors;
- the appropriateness of the reported performance information within the company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the company.

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audits of the group, we have no relationship with or interests in the company or group.



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

Waikato Innovation Park

"Growing Technology Business"



**Innovation Waikato Ltd (IWL)
and Group of Companies**

Including:

Waikato Innovation Park Ltd (WIPL)
New Zealand Food Innovation (Waikato) Ltd
(NZFIW)

Statement of Intent

2015/2016

Ruakura Road, P.O. Box 9466, Waikato Mall Centre, Hamilton 3240, New Zealand | Phone +64 7 857 0500 Fax +64 7 857 0501 | Email info@wipltd.co.nz | Website www.wipltd.co.nz

1.0 Introduction

Innovation Waikato Ltd (IWL) and Waikato Innovation Park Ltd (WIPL) became a CCO on 9 October 2013 upon the vesting of assets from Katolyst Trust to Hamilton City Council (HCC).

This statement is presented by the Directors in accordance with s.64 (1) Local Government Act 2002 and sets out the Board's intentions for the Company for the year ended 30 June 2016 plus estimates for the years ending 30th June 2017 and 2018.

Subsidiaries

HCC owns Innovation Waikato Ltd which is the shell non-operating company that owns the assets of Waikato Innovation Park Ltd (WIPL) which has one subsidiary company, namely New Zealand Food Innovation (Waikato) Ltd (NZFIW).

2.0 Corporate Intent

The Waikato Innovation Park has identified its core purpose and key objectives that recognise the strategic intent of the business:

Core Purpose

To promote research, development, commercialisation and marketing by new and existing entities or individuals of new products, processes, technologies and or quality improvements. To actively promote economic development by supporting the growth of business that contributes to New Zealand's export economy.

The focus of the Park is on innovation and technology-led businesses that enhance New Zealand's competitive advantage and alignment with the region's economic export development strategy, particularly in areas such as:

- Agriculture
- Agribusiness
- Food Processing
- Value Add to Food Products from primary production
- Horticulture
- Environmental sustainability
- Enabling Information and Communication Technology

3.0 Nature and Scope of Activities to be Undertaken

Key Objectives

The Key Objectives that can be achieved during years ending June 2016 to 2018 are that WIPL will contribute to a successful economic growth strategy, in collaboration with other regional agencies, NZTE and Callaghan Innovation. WIPL will specialise in funding grants, incubation, clustering, business attraction and business to business collaboration.

The Key Objectives planned for 2016 are:

1. 300 days of product development production via the spray dryer contributing \$50m to the regional economy
2. A new \$9million building completed and occupied
3. Existing buildings 98% occupied
4. A major company attracted to the Park and signed Agreement to Lease in place
5. Commitment of capital to fund a new building and enable the repayment of HCC 19% direct shareholding

The Key Objectives planned for 2017 are:

1. 300 days of product development production via the spray dryer contributing \$50m to the regional economy
2. Assist with the development of a sheep milk industry within the region
3. Three existing buildings 98% occupied
4. New building commenced

The Key Objectives planned for 2018 are:

1. 300 days of product development production via the spray dryer contributing \$50m to the regional economy
2. Assist with new drying technology to further develop the horticulture industry
3. Another major company attracted to site with signed Agreement to Lease
4. Further private capital injection to complete proposed building and reduce HCC to minority shareholding.

4.0 Key Performance Targets (\$,000)

	2016	2017	2018
Group EBITDA	3,055	4077	4784
Group Cash from operating activities	1423	1144	1400
Retained Earning	670	830	1470
Shareholders' funds (including deferred Income)/ Tangible assets	42%	46%	48%

5.0 Capital Expenditure Detail (\$,000)

	2016	2017	2018
Miscellaneous	195	138	150
Spray Dryer/Wetside	300	700	400
Buildings	7,436	6,000	3,470
Total	7,931	6,838	4,020

6.0 Financial Disclosure

Ratio of consolidated shareholder funds to total assets

Shareholder funds are defined as Equity plus Government Grant deferred Income

Statement of accounting policies

Innovation Waikato Ltd is a profit-oriented company registered in New Zealand under the Companies Act 1993.

The financial statements presented are those of Innovation Waikato Limited (the "Company") and its subsidiaries (the "Group"). The Company financial statements are prepared in accordance with the requirements of the Financial Reporting Act 1993.

The Group is involved in the business of the development and operation of an Innovation Park in Hamilton, New Zealand and a development spray dryer.

Statement of Compliance and Basis of Preparation

The financial statements for the Company are for Innovation Waikato Limited as a separate legal entity.

The consolidated financial statements for the Group are for the economic entity comprising Innovation Waikato Limited and its subsidiaries.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

The Company qualifies for Differential Reporting exemptions as it is not publicly accountable and is not large as defined in the Framework for Differential Reporting. The Company has taken advantage of all available differential reporting exemptions.

Basis of Measurement

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed by the Company.

Presentation Currency

The financial statements are presented in New Zealand Dollars.

Basis of Consolidation

Subsidiaries – entities controlled directly or indirectly by the Group. Subsidiaries are consolidated from the date control is acquired. They are de-consolidated from the date control ceases. All significant intercompany accounts and transactions are eliminated on consolidation.

Associates – entities in which the Group has significant influence, but not control, over the operating and financial policies. Associates are recognised using the equity method which recognises the Group's share of net profit in profit or loss and its share of post-acquisition movements in reserves in other income. The Group Associate is New Zealand Food Innovation Network Limited. This company is 25% owned by New Zealand Food Innovation (Waikato) Limited.

Transactions and balances eliminated on consolidation – intercompany transactions, balances, revenue and expenses between Group companies are eliminated on consolidation.

Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied:

i. *Revenue*

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Grants received are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and

transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Rental income is accounted for as earned. Interest income is accounted for on an accrual basis.

- ii. *Expenses*
Expenses have been classified on their business function.
- iii. *Work in Progress*
Work in progress comprising materials, labour and overheads is valued at cost.
- iv. *Trade Receivables*
Trade Receivables are recognised at estimated realisable value.
- v. *Property, Plant & Equipment*
Property, Plant & Equipment are recognised at cost price less depreciation and impairment losses. Gains and losses on disposal of Property, Plant & Equipment are taken into account in determining the operating result for the year.

Depreciation is calculated on a diminishing value basis to allocate the cost or revalued amounts over the estimated useful lives of the assets, as follows:

Plant & Equipment	13.8% DV
Computer Equipment	39.8% DV
Office Equipment	17.8% DV

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

- vi. *Property*
Property is recognised at fair value less depreciation and impairment losses. In previous years property was valued at cost.

Land is not depreciated. Depreciation on buildings is calculated on a diminishing value basis to allocate the cost or revalued amounts over the estimated useful lives, as follows:

Buildings 1.7% DV

vii. *Income Tax*

No provision has been made as there is no current or deferred tax payable.

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income.

viii. *Trade and Other Payables*

Trade and other payables are stated at cost.

ix. *Impairment*

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is

carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase. An impairment of goodwill is not subsequently reversed.

x. *Foreign Currencies*

Transactions denominated in foreign currencies are converted at the exchange rate current at the transaction date. Foreign currency receivables and payables are converted at exchange rates current at balance date. Foreign exchange gains and losses are included as income or expenses respectively in the Statement of Financial Performance.

xi. *Goods and Services Taxation (GST)*

Revenues and expenses have been recognised in the financial statements exclusive of GST. All items in the Statement of Financial Position are stated exclusive of GST except for receivables and payables which are stated inclusive of GST.

xii. *Borrowing Costs*

Borrowing costs are recognised as an expense using the effective interest method.

I. Future Investment Proposals

If the Company wishes to subscribe for, purchase, or otherwise acquire shares in any other company or any other organisation it can do so only after first obtaining approval from the majority of shareholders at either a General Meeting or at a Special meeting convened for that purpose.

II. Compensation from Local Authorities

Tony Steele receives remuneration as a Director of the WIPL board and also as a member of the HCC Audit and Risk Committee.

III. Commercial Value of the Shareholders investment

i. The most recent valuation was completed on 15 July 2010 by PricewaterhouseCoopers which states that the fair market value of 100% of the equity in Innovation Waikato Ltd to be between \$12,500,000 and \$13,800,000 as at the valuation date.

ii. A registered valuation of the real property assets was undertaken in 2012. The total value of the real assets at 30th June 2013 is \$31,392,000. Total term liabilities at 30th June 2013 were \$20.5m

IV. Dividend Policy

It is proposed to review the dividend policy during the 2015/2016 financial year.

7.0 Information to be provided to Shareholders

The company will deliver the following Reports or Statements to the Shareholder:

- Unaudited Half Year Report within two months of the end of the first half of the financial year (28 February); commenting on the operations and results for the six months.
- Statement of Intent
 - By 1 March of each year a Draft Statement of Intent for the consideration of the shareholders
 - Final Statement of Intent to the shareholders by 30 June.
- Financial Statements
 - Draft financial statements by 31 July.
 - Audited Annual Accounts by 30 September.

8.0 Governance Statements

Board of Directors

There are two separate Boards of Directors for WIPL and NZFIW. The board is a skill based board that must govern in the best interests of the company.

The WIPL Board currently includes the following Directors:

- **Earl Rattray** (Chairman) is past Director of Fonterra, a Director of other companies active in the Agricultural sector and a NZ dairy farmer and has interests in international farming enterprises. Accredited Fellow member of the NZ Institute of Directors.
- **Michael Spaans** is a dairy farmer from Te Aroha who also acts as a Director on a number of other companies in New Zealand's Agricultural sector including Fonterra. Member of NZ Institute of Directors.
- **Tony Steele** is a Chartered Accountant and has had a career in professional practice. His speciality area is in Business Advisory Services, which includes a wide range of commercial and corporate services. Tony is a Fellow member of the NZ Institute of Directors.
- **Martin Udale** has more than 30 years' experience in commercial and residential property development and investment in UK, Australia and New Zealand. Member of NZ Institute of Directors.
- **Dr Andrew West** is Vice Chancellor of Lincoln University and was previously Chief Executive of AgResearch, New Zealand's principal research organisation supporting the country's dairy, meat and wool industries. Accredited member of NZ Institute of Directors.

Health and Safety

WIPL is committed to Health and Safety which will be at the forefront of its operational management to ensure the wellbeing of its staff, tenants, contractors and visitors.

Environment

WIPL is committed to minimise and/or mitigate the adverse impact of the company's operations on the environment.

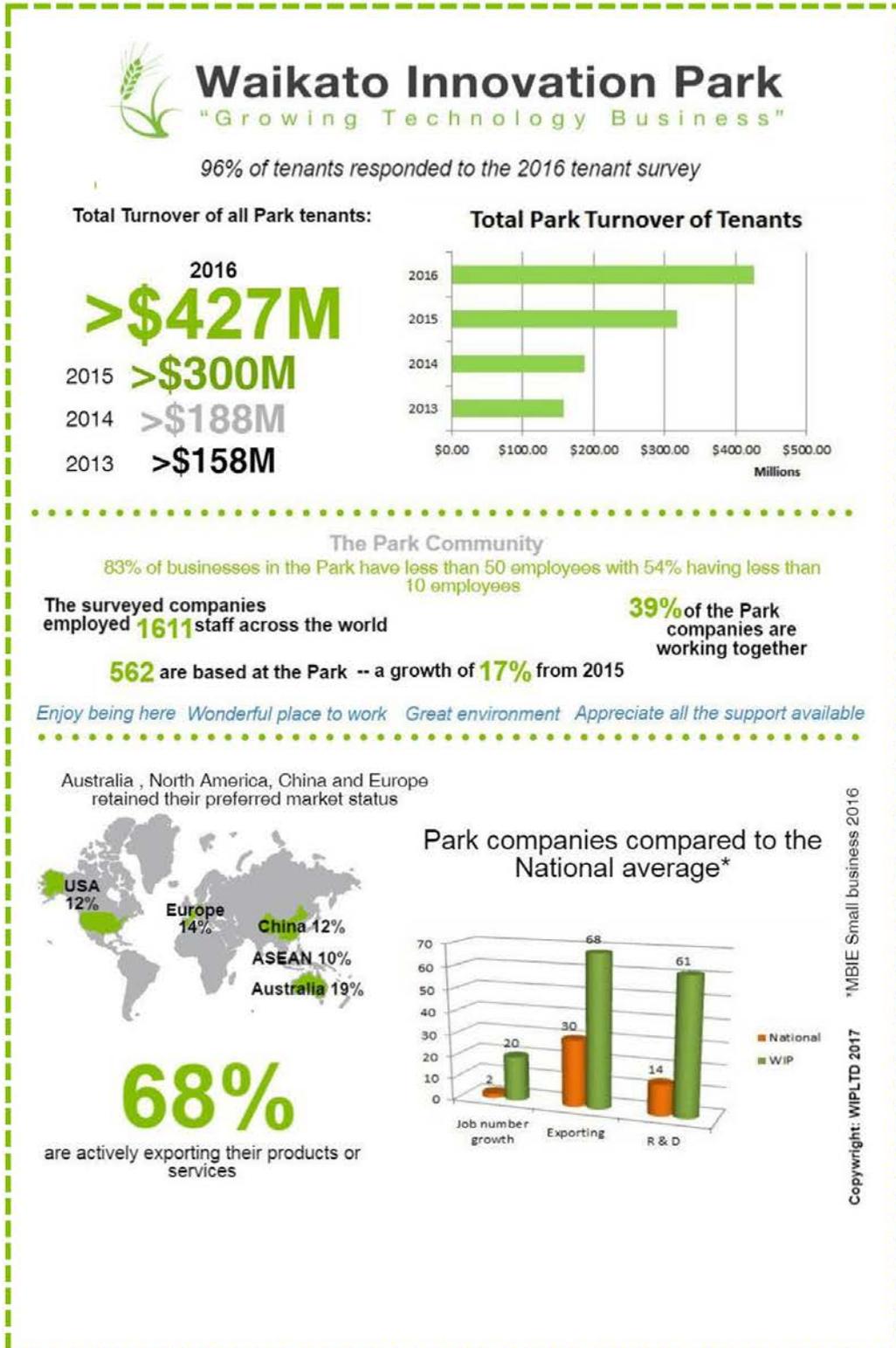
Waikato Innovation Park Limited-Group Forecasts for the years ending Jun 2016 - 2018

Overview

All in 000	Forecast 2016	Forecast 2017	Forecast 2018
EBITDA Property	1,338	2,178	2,899
EBITDA Business Growth	37	35	35
EBITDA NZFIW	1,680	1,864	1,850
Group EBITDA	3,055	4,077	4,784
Depreciation	1,078	1,103	1,149
Interest	1,256	1,654	1,527
Total Other overheads	2,334	2,757	2,676
Net Profit before tax	721	1,320	2,109
Income tax		(286)	(375)
Net Profit After Tax	721	1,034	1,733
Dividends	(51)	(204)	(264)
Retained Earning	670	830	1,470

**Waikato Innovation Park Limited
Group Consolidated Financial Position Statements**

\$ '000	Jun-16	Jun-17	Jun-18
Total Current Assets	768	774	941
Non Current Assets			
Plant & Equipment	15,492	15,461	15,067
Buildings	28,911	35,090	39,422
Total Non-current Assets	44,403	50,551	54,489
Total Assets	45,171	51,325	55,430
Total Current Liabilities	925	898	601
Non Current Liabilities			
Bank Loans	24,210	26,065	26,817
Deferred Grant Income	4,799	4,581	4,362
Customer Financing	1,104	1,104	1,104
Deferred Income Tax	152	268	567
Total Non-Current Liabilities	30,266	32,018	32,850
Total Liabilities	31,191	32,916	33,714
Net assets	13,980	18,409	21,979
Total Equity	13,980	18,409	21,979





13 December 2016

Level 6
280 Queen Street
PO Box 1165, Auckland 1140
www.auditnz.govt.nz
Fax: 09 366 0215

Thomas Gibbons
Chairperson
Vibrant Hamilton Trust
Private Bag 3010
Waikato Mail Centre
Hamilton 3240

Dear Thomas

Vibrant Hamilton Trust – Audit for the year ended 30 June 2016

I have pleasure in forwarding our audit opinion along with a signed set of the financial statements.

On behalf of the audit team, I would like to thank you and the staff for co-operation and assistance during the audit.

Yours sincerely



Leon Pieterse
Director

Encls

Independent Auditor's Report

To the readers of Vibrant Hamilton Trust's financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of Vibrant Hamilton Trust (the Trust). The Auditor-General has appointed me, Leon Pieterse, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the Trust on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Trust on pages 6 to 11 that comprise the statement of financial position as at 30 June 2016, the statement of financial performance and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Trust on pages 3 to 4.

In our opinion:

- the financial statements of the Trust:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Simple Format Reporting Standard – Accrual (Public Sector); and
- the performance information of the Trust presents fairly, in all material respects, the Trust's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Trust's objectives for the year ended 30 June 2016.

Our audit was completed on 30 November 2016. 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 Trustees and our responsibilities, and 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 the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Trust's financial statements and performance information 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 the Trust's internal control.

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 Trustees;
- the appropriateness of the reported performance information within the Trust's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Trustees

The Trustees are responsible for the preparation and fair presentation of financial statements for the Trust that comply with generally accepted accounting practice in New Zealand. The Trustees are also responsible for preparation of the performance information for the Trust.

The Trustees' responsibilities arise from the Local Government Act 2002 and the Trust Deed.

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

publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001, the Trust Deed 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 External Reporting Board.

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



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

Item 12

Attachment 1

**Vibrant Hamilton Trust
Annual Report
for the year ended 30 June 2016**

**Vibrant Hamilton Trust
2015/16 Annual Report**

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Trustees	
Current:	Date appointed
T Gibbons (Chairperson)	22-Sep-11
M Brooker	22-Sep-11
L Flowers	10-Feb-14
Her Worship the Mayor J Hardaker	06-Apr-11
Past:	Date resigned
J Gower	11-Feb-14
R Hennebry	11-Feb-14
M Keightley	25-May-14
Secretary	M Birch
Registered Office	Hamilton City Council Municipal Offices Garden Place Private Bag 3010 Hamilton 3240

Entity information

Legal name

Vibrant Hamilton Trust (the Trust)

Type of entity and legal basis

The Trust is incorporated in New Zealand under the Charitable Trusts Act 1957. The Trust is controlled by Hamilton City Council and is a council-controlled organisation as defined in section 6 of the Local Government Act 2002.

The Trust's purpose or mission

The principal activities of the Trust are to promote the social, economic, environmental and cultural well being of the City of Hamilton and its communities.

Structure of the Trust's operations, including governance arrangements

The Trust comprises a Board of three Trustees who oversee the governance of the Trust. The Trustees are appointed by Hamilton City Council.

Main sources of the Trust's cash and expenses

The Trust has a balanced portfolio split 45/55 fixed interest/growth shares investments which is managed by Gareth Morgan Investments. The mix reflects the purpose of the portfolio, which is to enable regular drawings of 4% per annum, as required, as well as to protect the capital over the longer term.



Statement of Service Performance

The Trust prepares an annual Statement of Intent, which is approved by the Trustees and incorporates financial and performance measures for the ensuing year.

In 2016 the Trust has distributed a total of \$725,000 to projects that support Hamilton City's Strategies and Community Outcomes. The projects were identified as being well planned and will enhance the well-being of people and the environment, now and in the future.

Performance Measures	Results 2015	Results 2016	Comment
1. Trust membership obligations are fulfilled in accordance with section 5 of the Trust Deed.	Not achieved	Not achieved	Under the current Trust Deed there is a requirement for the Trust to have five Trustees, at present there are four Trustees. The appointment of an additional Trustee was deferred until the matter of the potential changes in the Trust Deed had been resolved. The Council Controlled Organisations subcommittee had the view that there needed to be at least five Trustees. As at the June 2016 meeting the Trust has noted potential candidates.
2. Trustees' delivery against position description is undertaken annually.	Achieved	Achieved	The Trustees reviewed their performance at the 11 December 2015 meeting. It was recognised that there was a broad skill set amongst the Trustees and the Trust was progressing well.
3. The performance of investments is monitored by receiving and considering portfolio reports and financial information, on at least a quarterly basis as minimum.	Achieved	Achieved	GMI Portfolio update was received and considered by the Trustees in September and December 2015, February and June 2016.
4. The investment mandate is monitored to ensure the investment portfolio reflects the risk tolerance, investment time zone and drawings requirement of the Trust.	Achieved	Achieved	In June the Chair and Trustees reviewed the financial update as at 31 March 2016. The Chair spoke with the GMI Portfolio Manager and whilst a change in mandate was considered, at this point, no change in strategy was required.



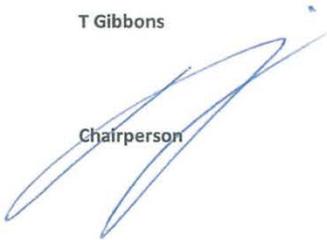
Performance Measures	Results 2015	Results 2016	Comment
5. The performance of the Portfolio Manager is found satisfactory.	Achieved	Achieved	<p>25 September VHT meeting. Resolution: Trustees were satisfied with the performance of GMI. It was agreed that no change to the fund management was required. That the Trust would report back to the Council Controlled Organisation (CCO) Subcommittee Meeting on 22 October 2015 to confirm that the fund management had been reviewed, the Trustees were satisfied with the performance of GMI and no change was required.</p> <p>From the June meeting the Trustees noted the change in ownership of GMI and confirmed they were comfortable with it.</p>
6. The minimum total annual grant of \$300,000 for 2015/16 is made. (Note: Any distributions are determined by the Trustess in their sole discretion in accordance with the Trust Deed and the law).		Achieved	<p>New measure, no comparison information.</p> <p>First distribution of \$375,000 occurred during the September 2015 meeting. The Trustees were able at their discretion, provided the amount stayed within the parameters relating to income laid down in the Trust Deed able to exceed this amount. The Trustees distributed \$350,000 during the June 2016 meeting.</p>



Declaration by Board of Trustees

The Board of Trustees is responsible the preparation of the financial statements and performance information in accordance with the financial reporting standards. The Board of Trustees is responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting. In the opinion of the Board of Trustees, these financial statements fairly reflect or give a true and fair view of the financial position and operations of Vibrant Hamilton Trust for the year ended 30 June 2016.

T Gibbons



Chairperson

Date: 30/11/16

M Brooker



Trustee

Date: 30/11/16



Vibrant Hamilton Trust
Statement of financial performance
for the year ended 30 June 2016

	Note	Actual 2016 \$	Budget 2016 \$	Actual 2015 \$
Revenue				
Dividend revenue		69,633	53,458	52,908
Interest revenue	4	18,914	137,462	202,622
Compensation/Rebate		2,326	-	-
Realised gains on investments		262,503	311,836	493,722
Unrealised gains on investments		-	-	318,005
Total revenue		353,375	502,756	1,067,257
Expenses				
Audit fees		7,399	7,476	7,248
Management fees - Gareth Morgan Investments		33,849	37,548	33,881
Other expenses		9,891	8,100	8,103
Unrealised losses on investments		487,412	-	-
Grants distributed	2	725,000	300,000	-
Total expenses		1,263,551	353,124	49,232
Surplus/(deficit) before tax		(910,176)	149,632	1,018,025
Income tax expense		-	-	-
Surplus/(deficit) after tax		(910,176)	149,632	1,018,025

Vibrant Hamilton Trust
Statement of financial position
as at 30 June 2016

	Note	Actual 2016 \$	Budget 2016 \$	Actual 2015 \$
Assets				
Current assets				
Bank account and cash	3	134,194	300,000	365,723
Other financial assets	5	5,564,163	6,211,879	6,242,658
Total current assets		5,698,357	6,511,879	6,608,381
Total assets		5,698,357	6,511,879	6,608,381
Liabilities				
Current liabilities				
Creditors and accrued expenses	56	18,151	15,576	17,999
Grants payable		-	-	-
Total current liabilities		18,151	15,576	17,999
Total liabilities		18,151	15,576	17,999
Total assets less total liabilities		5,680,206	6,496,303	6,590,382
Trust equity				
Contributed capital	67	4,169,850	4,169,850	4,169,850
Accumulated surpluses	67	1,510,356	2,326,453	2,420,532
Total Trust equity		5,680,206	6,496,303	6,590,382



Vibrant Hamilton Trust
Statement of cashflows
for the year ended 30 June 2016

	Notes	Actual 2016 \$	Budget 2016 \$	Actual 2015 \$
Cash flows from operating activities				
Interest and dividends		90,872	190,920	255,530
Realised gains on investments		262,503	311,836	493,722
Payments to suppliers		(50,988)	(54,877)	(48,974)
Grants paid		(725,000)	(300,000)	(100,000)
Net cash flows from operating activities	-	422,613	147,879	600,278
Cash flows from investing and financing activities				
Payments to acquire investments		191,104	(147,879)	(602,724)
Net cash flow from investing and financing activities		191,104	(147,879)	(602,724)
Net increase/(decrease) in cash for the year		(231,509)	-	(2,446)
Add opening bank accounts and cash		365,723	300,000	368,169
Closing bank accounts and cash		134,214	300,000	365,723

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Vibrant Hamilton Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Statement of accounting policies
Accounting policies applied

Reporting entity

Vibrant Hamilton Trust (the "Trust") is controlled by Hamilton City Council and is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002, by virtue of Hamilton City Council's right to appoint the Board of Trustees.

The Trust was incorporated on 24 August 2010 under the Charitable Trusts Act 1957 and is domiciled in New Zealand. The Trust was registered in accordance with the Charities Act 2005 on 1 November 2010 to give it charitable status.

The principal activities of the Trust are to promote the social, economic, environmental and cultural well being of the City of Hamilton and its' communities. Accordingly the Trust is designated as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The Trust commenced trading when the initial capital was received on 31 January 2012, resulting from the transfer of 65% of funds previously held by Waikato Foundation Trust.

The financial statements of the Trust are for the year ended 30 June 2016.

Basis of preparation

The Board has elected to apply PBE-SFR-A (PS) Public Benefit Entity Simple Format Reporting - Accrual (Public Sector) on the basis that the Trust does not have public accountability (as defined) and has total annual expenses of less than \$2 million.

All transactions in the financial statements are reported using the accrual basis of accounting.

The financial statements are prepared on the assumption that the Trust will continue to operate in the foreseeable future.

Goods and services tax

The Trust is not registered for GST. All amounts in the financial statements are recorded inclusive of GST.

Significant Accounting Policies

Interest revenue

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Trust reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend revenue

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Grant expenditure

Non-discretionary grants are those grants 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 the Trust has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Board and the approval has been communicated to the applicant.



Realised gains/(losses) on investments

Realised gains/(losses) on investment portfolio managed by GMI

Unrealised gains/(losses) on investments

Unrealised gains/(losses) on investment portfolio managed by GMI

Foreign currency transactions

Foreign currency transactions are translated into New Zealand Dollars (the functional currency) using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Bank accounts and cash

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the balance sheet.

Debtors and other receivables

Debtors are initially recorded at the amount owed. When it is likely the amount owed (or some portion) will not be collected, a provision for impairment is recognised and the loss is recorded as a bad debt expense.

Financial assets

Financial assets are initially measured 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 surplus or deficit.

Creditors and accrued expenses

Creditors and accrued expenses are measured at the amount owed.

Income Tax

The Trust has charitable status and is exempt from income tax.

Budget figures

The budget figures are derived from the statement of intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with Tier 3 standards, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Equity

Equity is measured as the difference between total assets and total liabilities. Accumulated funds are defined as the aggregated surplus/deficit for each financial year.

2. Grants distributed

	2016	2015
Grants approved for distribution	725,000	-

The Trustees approved total grants of \$375,000 on 25 September 2015, of which was paid out 30 October 2015. In the 1 June Meeting the Trustees approved \$350,000, of which was paid out 30 June 2016

3. Bank accounts and cash

	2016	2015
Cash	134,194	365,723

Cash accounts comprises a number of New Zealand and foreign currency bank accounts held by Gareth Morgan Investments (GMI) on behalf of the Trust.



4. Interest revenue

2016	2015
18,914	202,622

Prior to December 2015 Vibrant Hamilton Trust held fixed interest bonds directly. In December 2015 the fixed interest component moved to a portfolio investment entity (PIE). In 2016 the PIE fixed interest was reported as part of realised gains, \$29,501 and unrealised gains, \$124,099.

5. Other financial assets

	2016	2015
Current		
Equity fund managed by GMI	5,564,163	6,242,658
Total current portion	5,564,163	6,242,658
Total Other financial assets	5,564,163	6,242,658

The Trust has a portfolio of equity funds and fixed interest instruments managed by Gareth Morgan Investments (GMI). These investments are managed as a balanced portfolio to an agreed investment mandate.

6. Creditors and accrued expenses

	2016	2015
Accrued expenses	10,151	9,999
Amounts due to related parties	8,000	8,000
Total creditors and other payables	18,151	17,999

Amounts due to related parties relates to an amount owing to Council for accounting and other administration services provided through out the year.

7. Equity

	2016	2015
Contributed capital		
Balance at 1 July	4,169,850	4,169,850
Capital contribution	-	-
Balance at 30 June	4,169,850	4,169,850
Accumulated surpluses		
Balance at 1 July	2,420,532	1,402,507
Surplus/(deficit) for the year	- 910,196	1,018,025
Balance at 30 June	1,510,336	2,420,532
Closing balance	5,680,186	6,590,382

Vibrant Hamilton Trust (the Trust) commenced trading with a capital of \$4,169,850 was received on 31 January 2012, resulting from the transfer of funds (65%) previously held by Waikato Foundation Trust. The Waikato Foundation Trust was subsequently dissolved.



8. Related party transactions

Related-party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that is reasonable to expect the Trust would have adopted in dealing with the party at arm's length in the same circumstances.

Hamilton City Council (Council) is the ultimate controlling party of the Trust.

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

Hamilton City Council

Council provides accounting and other administration support to the Trust. The Trustees agreed that Council will charge the Trust \$8,000 annually for these services. The fee is included in 'other expenses' in the Statement of financial performance and classified as 'amounts due to related parties' in note 5.

Key management personnel

Key management personnel includes all Trustees. Trustees were not paid any fees for the year ended 30 June 2016 (2015 \$nil). Also there were no other transactions between the Trust and the Trustees (2015 \$nil).

9. Events after balance date

There were no significant events after the balance date.

10. Statutory compliance

The draft Statement of Intent (SOI) for 2016/17 was approved by Trustees on 12 February 2016. The CCO Subcommittee approved the draft Statement of Intent with no amendments at its 6 April 2016 meeting.

11. Capital commitments

There are no capital commitments at 30 June 2016 (2015 \$nil).

12. Contingent liabilities

There are no contingent liabilities at 30 June 2016 (2015 \$nil).

Statement of financial position

Equity - Accumulated funds of \$5,572,357 has been reclassified as contributed capital of \$4,169,850 and accumulated surpluses of \$1,510,356.

13. Breach of Local Government Act 2002

The Trust did not adopt its audited financial statements within three months of balance date (30 September 2016) as required by section 69 of the Local Government Act 2002.

The reason for the late adoption was that GMI's audited report on internal controls was not available in time for the 30 September 2016 deadline.



STATEMENT OF INTENT (DRAFT)

VIBRANT HAMILTON TRUST

For the year ending 30 June 2016

This Statement of Intent (SOI) is presented by the Vibrant Hamilton Trust (VHT) as required by Section 64(1) of the Local Government Act 2002.

The SOI forms the basis for the accountability of the Trustees of Vibrant Hamilton Trust to Hamilton City Council, and sets out the objectives, scope of activities undertaken, and performance targets by which Vibrant Hamilton Trust will be measured.

The purpose of this SOI is to provide accountability and transparency by outlining the activities and intentions of this Council Controlled Organisation (CCO) for the year and the objectives to which our activities will contribute.

This SOI covers the year ended 30 June 2016 and includes the forecast financial statements for the following two years 2017 and 2018.

Thomas Gibbons
Chair
20 February 2015

Trim D-168057 reviewed by TG 25-02-15



INTRODUCTION

The Vibrant Hamilton Trust was established as a CCO as per the requirements under section 64(1) of the Local Government Act 2002.

It is a legal entity incorporated under the Charitable Trusts Act 1957.

The Waikato Foundation Trust resolved in 2010 to make distributions to the Vibrant Hamilton Trust (65%) and The Waikato District Wellbeing Trust Board (35%).

Vibrant Hamilton Trust received a \$4.671 million distribution from Waikato Foundation Trust on 31 January 2012. The Waikato Foundation Trust was subsequently wound up.

The Vibrant Hamilton Trust approved the first grant distribution in 2013/14, a total of \$336,000 to the following three projects:

- *Waiwhakareke Natural Heritage Park 2015 & 2016 Planting Project (\$150,000)*
- *Hamilton Gardens Tudor Garden development (\$68,000)*

- *Upgrade of Minogue Park to a destination playground (\$100,000)*

Applications must be projects that support Hamilton's City vision and strategic aspirations, in particular, sustainable, well planned projects for the well-being of people and the environment, now and in the future.

Grants are distributed based on charitable purposes (and in line with the Trust Deed).



PURPOSE

PURPOSE OF THE TRUST

In addition to the statutory objective as stated in section 59 of the Local Government Act 2002, the objectives of the Trust as outlined in clause 3 (3.1) of the Deed) are:

1. Promote the social, economic, environmental and cultural wellbeing of the City of Hamilton and its communities, and/or
2. Relieve poverty through sustainable policies and practices, and/or
3. Advance education in the City of Hamilton, particularly to promote and advance economic standards for the benefit of the public generally, and/or
4. Deliver on the strategic aspirations of Hamilton City as identified by the community from time to time and endorsed by the Hamilton City Council.

These purposes, objectives and activities will be monitored to ensure that they are charitable and in accordance with the law.

ACTIVITIES

- *Governance*
- *Investment*
- *Grant Disbursement*

SCOPE OF ACTIVITIES

GOVERNANCE

The Trust will be governed in accordance with the terms of the Trust Deed.

Objective

- To comply with the terms of the Trust Deed and in particular with the duties of the Trust as set out in clause 11 of the Deed.

Performance Measure

- Trust membership obligations are fulfilled in accordance with section 5 of the Trust Deed.
- To adhere to the Trust's Performance Monitoring Programme.

INVESTMENT

The Trust will, in accordance with the Trust Deed, invest or reinvest part or parts of the Trust Fund not immediately required for the purposes of the Trust (whether income or capital) in investments or securities, as the Trust Board considers beneficial to the Trust Fund.

Objective

- To adhere to the Trust's Management of Share Portfolio and Distribution Policy.
- To review on an annual basis the investment mandate with the portfolio manager and the performance of the portfolio manager.

Performance Measure

- The performance of investments is monitored by receiving and considering portfolio reports and financial information, on at least a quarterly basis.
- The investment mandate is monitored to ensure the investment portfolio reflects the risk tolerance, investment time zone and drawings requirements of the Trust.
- The performance of the portfolio manager is found satisfactory.

GRANT DISBURSEMENT

The Trust will, as appropriate, disburse funding towards projects that meet the Trust's criteria and that meet the Objects of the Trust Deed.

Objective

- As per the Management of Share Portfolio and Distribution Policy, to distribute a minimum total annual grant of \$300,000 for 2015/2016.

Performance Measure

- A distribution process is undertaken that distributes the annual fund to eligible recipients for who meet the fund criteria. Any distributions are determined by the Trustees in their sole discretion in accordance with the Trust Deed and the law.
- As a minimum, 6-monthly reports are received from all successful applicants within the required timeframe.



FINANCIAL STATEMENTS

The forecast financial statements for the years 2016 to 2018 are shown below. For comparative purposes, we have disclosed the original forecast for 2015 (i.e. the approved SOI for 2015) and the revised forecast for 2015 (i.e. which incorporates the audited results for 2014 and more recent information on the portfolio performance).

Vibrant Hamilton Trust
Statement of Financial Performance
Forecast for the year ended 30 June

	Note	Revised Forecast 2015 \$	Original Forecast 2015 \$	Forecast 2016 \$	Forecast 2017 \$	Forecast 2018 \$
Revenue						
Interest and dividend revenue	2	170,703	167,393	190,920	195,356	200,170
Increase in value of investment	2	954,512	200,871	311,836	319,082	326,944
Total Revenue		1,125,215	368,264	502,756	514,438	527,114
Less Expenses						
Accounting and admin fee	4	8,000	8,160	8,000	8,000	8,000
Audit fee	4	7,329	6,451	7,476	7,626	7,779
Management fee	2	33,572	34,300	37,548	38,420	39,367
Other expenses		2,000	2,000	100	100	100
Total Expenses		50,901	50,911	53,124	54,146	55,246
Surplus/(deficit) before grants made		1,074,314	317,353	449,632	460,292	471,868
Less Grants made	5	300,000	200,000	300,000	300,000	300,000
Surplus/(deficit) for the year		774,314	117,353	149,632	160,292	171,868

**Vibrant Hamilton Trust
Statement of Financial Position
Forecast as at 30 June**

	Note	Revised Forecast 2015 \$	Original Forecast 2015 \$	Forecast 2016 \$	Forecast 2017 \$	Forecast 2018 \$
Current Assets						
Cash	6	300,000	300,000	300,000	300,000	300,000
Debtors						
Investments	7	6,064,000	5,399,315	6,211,879	6,372,321	6,544,342
Total Current Assets		6,364,000	5,699,315	6,511,879	6,672,321	6,844,342
Total Assets		6,364,000	5,699,315	6,511,879	6,672,321	6,844,342
Current Liabilities						
Creditors and accruals		17,329	16,611	15,576	15,726	15,879
Grants payable						
Total Current Liabilities		17,329	16,611	15,576	15,726	15,879
Total Liabilities		17,329	16,611	15,576	15,726	15,879
Net Assets		6,346,671	5,682,704	6,496,303	6,656,595	6,828,463
Accumulated Funds						
Accumulated surpluses/(deficits)		6,346,671	5,682,704	6,496,303	6,656,595	6,828,463
Total Accumulated Funds		6,346,671	5,682,704	6,496,303	6,656,595	6,828,463

Vibrant Hamilton Trust
Statement of Cash Flows
Forecast for the year ended 30 June

	Revised Forecast 2015	Original Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Cash Flows from Operating Activities					
Cash was received from:					
Dividend and interest revenue	170,703	167,393	190,920	195,356	200,170
Realised gains on investments	954,512	200,871	311,836	319,082	326,944
	<u>1,125,215</u>	<u>368,264</u>	<u>502,756</u>	<u>514,438</u>	<u>527,114</u>
Cash was applied to:					
Payments to suppliers	51,314	48,705	54,877	53,996	55,093
Grants paid	400,000	200,000	300,000	300,000	300,000
	<u>451,314</u>	<u>248,705</u>	<u>354,877</u>	<u>353,996</u>	<u>355,093</u>
Net cash flows from operating activities	<u>673,901</u>	<u>119,559</u>	<u>147,879</u>	<u>160,442</u>	<u>172,021</u>
Cash Flows from Investing & Financing Activities					
Cash was received from:					
	0	0	0	0	0
Cash was applied to:					
Acquisition of investments	742,070	119,559	147,879	160,442	172,021
	<u>742,070</u>	<u>119,559</u>	<u>147,879</u>	<u>160,442</u>	<u>172,021</u>
Net cash flows from investing & financing	<u>(742,070)</u>	<u>(119,559)</u>	<u>(147,879)</u>	<u>(160,442)</u>	<u>(172,021)</u>
Net Increase/(Decrease) in Cash	<u>(68,169)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Opening Cash	368,169	300,000	300,000	300,000	300,000
Closing Cash	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
This is represented by:					
Cash and cash equivalents	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>

Vibrant Hamilton Trust
Notes to the Financial Statements
Forecast for the year ended 30 June 2016-2018

1. Statement of accounting policies

Reporting entity

Vibrant Hamilton Trust (the "Trust") is controlled by Hamilton City Council and is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002, by virtue of Hamilton City Council's right to appoint the Board of Trustees.

The Trust was incorporated on 24 August 2010 under the Charitable Trusts Act 1957 and is domiciled in New Zealand. The Trust was registered in accordance with the Charities Act 2005 on 1 November 2010 to give it charitable status.

The principal activities of the Trust are to promote the social, economic, environmental and cultural well being of the City of Hamilton and its' communities. Accordingly the Trust is designated as a public benefit entity for the purposes of financial reporting.

The Trust commenced trading when the initial capital was received from the transfer of 65% of funds previously held by Waikato Foundation Trust as at 31 January 2012.

The forecast financial statements of the Trust are for the year ended 30 June 2016-2018. The forecast financial statements were authorised for issue by the Trustees on 20 February 2015.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below.

- *Statement of compliance*

The Trust has elected to apply PBE SFR-A (NFP) i.e. Public Benefit Entity Simple Format Reporting-Accrual (Not-For-Profit) on the basis that it does not have public accountability and has annual expenses of equal to or less than \$2,000,000. All transactions in the financial statements are reported using the accrual basis of accounting. The financial statements are prepared under the assumption that the entity will continue to operate in the foreseeable future.

- *Measurement base*

The financial statements have been prepared on a historical cost basis, except where modified by the revaluation of certain financial instruments.

- *Functional and presentation currency*

The financial statements are presented in New Zealand Dollars. The functional currency of the Trust is New Zealand Dollars.

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

Significant Accounting Policies

Revenue recognition

Revenue is recognised as follows:

- *Interest income*

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Trust reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

- *Dividend income*

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Grant expenditure

Non-discretionary grants are those grants 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 the Trust has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Board and the approval has been communicated to the applicant.

Foreign currency transactions

Foreign currency transactions are translated into New Zealand Dollars (the functional currency) using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the balance sheet.

Debtors and other receivables

Trade receivables are recognised at face value, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'other expenses'.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Other financial assets

Financial assets are initially measured 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 surplus or deficit.

Purchases and sales of investments are recognised on trade-date, the date on which the Trust commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Trust has transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following categories for the purpose of measurement:

- fair value through surplus or deficit;
- loans and receivables;
- held-to-maturity investments; and
- fair value through other comprehensive income

The classification of a financial asset depends on the purpose for which the instrument was acquired.

- *Financial assets at fair value through surplus or deficit.*

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or it is part of a portfolio of identified financial instruments that are managed together and for there is evidence of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated into hedge accounting relationship for which hedge accounting is applied.

Financial assets acquired principally for the purpose of selling in the short-term or part of portfolio classified as held for trading are classified as a current asset.

After initial recognition financial assets in this category are measured at their fair values with gains or losses on re-measurement recognised in the surplus or deficit.

- *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

- *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and there is a positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after balance date, which are included in non-currents assets.

After initial recognition they are measured at amortised cost using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

- *Fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income are those that are designated into a category at initial recognition or are not classified in any of the other categories above. They are

included in non-current assets unless management intends to dispose of, or realise, the investment within 12 months of balance date. The following are included in this category:

- investment that it intend to hold long-term but which may be realised before maturity; and
- shareholdings that it holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised in other comprehensive income, except for impairment losses, which are recognised in the surplus or deficit.

On de-recognition the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to surplus or deficit.

Impairment of financial assets

Financial assets are assessed for objective evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

- *Loans and other receivables, and held to maturity investments*

Impairment is established when there is objective evidence that the Trust will not be able to collect amounts due according to the original terms of the debt. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the asset is impaired.

The amount of the impairment is the difference between the asset's carrying amount and their present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit.

When the receivable is uncollectable, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, are recognised directly against the instrument's carrying amount.

- *Financial assets at fair value through comprehensive income*

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered objective indicators that the asset is impaired.

If impairment evidence exists for investments at fair value through other comprehensive income, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive income is reclassified from equity to the surplus or deficit.

Equity instruments impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

If in a subsequent event the fair value of a debt instrument increase and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit.

Income Tax

The Trust has charitable status and is exempt from income tax.

Creditors and other payables

Short-term creditors and other payables are recorded at their face value.

Goods and service tax

The Trust is not registered for GST. As a result, the financial statements have been prepared on a GST inclusive basis.

Accumulated Funds

Accumulated funds are measured as the difference between total assets and total liabilities. Accumulated funds are defined as the aggregated surplus/deficit for each financial year.

Critical accounting estimates and assumptions

In preparing these financial statements the Trust has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The forecast assumptions for 2016 to 2018 are summarised on page 13 of the SOI.

Vibrant Hamilton Trust
Notes to the Financial Statements
Forecast for the year ended 30 June 2016-2018

Forecast assumptions 2016-2018:

- 2 GMI have estimated an average return on the portfolio of 7.9% per annum, pre management fees, over the next 3 years, 2016 to 2018.

Interest and dividend income has been forecasted applying an average rate of return of 3.0% per annum on the previous years closing portfolio balance for 2016 to 2018.

The forecasted increase in market value of investments is based on applying an average rate of 4.9% per annum on the previous years closing portfolio balance for 2016 to 2018.
- 3 The following expenses have been forecasted for 2016 to 2018:
 - audit fees - base of \$7,185 for 2014, plus a 2% per annum increment each year there after.
 - accounting and administration fee fixed at \$8,000 per annum for 2016 to 2018.
 - GMI management fee is based on applying an average rate of 0.59% per annum on the opening portfolio balance each year.
- 4 The forecasted annual grant disbursement of \$300,000 per annum for 2016 to 2018.
- 5 Assumed a cash balance maintained at \$300,000 to provide liquidity to the Trust.
- 6 Investments comprise fixed interest securities and shares.
Net operating surpluses are reinvested to cash balances and /or investments.

Ratios:

- 7 The Local Government Act 2002 requires the SOI to include the projected ratio of equity to total assets.
The ratio of equity to total assets is forecasted as follows:

Year	%
2016	99.76%
2017	99.76%
2018	99.77%

Reports to be provided to Hamilton City Council:

- 8 The audited financial statements for year ending 30 June 2016, including a summary of how the Trust has performed against its objectives and performance targets. within 3 months of the end of the year, i.e. by 30 September 2016.
- 9 The half year report to 31 December 2015 by 28 February 2016.
- 10 The Draft Statement of Intent for 2016/2017 by 28 February 2016.
- 11 The Final Statement of Intent for 2016/2017 by 30 June 2016.

**Vibrant Hamilton Trust
Performance Monitoring Programme**

The following table outlines a programme to monitor the Trust's performance against the measures outlined in the Statement of Intent 2016:

Performance Measure	How measured/by whom	Timeframe
1. Trust membership obligations are fulfilled in accordance with section 5 of the Trust Deed.	Public nomination process occurs as outlined by the Trust Deed and complies with HCC's Council Representation on External Organisations Policy. (HCC staff)	Within six months of each triennial general election of local authorities.
2. Trustee's delivery against position descriptions is undertaken annually.	Chair person and Trustees to conduct self evaluation.	December
3. The performance of investments is monitored by receiving and considering portfolio reports and financial information, on at least a quarterly basis as minimum.	The return on the consolidated portfolio is measured against a benchmark (comprising 45% NZ Bond and 55% MSCI).	February, June, September, December (at Trustees Meetings)
4. The investment mandate is monitored to ensure the investment portfolio reflects the risk tolerance, investment time zone and drawings requirements of the Trust.	Chair person and Trustees to review annually the investment mandate for VHT with the Portfolio Manager for the next financial year. The Chair person and Trustees to review and be satisfied the investment mandate is being adhered i.e. balanced portfolio split 45/55, fixed interest / growth shares investment to enable cash grants, as well protect the capital over the longer term.	June February, June, September, December (at Trustees Meetings)
5. The performance of the Portfolio Manager is found satisfactory.	Chair person and Trustees to review the performance of the Portfolio Manager.	June



**30 JUNE
2016**

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Attachment 1



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Cover: Victoria Street, Wellington. Upgraded lanes, parking and pedestrian area on Victoria Street. Wellington City Council.

Left: Te Ara I Whiti Cycleway and Walkway – linking Upper Queen Street to Quay Street. Auckland Council. Photo: Hakan Nedjat.



CHAIRMAN'S REPORT

FOR THE YEAR ENDED 30 JUNE 2016

"Over the past four-and-a-half years LGFA has exceeded expectations with strong growth in assets, market share and development of products that have reduced the cost of borrowing, extended the term of the sector debt and provided greater access to markets."

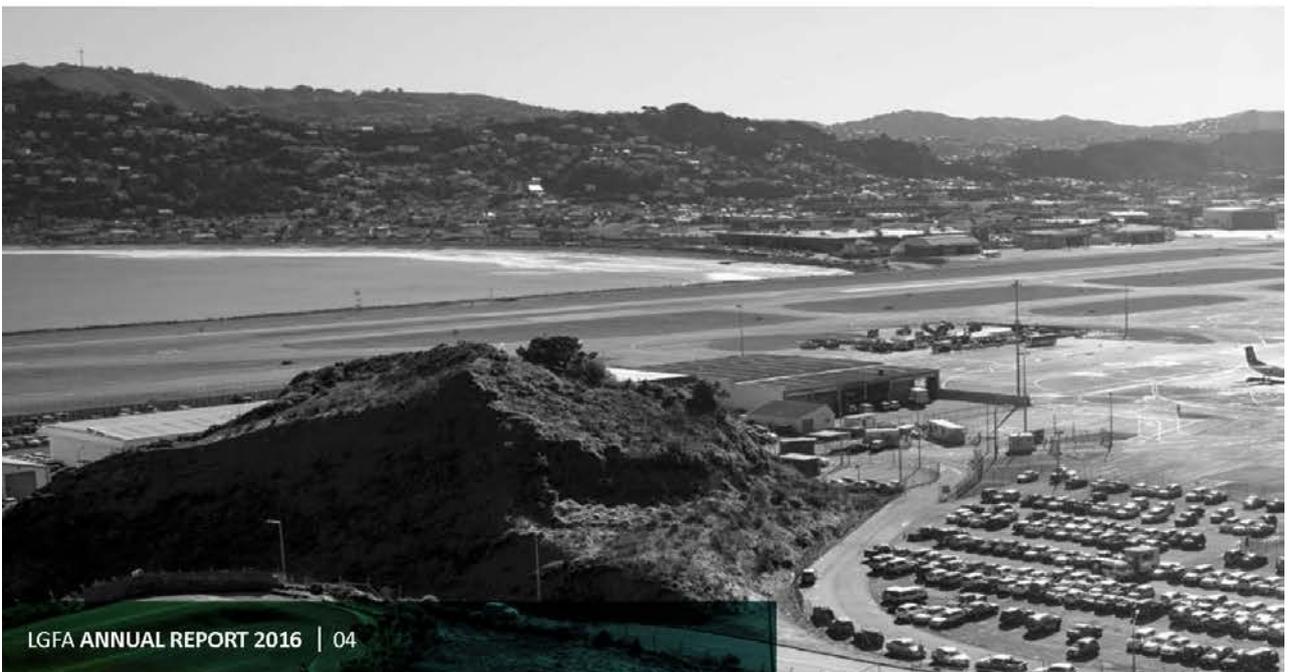
Craig Stobo, Chairman LGFA Board



Directors are pleased to report another strong period of financial and non-financial performance of LGFA to 30 June 2016 and to highlight the following developments over the past year.

Strong Financial and Operational Performance

LGFA total interest income for the financial year of \$278 million was a 25% increase over the 2014-15 financial year result of \$223 million while net operating profit of \$9.55 million for the financial year was a 4% increase on the 2014-15 financial year result of \$9.20 million. Net operating profit did not match the growth in interest income as operating expenses were higher due to the listing of LGFA bonds on the NZX; the introduction of short-dated lending to councils; new issuance of LGFA Bills, transition to Financial Markets Conduct Act and the admittance of five new council members. These expenses are largely non-recurring and are an investment in the future business through making LGFA bonds a more attractive investment and delivering longer-dated and cheaper funding to council borrowers.



Chairman's Report

The financial strength of the LGFA was reaffirmed by credit rating agencies Standard and Poor's and Fitch who both maintained our credit rating at AA+, which is the same as the New Zealand Government.

LGFA successfully transitioned all front, middle and back office activities from the New Zealand Debt Management Office (NZDMO) on 1 July 2015. NZDMO remain the counterparty for derivative transactions.

The performance of the organisation was recognised with LGFA receiving the INFINZ Excellence in Treasury Award for 2015 and Mark Butcher receiving the KangaNews New Zealand Treasurer of the Year Award for the fourth time in the past five years.

Borrowing activity

LGFA issued \$1.265 billion of bonds over the year and outstandings now total \$6.220 billion across seven maturities from 2017 to 2027. LGFA commenced issuance of an April 2025 bond in June 2016 and continued with its proven issuance strategy of replicating the New Zealand Government Bond curve. LGFA is now one of the largest issuer of NZD securities after the New Zealand Government and our bonds are amongst the largest and most liquid New Zealand dollar (NZD) debt instruments available for investors.

LGFA successfully launched its short-dated LGFA Bill programme in October 2015 and now tenders 3-month and 6-month LGFA Bills on a monthly basis. Outstandings under the programme have reached \$225 million. These instruments provide a source of funding for short-dated lending to our council borrowers and also assist LGFA with liquidity management.

NZX listing

On 16 November 2015, LGFA listed its bonds on the NZX Debt Market which was the largest listing in the history of the NZX. This has increased our domestic and offshore investor base and added to the liquidity of our bonds. Since listing, LGFA bonds have accounted for approximately 11% of market turnover on the NZX Debt market.

Wellington Airport, Southern end of Wellington Airport showing the runway. Wellington City Council.



Chairman's Report

Lending to the sector

LGFA was established four-and-a-half years ago to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. It is pleasing to note the following achievements over the past financial year:

- We added five new members with Buller District Council, Canterbury Regional Council, Gore District Council, Kaipara District Council and South Wairarapa District Council. Total membership is now fifty councils.
- Bespoke lending continues to be popular for councils in that it provides flexibility as to maturity dates of borrowing and the date of drawdown. LGFA lent \$407 million on a bespoke basis over the financial year. This was approximately 31% of our total long-dated lending over that period.
- Following the issuance of LGFA Bills we were able to offer short-dated lending (less than 365 day terms) to councils. As at 30 June 2016, LGFA had \$158.7 million of short-term loans outstanding to thirteen councils.
- The tenor of lending by LGFA to the sector continued to lengthen with the average term of borrowing by councils for the financial year of 8.1 years.

Milestone – Five years of delivering value to local government in New Zealand

This is the fifth annual report for LGFA and directors and staff are proud of the achievements since we were established in December 2011. Over the past four-and-a-half years LGFA has exceeded expectations with strong growth in assets, market share and development of products that have reduced the cost of borrowing, extended the term of the sector debt and provided greater access to markets.

We are looking forward to the next five-year growth phase of the LGFA. We believe we have the right structures in place to manage this next phase and meet the needs of our various stakeholder groups – council borrowers, local and central government as shareholders, council guarantors and our investor base comprising domestic and offshore institutional and retail investors.

During the growth phase directors will maintain a consistent and conservative approach to our capital management strategy through:

- Providing steady dividends to our shareholders in line with our cost of borrowing, noting that we commenced dividend payments earlier than forecast in the foundation business plan;
- Providing the lowest funding margins for our borrowers; and
- Building our capital base through retained earnings to maintain our credit rating and to minimise risk for our guarantors.

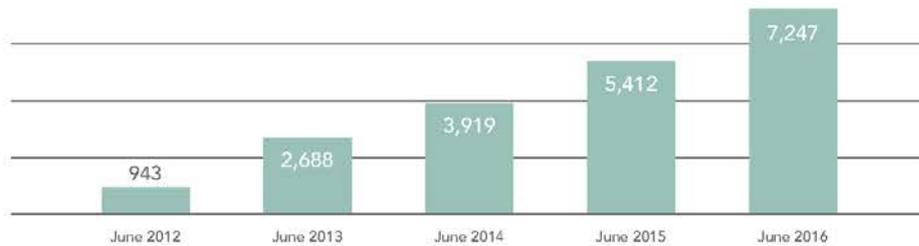
The Agency's work cannot be implemented without the support of our staff and fellow directors all of whose efforts should be acknowledged. In that regard I would like to acknowledge the contribution of your new directors Linda Robertson and Mike Timmer. I would like to also thank Mark Butcher, our Chief Executive for his leadership of the organisation over the past year. Directors believe the Agency's future remains positive and look forward to working with all stakeholders in the year ahead.

Craig Stobo
Chairman, LGFA Board

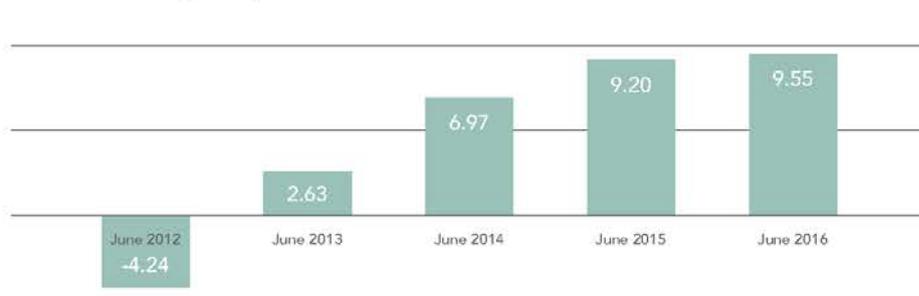
Chairman's Report

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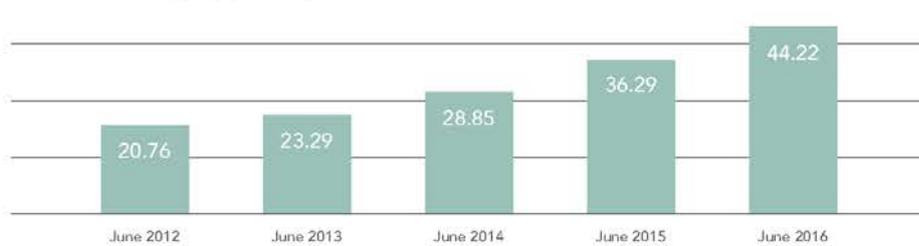
Total Assets (NZ\$m)



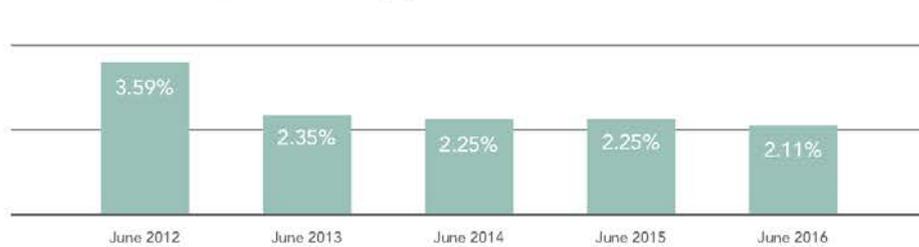
Profit and Loss (NZ\$m)



Shareholder Equity (NZ\$m)



Shareholder Funds / Total Assets (%)



Attachment 1

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Attachment 1



CORPORATE GOVERNANCE

Corporate Governance Best Practice Code

LGFA supports the NZX Corporate Governance Best Practice Code. Although the company considers its governance practices have not materially differed from the NZX Code for the year-ended 30 June 2016, the specific areas where LGFA governance practices have differed from the NZX Code are as follows:

NZX Corporate Governance Best Practice Code	LGFA Governance Practice
An Issuer should formulate a code of ethics to govern its conduct (1.1)	LGFA requires high standards of conduct for directors and staff, the expectations of which are documented in: <ul style="list-style-type: none"> • The Constitution of New Zealand Local Government Funding Agency Limited • LGFA Board Charter • Conflicts of Interest Policy • Gifts and Entertainment Policy
An Issuer should establish a nomination committee to recommend Director appointments to the Board (3.11,3.12,3.13)	The process for the nomination and remuneration of directors is documented in the Constitution of New Zealand Local Government Funding Agency Limited and outlined in the section below.
An Issuer should establish remuneration committee to recommend a remuneration packages for Directors to shareholders (3.8,3.9,3.10).	

Left: A floating platform to host a pumping structure capable of supplying 70 million litres of water daily to the Hamilton water treatment plant is lifted into the Waikato River for testing. Hamilton City Council.

Corporate Governance

This section sets out the Company's commitment to sound governance practices.

The LGFA governance structure comprises the LGFA shareholders, the LGFA Shareholders' Council and the LGFA Board of Directors.

LGFA Shareholders

LGFA has 31 Shareholders, comprising the New Zealand Government (20%) and thirty councils (80%).

Auckland Council	Palmerston North City Council
Bay of Plenty Regional Council	Selwyn District Council
Christchurch City Council	South Taranaki District Council
Gisborne District Council	Tasman District Council
Greater Wellington Regional Council	Taupo District Council
Hamilton City Council	Tauranga City Council
Hastings District Council	Thames-Coromandel District Council
Hauraki District Council	Waimakariri District Council
Horowhenua District Council	Waipa District Council
Hutt City Council	Wellington City Council
Kapiti Coast District Council	Western Bay of Plenty District Council
Manawatu District Council	Whakatane District Council
Marlborough District Council	Whanganui District Council
Masterton District Council	Whangarei District Council
New Plymouth District Council	New Zealand Government
Otorohanga District Council	

LGFA Shareholders' Council

The LGFA Shareholders' Council comprises five to ten appointees from the Council Shareholders and the Crown. The role of the Shareholders' Council comprises the following:

- Review and report performance of LGFA and the Board;
- Recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors;
- Recommendations to Shareholders as to any changes to policies, or the Statement of Intent (SOI), requiring their approval;
- Update Shareholders on LGFA matters and to coordinate Shareholders on governance decisions.

As at the date of this Annual Report, the members of the LGFA Shareholders' Council are:

- Alan Adcock, Whangarei District Council, Chairman
- John Bishop, Auckland Council, Deputy Chairman
- David Bryant, Hamilton City Council
- Mohan De Mel, Tauranga City Council
- Mike Drummond, Tasman District Council
- Douglas Marshall, Selwyn District Council
- Brian McMillan, New Zealand Government
- Matt Potton, Western Bay of Plenty District Council
- Martin Read, Wellington City Council
- Mat Taylor, Bay of Plenty Regional Council

Corporate Governance

LGFA Board

LGFA Board Charter

The LGFA Board has adopted a Board Charter which describes the Board's role and responsibilities and regulates the Board's procedures. The Board Charter states that the role of the Board is to ensure the Company achieves the Company Goals. Having regard to its role the Board will direct, and supervise the management of, the business and affairs of the Company including, in particular:

- ensuring that the Company Goals are clearly established, and that strategies are in place for achieving them (such strategies being expected to originate, in the first instance, from Management);
- establishing policies for strengthening the performance of the Company;
- ensuring strategies are in place for meeting expectations set out in the current Statement of Intent and monitoring performance against those expectations, in particular the Company's primary objective of optimising the debt funding terms and conditions for participating local authorities;
- monitoring the performance of Management;
- appointing the CEO, setting the terms of the CEO's employment contract and, where necessary, terminating the CEO's employment with the Company;
- deciding on whatever steps are necessary to protect the Company's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such steps are taken;
- ensuring that the Company's financial statements are true and fair and otherwise conform with law;
- ensuring that the Company adheres to high standards of ethics and corporate behaviour; and
- ensuring that the Company has appropriate risk management/regulatory compliance policies in place. In the normal course of events, day-to-day management of the Company will be in the hands of Management. The Board will satisfy itself that the Company is achieving the Company Goals; and engaging and communicating with Shareholders Council.

Conflicts of interest

The Company recognises impartiality and transparency in governance and administration are essential to maintaining the integrity of the LGFA. Accordingly, LGFA has formally adopted a conflicts of interest policy which provides guidance to employees and directors of the LGFA in relation to conflicts of interest and potential conflicts of interest, including specific guidance on the process for managing potential conflicts that may arise for non-independent directors. Directors and employees are expected to avoid all actions, relationships and other circumstances that may impact on their ability to exercise their professional duties.

Board composition

The LGFA Board must comprise between four and seven directors, the majority of which are required to be independent. An independent director is a director who, within five years prior to appointment, was not an employee of any shareholder, employee of a CCO owned by a shareholder, or a councillor of any local authority which is a shareholder.

Corporate Governance

The Directors of LGFA as at the date of this Annual Report are:

Craig Stobo. Independent Chair

BA (Hons) Economics. First Class, Otago

Craig has worked as a diplomat, economist, investment banker and Chief Executive Officer of BT Funds Management (NZ) Limited. He has completed the Advanced Management Programme at Wharton Business School in Philadelphia, authored reports to the New Zealand Government on the Taxation of Investment Income (which led to the PIE regime) and the creation of New Zealand as a funds domicile. He currently chairs Precinct Properties New Zealand Limited, AIG Insurance New Zealand Limited and Fliway Group Limited and is a director of Bureau Limited. He has private equity interests in financial services and other businesses. He was chair of the Establishment Board and acting Chief Executive of LGFA. He is chair of the Establishment Board of the Local Government Risk Agency.

John Avery. Independent Director

LLB, C.F.Inst.D

John was managing partner, then chairman of Hesketh Henry. He was a director of The Warehouse Group Limited, Signify Limited, several start-up businesses and an industry cooperative "ITM." He is currently an independent director of Fund Managers Auckland Limited, Regional Facilities Auckland Limited, Spider Tracks Limited and Strategic Pay Limited and a trustee of the New Zealand School of Dance.

Philip Cory-Wright. Independent Director

LLB (Hons), BCA Business Management, INFENZ (Cert), C.F.Inst.D

Philip is a solicitor of the High Court of New Zealand and Victoria. He has worked as a corporate finance adviser in New Zealand to the corporate sector on debt and equity matters for more than 25 years. He is currently a director of South Port New Zealand Limited and Matariki Forests Limited and strategic adviser to clients in the energy and infrastructure sectors. He was a member of the Local Government Infrastructure Expert Advisory Group tasked with advising the Minister of Local Government on improvements in local government infrastructure efficiency.

Abby Foote. Independent Director and Chair, Audit and Risk Committee

LLB (Hons), BCA Business Management, INFENZ (Cert), C.M.Inst.D

Abby is an experienced director of both publicly listed and Crown companies. Based in Christchurch, she has worked in a range of corporate, treasury and legal roles over the last 20 years. Abby is a director of a number of companies including The Museum of New Zealand Te Papa Tongarewa, Z Energy Limited, BNZ Life Insurance Limited and Livestock Improvement Corporation Limited.

Abby's previous directorships include Transpower New Zealand Limited and Diligent Corporation.

Linda Robertson. Independent Director

B.Com, Dip Banking, INFENZ (Fellow), C.F.Inst.D, GAICD

Linda is a professional Director with over 30 years experience in executive finance roles, having worked in the banking and energy sector in New Zealand. She is currently a director of Auckland Council Investments Limited, Dunedin City Holdings Limited, Dunedin City Treasury Limited, NZ Registry Services Limited, NZPM Group Limited, Crown Irrigation Investments Limited and King Country Energy Limited. Linda is also a member of the Audit & Risk Committee for the Ministry of Social Development, a member of the Treasury Advisory Committee of the New Zealand Export Credit Office and Chairman of the Audit and Risk Committee for Central Otago District Council. Her previous directorship roles include New Zealand Post Limited, Kiwibank Limited, the Earthquake Commission, Catalyst Risk Management Limited and Speirs Group Limited.

Right: Eva Street, Wellington. Upgrade to Eva Street Laneway. Wellington City Council.



Corporate Governance

Mike Timmer. Non Independent Director

CA, BBS, BAgrSci, INFINZ (Cert), M.Inst.

Mike has worked for Citibank in its financial market section and held accountancy and treasury roles in the Health Sector and is presently Treasurer at the Greater Wellington Regional Council. He is Chairman of the Finance Committee of Physiotherapy New Zealand Incorporated and past Deputy Chair of the LGFA Shareholders' Council.

Nomination of Directors

Director nominations can only be made by a shareholder by written notice to the Company and Shareholders' Council, with not more than three months, nor less than two months before a meeting of shareholders. All valid nominations are required to be sent by the Company to all persons entitled to attend the meeting.

Retirement and re-election of Directors

Directors are appointed to the Board by an Ordinary Resolution of shareholders. At each Annual General Meeting, two directors must retire and, if desired, seek re-election. The directors who retire each year are one each of the independent and non-independent those, who have been longest in office since their last appointment or, if there are more than one of equal term, those determined by lot, unless the Board resolves otherwise.

Director tenure

Director	Originally appointed	Last reappointed/elected
Craig Stobo (Chair)	1 December 2011	19 November 2013
John Avery	1 December 2011	24 November 2015
Philip Cory-Wright	1 December 2011	1 December 2011
Abby Foote	1 December 2011	25 November 2014
Linda Robertson	24 November 2015	24 November 2015
Mike Timmer	24 November 2015	24 November 2015

Meetings of the Board

The table below shows attendances at Board, committee and strategy meetings by directors during the year ended 30 June 2016. In addition to the scheduled meetings, additional meetings are convened as necessary to consider specific issues.

Number of meetings	Board, including Strategy Day	Audit & Risk Committee
Craig Stobo	8/8	--
Paul Anderson	4/4	3/3
John Avery	8/8	2/2
Philip Cory-Wright	8/8	4/4
Abby Foote	8/8	4/4
Linda Robertson	4/4	1/1
Mike Timmer	4/4	1/1

Corporate Governance

Diversity

The Board does not have a formal policy on diversity. Appointments to the LGFA Board are made in accordance with the Constitution of New Zealand Local Government Funding Agency and the Shareholders Agreement dated 7 December 2011. As at balance date, the gender diversity of directors and officers is as follows:

	Female	Male
As at 30 June 2016*	2	5
As at 30 June 2015*	1	5

* For the purpose of this disclosure, Mark Butcher, Chief Executive, is deemed the sole officer of the company.

Remuneration

Board remuneration is determined by an Ordinary Resolution of shareholders. The current Board remuneration was approved by shareholder resolution at the 2015 Annual General Meeting on 24 November 2015.

Indemnities and insurance

Under the Company's constitution, LGFA has indemnified directors for potential liabilities and costs they may incur for acts of omission in their capacity as directors.

LGFA has arranged Directors' and Officers' liability insurance covering directors and management acting on behalf of the Company. Cover is for damages, judgements, fines, penalties, legal costs awarded and defence costs arising from wrongful acts committed while acting for the Company. The types of acts that are not covered are dishonest, fraudulent, malicious acts, or omissions, wilful breach of statute or regulation, or duty to the Company, improper use of information to the detriment of the Company, or breach of professional duty.

Audit and Risk Committee

The LGFA Audit and Risk Committee (ARC) is a committee of the Board.

The ARC is governed by an Audit and Risk Committee Charter, which states that the purpose of ARC is to provide advice, assurance and observations to the Board relating to the effectiveness and adequacy of internal control and risk management systems, processes and activities across the LGFA. It assists the Board to fulfil its duties by considering, reviewing, monitoring and approving:

- Risk management framework and processes;
- Internal control environment and mechanisms;
- Processes relating to the preparation and audit of financial statements of the LGFA;
- The integrity of performance information (including financial reporting);
- The governance framework and process;
- Policies, processes and activities to ensure compliance with legislation, policies and procedures; and
- Statutory/regulatory disclosure and reporting and performance against Statement of Intent targets.

ARC composition

ARC members are to be appointed by the Board. Membership will comprise at least three directors, the majority of whom must be independent. The members of the ARC as at the date of this Annual Report are:

- Abby Foote (Chair)
- Philip Cory-Wright
- Linda Robertson
- Mike Timmer

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Attachment 1



STATEMENT OF SERVICE PERFORMANCE

The decommissioning of the 250mm pipe from above Tempky Road to Glover Road and reinstatement of pipe bridge. South Taranaki District Council.

Statement of service performance

Performance Against Objectives and Performance Targets

1 PRIMARY OBJECTIVES

LGFA operates with two primary objectives

1. Optimising the debt funding terms and conditions for participating local authorities.
2. LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each Participating Local Authority's financial position and the general issues confronting the Local Government sector.

1.1 Optimising the debt funding terms and conditions for participating local authorities

(i) Providing savings in annual interest costs for all participating local authorities

LGFA measures the pricing performance of bond tenders against two key benchmarks:

- LGFA aims to reduce its margin over New Zealand Government bonds (NZGBs)
- LGFA aims to minimise its margin over swap rates to provide cost effective funding to councils.

The LGFA margin to swap and NZGB will depend upon a number of factors including the relative demand and supply of high grade bonds, general credit market conditions, performance of NZGBs and swap rates, investor perceptions of LGFA and the issuance volume and tenor of LGFA bonds.

Given that LGFA tends to match fund its on-lending to councils, i.e. tends to issue bonds in the same tenor and volume as its on-lending, LGFA only has direct influence over investor perception amongst the above factors that determine LGFA spreads to NZGB and swap.

There will be periods within the interest rate and credit market cycles when LGFA bonds will outperform its benchmarks (spread narrowing) and there will be periods of time when LGFA bonds underperform (spread widening).

LGFA spreads to its benchmarks have consistently narrowed since it first began issuing bonds in February 2012, but these spreads have widened from the historic lows over the past twelve months.

Over the course of the twelve-month period to 30 June 2016:

- LGFA margins to NZGB widened by between 4 bps (2017s) and 35 bps (2027s)
- LGFA margins to swap widened by between 14 bps (2017s) and 39 bps (2027s)

These secondary market pricing movements are summarised in the following tables:

MARGINS – 15 December 2017	As at 30 June 2015 (bps)	As at 30 June 2016 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	36	40	4
NZGB margin to swap	(29)	(19)	10
LGFA margin to swap	7	21	14

Statement of service performance

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MARGINS – 15 MARCH 2019	As at 30 June 2015 (bps)	As at 30 June 2016 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	44	54	10
NZGB margin to swap	(33)	(21)	12
LGFA margin to swap	11	33	22

MARGINS – 15 APRIL 2020	As at 30 June 2015 (bps)	As at 30 June 2016 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	49	61	12
NZGB margin to swap	(34)	(23)	11
LGFA margin to swap	15	38	23

MARGINS – 15 MAY 2021	As at 30 June 2015 (bps)	As at 30 June 2016 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	58	72	14
NZGB margin to swap	(42)	(29)	13
LGFA margin to swap	16	43	27

MARGINS – 15 APRIL 2023	As at 30 June 2015 (bps)	As at 30 June 2016 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	67	89	22
NZGB margin to swap	(47)	(39)	8
LGFA margin to swap	20	50	30

MARGINS – 15 APRIL 2027	As at 30 June 2015 (bps)	As at 30 June 2016 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	71	106	35
NZGB margin to swap	(40)	(36)	4
LGFA margin to swap	31	70	39

The widening in our margin to swap and NZGB over the past twelve months has reversed the improvement in the 2014-15 year. Until July 2015, credit market conditions were strong and margins on LGFA bonds to NZGB or swap were at or near historic lows.

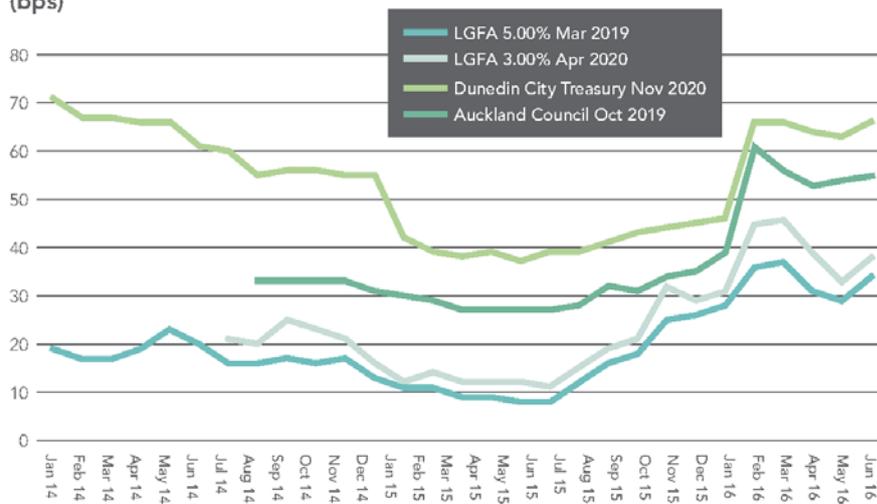
Over the past twelve months there have been a number of factors that have led to a widening in spreads for all non-government borrowers. Investors have been concerned over the global economic outlook, volatility arising from events such as BREXIT and managing investments in a low interest rate environment. As a result, there has been a reduction in risk sentiment and this has reduced demand for NZD investments and for bonds issued by non-government borrowers.

Attachment 1

Statement of service performance

LGFA has delivered on increased borrowing cost savings for councils over the past year based upon our estimate of savings for AA-rated councils. We compare our secondary market spreads on LGFA bonds to those of Auckland Council and Dunedin City Treasury. The implied pricing advantage of LGFA is unchanged over the past year in the 2019 maturity but has improved by 4 bps in the 2021 maturity and 8 bps in the 2025 maturity. Both Auckland and Dunedin Councils have been active in borrowing over the past year in the domestic capital markets.

LGFA March 2019 and April 2020 secondary market credit margin over swap (bps)



Source PwC and LGFA

From the table below we estimate that as at 30 June 2016, LGFA was saving AA-rated councils between 17 bps for a 2019 (three-year) maturity and 33 bps for a 2025 (nine-year) maturity.

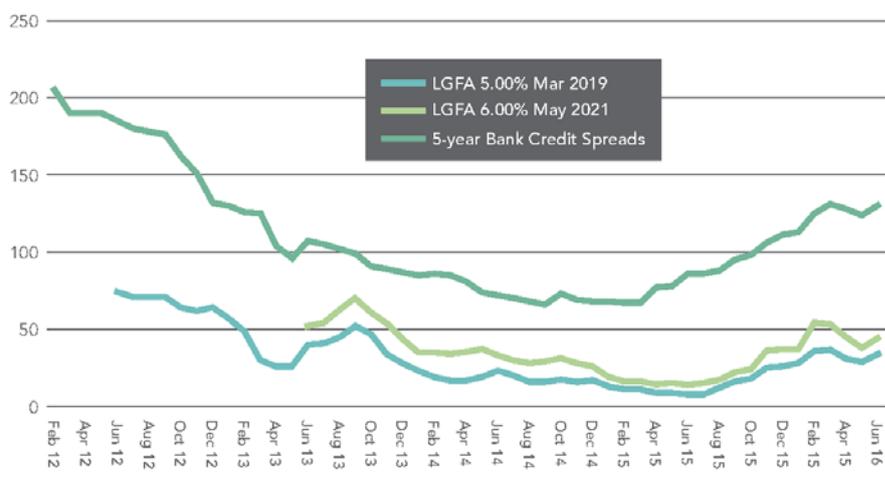
30 June 2016	Auckland 2019	Dunedin 2020	Dunedin 2021	Auckland 2022	Auckland 2025
AA-rated councils margin to swap	49	63	70	78	91
Less LGFA margin to swap	(33)	(38)	(43)	(47)	(57)
LGFA Gross Funding Advantage	16	25	27	31	34
Less LGFA Base Margin	(9)	(10)	(10)	(10.5)	(11)
LGFA Net Funding Advantage	7	15	17	20.5	23
Add 'LGFA Effect' *	10	10	10	10	10
Total Saving	17 bps	25 bps	27 bps	30.5 bps	33 bps

* The 'LGFA effect' represents the estimated conservative reduction in AA-rated councils' margin to swap as a result of LGFA operations. From May to June 2012, the margin to swap for AA-rated councils fell by 10 bps, with no corresponding move in swap spreads for other borrowers. This suggests that potential access to cost-effective LGFA funding has enabled these councils to reduce their borrowing margin by around 10 bps.

Statement of service performance

These costs savings for the sector have improved over the past twelve months as the margins on the higher-rated LGFA bonds have not widened as much as the single name council bonds. LGFA remains the cheapest source of borrowing for the sector as illustrated in the chart below which shows the widening borrowing cost for banks

LGFA March 2019 and May 2021 secondary market credit margin over swap and 5-year senior bank bonds credit swap (bps)



Source PwC and LGFA

(ii) Making longer-term borrowings available to participating local authorities

Over the past twelve months, LGFA issued bonds into three maturity dates in excess of six years:

- 15 April 2023 bond (six years). This maturity has comprised 22% of total issuance in the twelve-month period to 30 June 2016
- 15 April 2027 (ten years). This maturity comprised 37% of total issuance in the twelve-month period to 30 June 2016
- 15 April 2025 (eight years). In June 2016, LGFA commenced issuance of a 2025 bond.

Over the twelve-month period to 30 June 2016, LGFA issued \$1,265 million of debt with a weighted average maturity of 8.0 years. This is also similar to the average maturity for the 2014-15 year of 7.9 years. Nearly 67% of LGFA bond issuance for the twelve-month period was in the three longest dated maturities – 2023, 2025 and 2027.

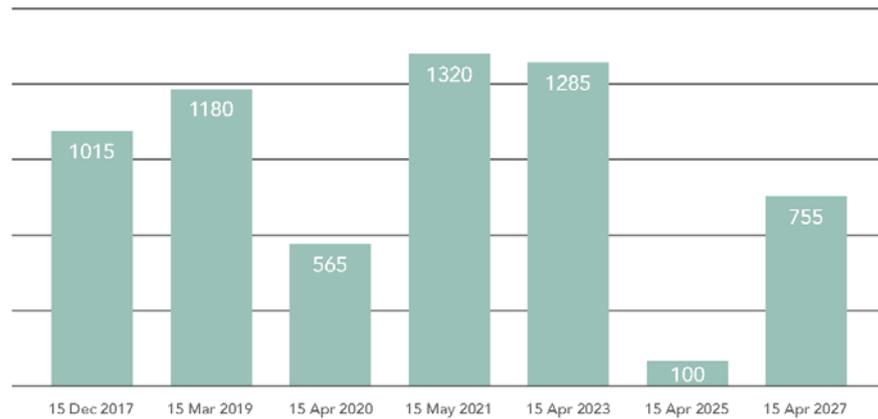
2015-16 financial year issuance (\$ million)

Mar 19	Apr 20	May 21	Apr 23	Apr 25	Apr 27	Total
\$70 million	\$200 million	\$150 million	\$275 million	\$100 million	\$470 million	\$1265 million
5.5%	15.8%	11.9%	21.7%	7.9%	37.2%	100%

Statement of service performance

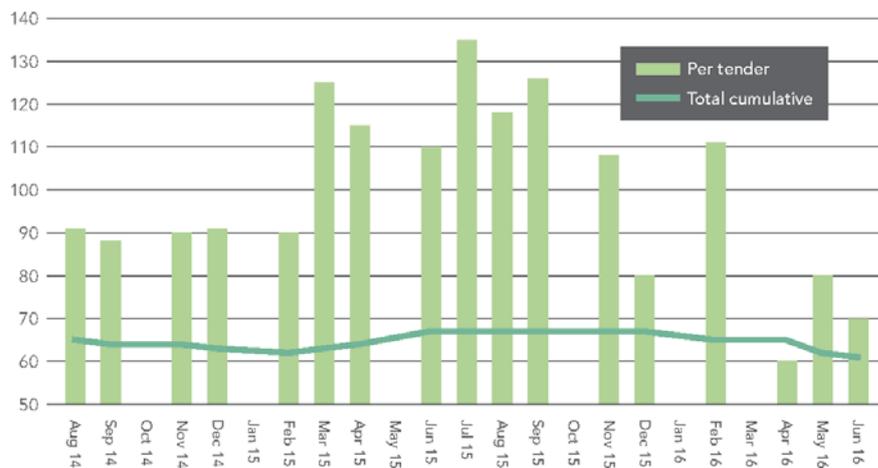
The following chart shows the total LGFA bond outstandings by maturity as at 30 June 2016.

LGFA bonds outstandings as at 30 June 2106



The following chart shows the average months to maturity for on-lending to councils at each tender, and the average months to maturity for all LGFA on-lending to councils as at each tender.

Average total months to maturity – On-lending to councils



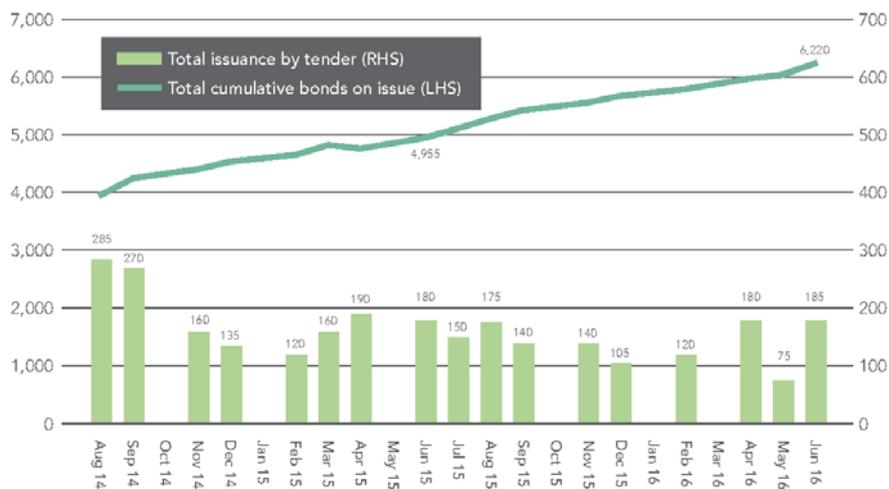
The average term of borrowing by councils from LGFA was 8.08 years for the twelve-month period to 30 June 2016. This is similar to the 8.12 years average term for the 2014-15 year.

Statement of service performance

(iii) Enhancing the certainty of access to debt markets for participating local authorities, subject always to operating in accordance with sound business practice

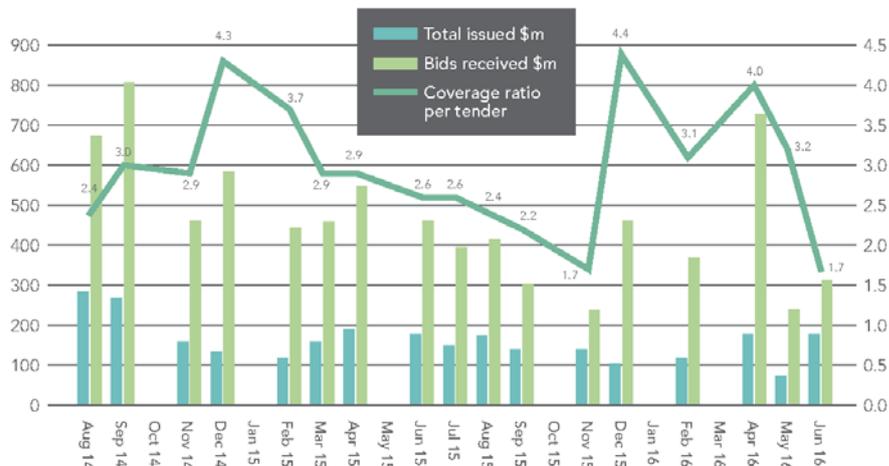
LGFA held nine tenders during the twelve-month period to 30 June 2016, with an average tender volume of \$141 million. The volume offered at each tender ranged from \$75 million to \$180 million and all tenders were successful and fully subscribed. Total issuance during the twelve-month period of \$1,265 million resulted in outstandings of LGFA bonds of \$6,220 million as at 30 June 2016.

LGFA bond issuance by tender (\$ million)



Over the twelve-month period, total bids received across the nine tenders was \$3.466 billion for the \$1.265 billion of LGFA bonds offered resulting in a coverage ratio of 2.7 times. The LGFA cover ratio for each tender over the past two years is shown in the following chart.

Tender bid/offer summary



Statement of service performance

While the coverage ratio for the past twelve months is lower than the average coverage ratio of 3.2 times since LGFA first commenced issuing in February 2012, this is not surprising given the longer duration of LGFA bonds being currently tendered, the smaller tranche sizes being offered, relatively tight spreads to both NZGB and swap and low outright yields. Furthermore, offshore investor demand for LGFA bonds has been noted in the secondary market rather than at LGFA tenders.

While LGFA issues fixed coupon debt to investors, councils were provided the choice of either fixed or floating rate borrowing for their borrowing from LGFA. Councils tend to borrow predominantly on a floating rate basis from LGFA.

Certainty of access for councils was improved with the commencement of bespoke lending in February 2015 and short-dated lending (less than one-year terms) in November 2015.

Bespoke lending allows councils to have flexibility in the tenor of their borrowing and the timing of their drawdown.

(iv) Offering more flexible lending terms to participating local authorities

The successful introduction of bespoke lending and short-dated lending has provided councils with flexible lending terms for any maturity from 30 days to 11 years.

- LGFA first offered bespoke lending in February 2015 where council borrowers could select their preferred borrowing maturity date and their preferred date of borrowing drawdown. In the twelve-month period to 30 June 2016 LGFA lent \$407 million on a bespoke basis for 41 transactions. Total nominal bespoke lending outstanding as at 30 June 2016 was \$486 million.
- LGFA first offered short-dated lending to councils in November 2015 and as at 30 June 2016 there were loans of \$159 million outstanding to thirteen councils. Councils can now borrow out to 364 days where previously the shortest borrowing maturity was to December 2017

1.2 LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each participating local authority's financial position and the general issues confronting the Local Government sector. This includes:

(i) LGFA will review each participating local authority's financial position, its financial head-room under LGFA policies and visit each Participating Local Authority on an annual basis;

LGFA undertakes a detailed financial assessment on each of its borrowers and meets with all member councils on an annual basis while monitoring council performance throughout the year. LGFA reviews the Annual and Long Term Plans for each council and the annual financial statements. LGFA assigns an internal credit rating to each of its council members as part of the review exercise. All council members were compliant with LGFA covenants at June 2015.

(ii) LGFA will commence work on analysing finances at the Council group level in addition to parent level. Previously the analysis was undertaken at the Council parent level

LGFA reviews the financial position of each council on a Group basis where appropriate, e.g. where council services are delivered through subsidiaries or the council holds substantial investments in subsidiaries.

(iii) LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues

LGFA staff and directors have met with the OAG during the past twelve months and staff have met with DIA. LGFA presented at LGNZ quarterly media briefings during the year and authored the LGNZ report on local government sector finances in December 2015.

www.lgnz.co.nz/assets/LGNZ-Financial-Sector-Report.pdf

Statement of service performance

2 ADDITIONAL OBJECTIVES

LGFA has a number of additional objectives which complement the primary objectives. These additional objectives are to:

2.1 Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6 of the Statement of Intent (SOI)

The LGFA's policy is to pay a dividend that provides an annual rate of return to shareholders equal to LGFA cost of funds plus 2%.

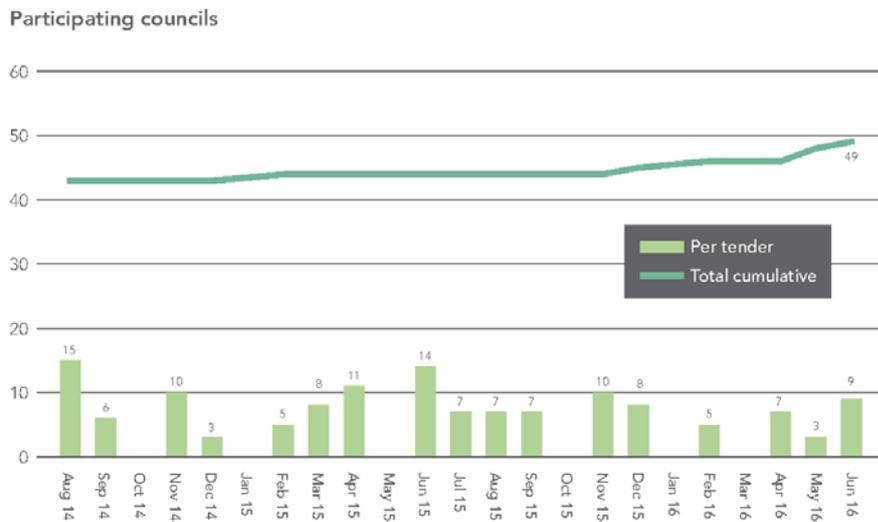
On 20 September 2016, the directors of LGFA declared a dividend for the year to 30 June 2016 of \$1,392,500.00 (\$0.0557 per share). This is calculated on the LGFA cost of funds for the 2015-16 year of 3.57% plus the 2% margin.

The impact from falling interest rates is that LGFA has a lower cost of funds than previous years. While council borrowers benefit from lower borrowing costs, the dividend payment, calculated on the above guidance, is lower than previous years.

2.2 Provide at least 50% of aggregate long-term debt funding for participating local authorities

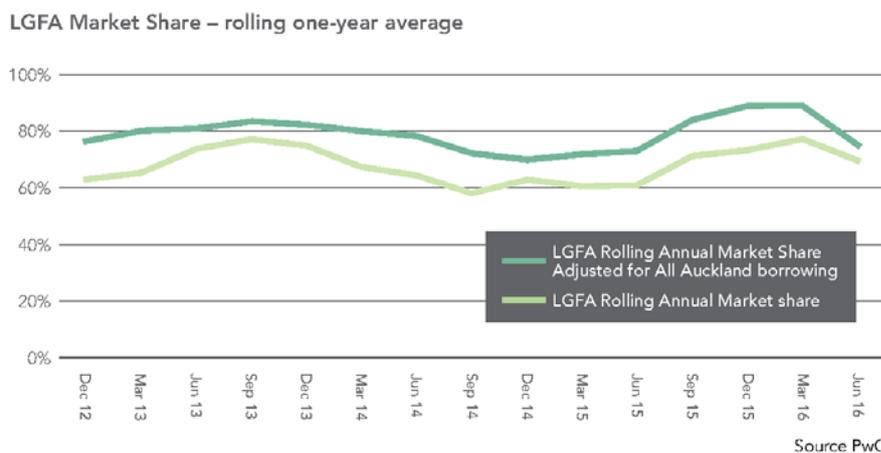
Five councils joined LGFA in the twelve-month period, Buller District Council as a borrower, Environment Canterbury as a borrower and guarantor, Gore District Council as a borrower, Kaipara District Council as a borrower and guarantor, and South Wairarapa District Council as a borrower, bringing the total number of council members to 50. Councils have strongly supported LGFA and by 30 June 2016, 49 participating councils have borrowed from LGFA.

The strong council support for LGFA is demonstrated in the following chart which shows the progression of council participation in each bond tender.



The following chart shows LGFA's share of new local government long-term debt issuance. Our share of long-term borrowing by the sector including non-members of LGFA was 70% for the twelve-month period to 30 June 2016. The market share is influenced by the amount of debt issued by the sector's largest borrower, Auckland Council in its own name in the domestic market. Auckland Council is required to issue debt under their own name as LGFA is restricted by its foundation policies to a maximum of 40% of total loans outstanding to Auckland. If Auckland Council's external borrowing is excluded from the data, then our estimated market share for the twelve-month period to 30 June 2016 was 75%.

Statement of service performance



2.3 Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4 of the Statement of Intent

Issuance and Operating Expenses for the twelve-month period to June 2016 were \$5.98 million compared to a full year SOI budget of \$5.94 million.

Legal costs and expenses associated with the listing of LGFA bonds on the NZX debt markets, transition to the Financial Markets Conduct Act (FMCA), admitting five new member councils and the introduction of short-dated lending were higher than planned. These additional expenses are predominantly non-recurring and were offset by lower than forecast expenditure on Approved Issuer Levy (AIL), NZDMO facility fee and general operating expenses.

2.4 Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency

LGFA met with both S&P and Fitch rating agencies in September 2015 as part of their annual review process. S&P subsequently affirmed the long-term rating of LGFA at AA+ (stable outlook) on 10th November 2015 and Fitch affirmed the long-term rating as AA+ (positive outlook) on 13th November 2015.

Fitch subsequently lowered the rating outlook of LGFA from positive to stable on 1 February 2016 following the lowering of the New Zealand Government outlook from positive to stable.

Both the S&P and Fitch ratings are the same as, and are capped by, New Zealand's sovereign credit ratings. Fitch has defined LGFA as a credit-linked Public Sector Entity and our credit rating is now explicitly linked to the New Zealand Sovereign credit rating.

2.5 Achieve the Financial Forecasts set out in section 4 of the Statement of Intent

LGFA's financial results for key items set out in section 4 of the SOI for the twelve-month period to 30 June 2016 are:

In \$ million	30 June 2016 Actual	30 June 2016 SOI
Net interest revenue	15.53	16.36
Issuance and operating expenses	(5.98)	(5.94)
Net Profit	9.55	10.42

Statement of service performance

Net interest revenue was \$830k lower than the SOI due to lower than forecast interest rates reducing returns on investment assets, amortisation differences on transition from the NZDMO treasury system to the LGFA treasury management system and timing differences associated with bespoke lending.

Issuance and operating expenses were \$40k greater than the SOI forecast due to higher than expected legal and NZX costs associated with listing the LGFA bonds on the NZX, transition to the FMCA, admitting five new member councils and larger take up of short-dated and bespoke lending than planned.

2.6 Meet or exceed the Performance Targets outlined in section 5

Current performance targets	Target	Result for 12-month period to 30 June 2016	Outcome
1 Average cost of funds on debt issued relative to New Zealand Government Securities for the 12-month period ¹	≤ 0.50%	0.74%	No
2 Average base on-lending margin above LGFA's cost of funds	≤ 0.10%	0.106%	No
3 Annualised issuance and operating expenses ³	≤ \$5.94 million	\$5.98 million	No
4 Long-term lending to participating councils	≥ \$5,885 million	\$6,241 million	Yes

- The average cost of funds of all issuance for the twelve-month period ending 30 June 2016 relative to NZGS was 0.74%. This compares to a spread of 0.64% for the twelve-month period to 30 June 2015. The widening in the margin is due to a softening in credit market sentiment for non-government bonds and the disproportionate amount of longer dated bonds issued (which have a wider margin) over the past six months.
- The margin is a function of duration of council borrowing as the current margin is 0.09% for council borrowing to March 2019, 0.10% from April 2020 to May 2021 and 0.11% for terms longer than April 2023. Given that councils have been borrowing for longer tenors, the average margin is above the average margin offered of 0.10%
- As mentioned previously, expenses exceeded budget by \$40k or 0.5% of the budget due to non-recurring legal expenses due to new lending products, new council members, NZX listing fees and transition to the FMCA.

2.7 Comply with its Treasury Policy, as approved by the Board

LGFA was compliant at all times with the Treasury Policy for the twelve-month period ending 30 June 2016.

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Wainui Hill Pukeatua Bridge – providing greater pedestrian access from the Eastern Hill and East Harbour Regional Park. Hutt City Council.

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Directors' Declaration

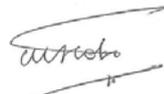
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In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 32 to 57:

- Comply with New Zealand generally accepting accounting practice and give a true and fair view of the financial position of the Company as at 30 June 2016, and
- Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.
- The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial position of the Company and facilitates the compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Directors



C. Stobo, Director
20 September 2016



A. Foote, Director
20 September 2016

Attachment 1

Statement of Comprehensive Income

For the year ended 30 June 2016 in \$000s

	Note	Year Ended 2016	Year Ended 2015
Interest income from			
Cash and cash equivalents		1,153	1,472
Loans to local government		212,438	201,352
Marketable securities		3,333	283
Deposits		3,991	3,467
Derivatives		57,237	16,207
Fair value hedge ineffectiveness	2c	-	-
Total interest income		278,152	222,781
Interest expense on			
Bills		3,224	-
Bonds		256,247	205,908
Borrower notes		3,150	3,000
Total interest expense		262,621	208,908
Net interest income		15,531	13,873
Operating expenses			
Issuance and on-lending expenses	3	3,166	2,526
Operating expenses	4	2,820	2,143
Total expenses		5,986	4,669
Net operating profit		9,545	9,204
Total comprehensive income for the year		9,545	9,204

Statement of Changes In Equity

For the year ended 30 June 2016 in \$000s

	Note	Share capital	Retained Earnings	Total equity
Equity as at 30 June 2014	10	25,000	3,848	28,848
Net operating profit			9,204	9,204
Total comprehensive income for the year			9,204	9,204
Transactions with owners				-
Dividend paid			(1,765)	(1,765)
Equity as at 30 June 2015	10	25,000	11,287	36,287
Net operating profit		-	9,545	9,545
Total comprehensive income for the year		-	9,545	9,545
Transactions with owners				
Dividend paid	10	-	(1,608)	(1,608)
Equity as at 30 June 2016		25,000	19,224	44,224

Statement of Financial Position

As at 30 June 2016 in \$000s

	Note	2016	2015
Assets			
Financial assets			
Cash and bank balances		37,084	31,708
Trade and other receivables		-	38
Borrower notes receivable	13	800	-
Loans to local government	5	6,451,332	5,031,942
Marketable securities		139,339	5,345
Deposits		89,828	70,896
Derivatives in gain	2	537,379	270,503
Non-financial assets			
Prepayments		535	324
Other assets	12	955	1,081
Total assets		7,257,252	5,411,838
Equity			
Share capital		25,000	25,000
Retained earnings		19,224	11,287
Total equity		44,224	36,287
Liabilities			
Financial liabilities			
Trade and other payables		182	444
Loans to local government not yet advanced	13	50,000	-
Accrued expenses		593	344
Bills	6	223,916	-
Bonds	7	6,819,658	5,274,319
Borrower notes	8	108,415	85,120
Derivatives in loss	2	10,264	15,324
Total liabilities		7,213,028	5,375,551
Total equity and liabilities		7,257,252	5,411,838

Statement of Cash Flows

Item 13

For the year ended ended 30 June 2016 in \$000s

	Note	Year Ended 2016	Year Ended 2015
Cash flow from operating activities			
Cash applied to loans to local government		(1,374,440)	(1,284,042)
Interest paid on bonds issued		(296,800)	(231,648)
Interest paid on bills issued		(3,224)	-
Interest paid on borrower notes		-	(292)
Interest paid on loans		(25)	-
Interest received from cash & cash equivalents		1,142	1,472
Interest received from loans to local government		218,821	195,923
Interest received from marketable securities		1,076	464
Interest received from deposits		4,059	3,114
Net interest on derivatives		89,718	44,657
Payments to suppliers and employees		(6,165)	(4,426)
Net cash flow from operating activities	9	(1,365,838)	(1,274,778)
Cash flow from investing activities			
Purchase of marketable securities		(133,068)	(5,525)
Purchase of deposits		(19,000)	(24,000)
Purchase of plant and equipment		125	(1,081)
Net cash flow from investing activities		(151,943)	(30,606)
Cash flow from financing activities			
Dividends paid		(1,608)	(1,765)
Cash proceeds from borrower notes		19,346	20,520
Cash proceeds from bonds issued		1,349,468	1,296,179
Cash proceeds from bills issued		223,916	-
Cash applied to derivatives		(67,964)	(32,968)
Net Cashflow from financing activities		1,523,158	1,281,966
Net (decrease) / increase in cash		5,377	(23,418)
Cash, cash equivalents and bank overdraft at beginning of year		31,708	55,126
Cash, cash equivalents and bank overdraft at end of year		37,084	31,708

Attachment 1

Notes to the Financial Statements

1 Statement of accounting policies

A. REPORTING ENTITY

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

LGFA is controlled by participating local authorities and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating local authorities.

The registered address of LGFA is Level 8, City Chambers, 142 Featherston Street, Wellington Central, Wellington 6011.

The financial statements are as at and for the year ended 30 June 2016.

These financial statements were authorised for issue by the Directors on 20 September 2016.

B. STATEMENT OF COMPLIANCE

LGFA is an issuer in terms of the Financial Reporting Act 1993. The financial statements comply with the Financial Reporting Act 1993, in accordance with the transitional provisions under Section 55 of the Financial Reporting Act 2013 and Schedule 4 of the Financial Markets Conduct Act 2013.

LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IFRS and other applicable Financial Reporting Standard, as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

C. BASIS OF PREPARATION

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless separately identified. The functional currency of LGFA is New Zealand dollars.

Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

NZ IFRS 9: Financial Instruments. The first two phases of this new standard were approved by the Accounting Standards Review Board in November 2009 and November 2010. These phases address the issues of classification and measurement of financial assets and financial liabilities.

Notes to the Financial Statements

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements. Those which may be relevant to LGFA are as follows:

- NZ IFRS 9: Financial Instruments (2014) – Effective for periods beginning on or after 1 January 2018. This standard aligns hedge accounting more closely with the risk management activities of the entity and adds requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

D. FINANCIAL INSTRUMENTS

Financial assets

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents include cash on hand; cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date an assessment is made whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

E. OTHER ASSETS

Property, plant and equipment (PPE)

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

Intangible Assets

Intangible assets comprise software and project costs incurred for the implementation of the treasury management system. Capitalised computer software costs are amortised on a straight line basis over the estimated useful life of the software (3 to 7 years). Costs associated with maintaining computer software are recognised as expenses.

Notes to the Financial Statements

F) OTHER LIABILITIES

Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

G) REVENUE AND EXPENSES

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

H. LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

I. SEGMENT REPORTING

LGFA operates in one segment being funding of participating local authorities in New Zealand.

Notes to the Financial Statements

J. JUDGEMENTS AND ESTIMATIONS

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. Refer note 2b for fair value determination for financial instruments.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

2 Analysis of financial assets and financial liabilities

A. CATEGORIES OF FINANCIAL INSTRUMENTS

Derivative financial instruments are the only instrument recognised in the Statement of Financial position at fair value.

Derivative financial instruments are valued under level 2, determined according to the following hierarchy.

- *Level 1* – Quoted market prices: Fair value based on quoted prices in active markets for identical assets or liabilities.
- *Level 2* – Valuation techniques using observable market inputs: Fair value based on a valuation technique using other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- *Level 3* – Valuation techniques using significant non-observable market inputs: Fair value based on a valuation technique using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of derivative financial instruments is determined using a discounted cash flow analysis. Interest rates represent the most significant assumption used in valuing derivative financial instruments. The interest rates used to discount estimated cash flows are based on the New Zealand dollar swap curves at the reporting date.

Financial instruments recognised in the Statement of Financial Position at amortised cost

Fair values of financial instruments not recognised in the Statement of Financial Position at fair value are determined for note disclosure as follows:

Cash and bank, trade & other receivables, trade & other payables

The carrying value of cash and bank, trade & other receivables, trade & other payables approximate their fair value as they are short-term instruments.

Marketable securities and bonds

The fair value of bonds and marketable securities are determined using the quoted price for the instrument (Fair value hierarchy level 1).

Notes to the Financial Statements

Deposits

The fair value for deposits is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on current market interest rates (Fair value hierarchy level 2).

Loans to local government

The fair value of loans to local government authorities is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date plus an appropriate credit spread to reflect the counterparty's credit risk (Fair value hierarchy level 2).

Borrower notes

The fair value of borrower notes is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date (Fair value hierarchy level 2).

Fair value of financial assets and financial liabilities

The fair value of financial assets and financial liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

As at 30 June 2016 in \$000s	Financial Liabilities at Amortised Cost	Financial Assets at Amortised Cost	Financial assets measured at fair value in accordance with IFRS 9	Fair value
Financial assets				
Cash and bank balances	-	37,084	-	37,084
Trade and other receivables	-	-	-	-
Loans to local government	-	6,451,332	-	6,692,415
Marketable securities	-	139,339	-	139,661
Deposits	-	89,828	-	90,016
Derivatives	-	-	537,379	537,379
		6,717,583	527,115	7,496,555
Financial liabilities				
Trade and other payables	182	-	-	182
Loans payable	50,000	-	-	50,000
Bills	223,916	-	-	223,898
Bonds	6,819,658	-	-	6,869,372
Borrower notes	107,615	-	-	108,044
Derivatives	-	-	10,264	10,264
	7,201,371	-	10,264	7,261,760

Notes to the Financial Statements

As at 30 June 2015 in \$000s	Financial Liabilities at Amortised Cost	Financial Assets at Amortised Cost	Financial assets measured at fair value in accordance with IFRS 9	Fair value
Financial assets				
Cash and bank balances	-	31,708	-	31,708
Trade and other receivables	-	38	-	38
Loans to local government	-	5,031,942	-	5,163,921
Marketable securities	-	5,345	-	5,383
Deposits	-	70,896	-	70,986
Derivatives	-	-	270,503	270,503
	-	5,139,929	270,503	5,542,539
Financial liabilities				
Trade and other payables	(444)	-	-	(444)
Loans payable	-	-	-	-
Bonds	(5,274,319)	-	-	(5,379,311)
Borrower notes	(85,120)	-	-	(85,776)
Derivatives in loss	-	-	(15,324)	(15,324)
	5,359,883	-	(15,324)	35,480,855

B. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for carrying out the business of LGFA in accordance with risk management policies, including those relating to investing, lending, borrowing and treasury activities. The use of financial instruments exposes LGFA to a number of financial risks, the most significant being market risk, credit risk, and liquidity risk. The exposure and management of these risks is outlined below.

Market risk

Market risk is the risk that changes in market prices will affect LGFA's income or value of financial instruments. The most significant market risk which LGFA is exposed to is interest rate risk. LGFA has no significant exposure to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that future cash flows or the fair value of financial instruments will decrease because of a change in market interest rates. LGFA is exposed to interest rate risk through its interest-bearing financial assets and liabilities. Interest rate risk is managed by matching the interest rate repricing profile of its assets against the repricing profile of its liabilities. Where mismatches occur, interest rate swaps are used to economically convert the repricing profile of financial liabilities.

Notes to the Financial Statements

The table below indicates the earliest period in which interest-bearing financial instruments reprice.

As at 30 June 2016 in \$000s	Face Value	Less than 6 Months	6 months - 1 Year	1-2 Years	2-5 Years	Over 5 Years
Financial Assets						
Cash and Bank Balances	37,084	37,084	-	-	-	-
Loans to Local Government	6,400,918	5,309,071	5,147	155,500	687,200	244,000
Marketable Securities	137,200	95,000	1,200	31,000	10,000	-
Deposits	89,000	89,000	-	-	-	-
Financial Liabilities						
Loans payable	(50,000)	(50,000)	-	-	-	-
Bills	(225,000)	(225,000)	-	-	-	-
Bonds	(6,220,000)	-	-	(1,015,000)	(3,065,000)	(2,140,000)
Borrower Notes	(99,059)	(81,672)	-	(2,488)	(10,995)	(3,904)
Derivatives	-	(5,114,200)	-	865,500	2,329,450	1,919,250
Total	70,142	59,283	6,347	34,512	(49,345)	19,346

As at 30 June 2015 in \$000s	Face Value	Less than 6 Months	6 months - 1 Year	1-2 Years	2-5 Years	Over 5 Years
Financial Assets						
Cash and Bank Balances	31,708	31,708	-	-	-	-
Loans to Local Government	4,978,500	4,037,000	-	-	439,500	502,000
Marketable Securities	5,000	-	-	-	5,000	-
Deposits	70,000	70,000	-	-	-	-
Financial Liabilities						
Loans payable	-	-	-	-	-	-
Bills	-	-	-	-	-	-
Bonds	(4,955,000)	-	-	-	(2,490,000)	(2,465,000)
Borrower Notes	(79,656)	(64,592)	-	-	(7,032)	(8,032)
Derivatives	-	(4,015,700)	-	-	2,045,450	1,970,250
Total	50,552	58,416	-	-	(7,082)	(782)

Notes to the Financial Statements

Interest rate sensitivity

Changes in interest rates impact the fair value of fixed rate assets and liabilities, cash flows on floating rate assets and liabilities, and the fair value and cash flows of interest rate swaps. A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss and equity by the amounts shown in the following table. This analysis assumes that all other variables remain constant.

For the period ending 30 June 2016 in \$000s	2016		2015	
	100 bps increase \$000s	100 bps decrease \$000s	100 bps increase \$000s	100 bps decrease \$000s

Fair value sensitivity analysis

Fixed rate assets			-	-
Fixed rate liabilities	260,219	(264,820)	188,425	(201,409)
Derivative financial instruments	(260,219)	264,820	(188,425)	201,409
	-	-	-	-

Cash flow sensitivity analysis

Variable rate assets	51,295	(51,295)	40,370	(40,370)
Variable rate liabilities	(820)	820	(646)	646
Derivative financial instruments	(52,172)	52,172	(40,157)	40,157
	(1,697)	1,697	(433)	433

Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. LGFA is exposed to credit risk through its lending and investing activities.

Credit risk associated with lending activities is managed by requiring local authorities that borrow from LGFA to meet specific credit lending criteria and to provide security against the borrowing. The LGFA's credit risk framework restricts credit exposures to specific counterparties.

Credit risk associated with investing activities, excluding on-lending, is managed by only investing with New Zealand Government Agencies or counterparties that meet a minimum credit rating of A (Standard & Poor's equivalent). The LGFA's credit risk framework limits concentrations of credit risk for any particular counterparty.

Notes to the Financial Statements

Exposure to credit risk

LGFA monitors the concentration of credit risk by the type of counterparty. The carrying value and maximum exposure to credit risk at the reporting date, before taking account of collateral or other credit enhancements, for significant counterparty types are shown in the table below.

As at 30 June 2016 in \$000s	NZ Government Agencies	NZ Local Authorities	NZ Registered Banks	Other counter- parties	Total carrying value
Financial assets					
Cash and bank balances	36,834	-	250	-	37,084
Trade and other receivables	-	-	-	-	-
Loans to local government	-	6,451,332	-	-	6,451,332
Marketable securities	26,644	-	70,039	42,657	139,339
Deposits	-	-	89,828	-	89,828
Derivatives	527,615	-	-	-	527,615
	591,093	6,451,332	160,117	42,657	7,245,198

As at 30 June 2015 in \$000s	NZ Government Agencies	NZ Local Authorities	NZ Registered Banks	Other counter- parties	Total carrying value
Financial assets					
Cash and bank balances	31,078	-	630	-	31,708
Trade and other receivables	-	-	-	38	38
Loans to local government	-	5,031,942	-	-	5,031,942
Marketable securities	5,345	-	-	-	5,345
Deposits	-	-	70,896	-	70,896
Derivatives	270,503	-	-	-	270,503
	306,926	5,031,942	71,526	38	5,410,432

Collateral and credit enhancements

LGFA holds collateral against borrowings from local authorities in the form of debenture securities and guarantees.

Credit quality of financial assets

All financial assets are neither past due or impaired. The carrying value of the financial assets is expected to be recoverable.

Liquidity risk

Liquidity risk is the risk that LGFA will encounter difficulty in meeting the obligations of its financial liabilities. LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations when they fall due.

The New Zealand Debt Management Office (NZDMO) also provide a committed liquidity facility

Notes to the Financial Statements

that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2016, the undrawn committed liquidity facility was \$400 million (2015: \$400 million).

Contractual cash flows of financial instruments

The contractual cash flows associated with financial assets and liabilities are shown in the table below.

As at 30 June 2016 in \$000s	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total contractual cash flows	Total carrying value
Financial assets							
Cash and bank balances	37,084					37,084	37,084
Trade and other receivables						-	-
Loans to local government		220,061	204,136	4,611,787	2,432,363	7,468,347	6,451,332
Marketable securities		86,608	11,824	42,957		141,389	139,339
Deposits		30,494	60,137			90,631	89,828
Financial liabilities							
Trade and other payables							
Loans payable		(50,000)				(50,000)	(50,000)
Bills		(150,000)	(75,000)			(225,000)	(223,916)
Bonds		(29,500)	(293,950)	(5,025,700)	(2,496,200)	(7,845,350)	(6,819,658)
Borrower notes				(76,719)	(45,234)	(121,953)	(108,415)
Derivatives							
		(13,051)	131,464	348,914	130,946	598,273	527,115
	36,834	94,612	38,611	(98,761)	21,875	93,171	42,709

As at 30 June 2015 in \$000s	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total contractual cash flows	Total carrying value
Financial assets							
Cash and bank balances	31,708	-	-	-	-	31,708	31,708
Trade and other receivables	-	38	-	-	-	38	38
Loans to local government	-	48,627	160,884	3,148,926	2,859,955	6,218,392	5,031,942
Marketable securities	-	-	300	5,450	-	5,750	5,345
Deposits	-	40,813	30,855	-	-	71,668	70,896
Financial liabilities							
Trade and other payables	-	(444)	-	-	-	(444)	(444)
Loans payable	-	-	-	-	-	-	-
Bills	-	-	-	-	-	-	-
Bonds	-	(27,750)	(238,175)	(3,345,950)	(2,791,625)	(6,403,500)	(5,274,319)
Borrower notes	-	-	-	(47,647)	(55,358)	(103,005)	(85,120)
Derivatives							
	-	(18,294)	86,213	185,705	25,604	279,228	255,180
	31,708	42,990	40,078	(53,516)	38,575	99,835	35,227

Notes to the Financial Statements

C. HEDGE ACCOUNTING

LGFA is exposed to interest rate risk from fixed rate borrowing and variable rate lending to councils. LGFA manages this interest rate risk through the use of interest rate swaps. For hedge accounting purposes, LGFA has designated these swaps in fair value relationships to its fixed rate borrowing.

The gain or loss on the hedging instrument and the hedged item attributable to the hedged risk for fair value hedge relationships is shown in the table below.

For the year ended ended 30 June 2016 in \$000s	2016 Gain/(loss)	2015 Gain/(loss)
Hedging instruments – interest rate swaps	236,449	178,578
Hedged items attributable to the hedged risk – fixed rate bonds	(236,449)	(178,578)
Ineffectiveness recognised in profit or loss from fair value hedges	-	-

The gains or losses on the hedging instrument (interest rate swaps) and the hedged item (bonds) are mapped to the same fair value account. For this reason, the Statement of Comprehensive Income will only report any ineffectiveness arising from the fair value hedge.

D. OFFSETTING

NZ IAS 32: Financial Instruments Presentation allows financial assets and liabilities to be offset only when there is a current legally enforceable right to set off the amounts and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. LGFA does not offset any amounts. The following table shows amounts subject to an enforceable master netting arrangement or similar agreement that are not offset in the statement of financial position:

As at 30 June 2016 in \$000s	Derivative assets	Derivative liabilities
Gross amounts	537,379	10,264
Amounts offset	-	-
Carrying amounts	537,379	10,264
Amounts that don't qualify for offsetting		
Financial Assets & liabilities	(10,264)	(10,264)
Collateral	-	-
Net Amount	527,115	-

Notes to the Financial Statements

As at 30 June 2015 in \$000s	Derivative assets	Derivative liabilities
Gross amounts	270,503	15,324
Amounts offset		
Carrying amounts	270,503	15,324
Amounts that don't qualify for offsetting		
Financial Assets & liabilities	(15,324)	(15,324)
Collateral		
Net Amount	255,179	-

3 Issuance and on-lending expenses

Issuance and on-lending expenses are those costs that are incurred as a necessary expense to facilitate the ongoing issuance of LGFA debt securities.

For the year ended 30 June 2016 in \$000s	2016	2015
NZDMO facility fee ¹	400	283
NZDMO processing fees	-	149
NZX	177	-
Rating agency fees	527	500
Legal fees for issuance	144	203
Regulatory, registry, other fees	52	23
Trustee fees	100	101
Approved issuer levy ²	1,628	1,192
Promotion/roadshow	18	11
Information Services	120	64
	3,166	2,526

1. The increased cost for NZDMO facility fee followed a contractual price increase in February 2015.
2. The amount of Approved Issuer Levy is a function of the number of offshore holders of LGFA bonds.

Notes to the Financial Statements

4 Operating expenses

Operating expenses are all other expenses that are not classified as 'Issuance and on-lending expenses.'

For the year ended 30 June 2016 in \$000s	2016	2015
Consultants ¹	164	95
Directors fees ²	307	257
Insurance	61	63
Legal fees ³	327	94
Other Expenses ¹	698	532
Auditors' Remuneration		
Statutory Audit	86	80
Personnel	1,163	998
Recruitment	14	24
	2,820	2,143

1. The key driver for increased costs for Consultants and Other Expenses are costs associated with the treasury management system implemented on 1 July 2015.
2. The number of directors increased from five to six in the 2015-16 year.
3. Legal expenses included legal costs associated with the listing on LGFA bonds on the NZX, transition to the Financial Markets Conduct Act and the introduction of short-dated lending to councils. These expenses are predominantly non-recurring.

**Notes to the
Financial Statements**

5 Loans to local government

For the year ended 30 June 2016 In \$000s	Unamortised Premium / (Discount)		Accrued Interest	Total
	Face value			
Ashburton District Council	25,125	705	(4)	25,825
Auckland Council	2,132,000	14,580	12,034	2,158,614
Buller District Council	20,000	-	2	20,002
Canterbury Regional Council	25,000	-	36	25,036
Christchurch City Council	1,266,889	2,909	5,048	1,274,846
Far North District Council	10,000	-	40	10,040
Gisborne District Council	22,000	-	30	22,030
Gore District Council	12,037	-	30	12,068
Greater Wellington Regional Council	255,000	-	660	255,660
Grey District Council	20,000	497	159	20,655
Hamilton City Council	230,000	-	663	230,663
Hastings District Council	50,000	-	175	50,175
Hauraki District Council	34,000	-	133	34,133
Horizons Regional Council	10,000	-	15	10,015
Horowhenua District Council	54,084	520	274	54,877
Hurunui District Council	17,000	-	69	17,069
Hutt City Council	79,000	210	501	79,711
Kaipara District Council	35,000	-	156	35,156
Kapiti Coast District Council	150,000	-	471	150,471
Manawatu District Council	51,000	(270)	305	51,035
Marlborough District Council	28,000	(104)	171	28,067
Masterton District Council	47,032	-	139	47,171
Matamata-Piako District Council	24,500	-	73	24,573
Nelson City Council	45,041	-	137	45,178
New Plymouth District Council	61,000	-	193	61,193
Opotiki District Council	5,000	168	42	5,210
Otorohanga District Council	9,000	171	75	9,246
Palmerston North City Council	77,000	-	295	77,295
Porirua City Council	33,500	-	103	33,603
Queenstown Lakes District Council	75,000	909	462	76,371
Rotorua District Council	98,700	437	888	100,025
Selwyn District Council	35,000	-	56	35,056
South Taranaki District Council	72,000	-	224	72,224
South Wairarapa District Council	7,500	-	36	7,536
Tararua District Council	9,000	-	33	9,033
Tasman District Council	90,000	-	314	90,314
Taupo District Council	125,000	-	431	125,431
Tauranga City Council	275,000	697	1,312	277,009
Thames-Coromandel District Council	35,000	-	69	35,069
Timaru District Council	60,876	30	155	61,061
Upper Hutt City Council	24,500	-	91	24,591
Waikato District Council	60,000	-	212	60,212
Waimakariri District Council	85,115	275	476	85,866
Waipa District Council	13,000	-	18	13,018
Wellington City Council	233,000	-	884	233,884
Western Bay of Plenty District Council	70,000	-	233	70,233
Whakatane District Council	31,019	-	72	31,091
Whanganui District Council	41,000	-	162	41,162
Whangarei District Council	132,000	38	488	132,526
	6,400,918	21,771	28,643	6,451,332

**Notes to the
Financial Statements**

For the year ended 30 June 2015 In \$000s	Face value	Unamortised Premium / (Discount)	Accrued Interest	Total
Ashburton District Council	15,000	829	113	15,941
Auckland Council	1,725,000	16,818	11,396	1,753,214
Buller District Council	-	-	-	-
Canterbury Regional Council	-	-	-	-
Christchurch City Council	932,500	3,219	5,463	941,183
Far North District Council	10,000	-	55	10,055
Gisborne District Council	17,000	-	51	17,051
Gore District Council	-	-	-	-
Greater Wellington Regional Council	155,000	-	741	155,741
Grey District Council	20,000	592	163	20,754
Hamilton City Council	225,000	-	771	225,771
Hastings District Council	50,000	-	204	50,204
Hauraki District Council	34,000	-	184	34,184
Horizons Regional Council	10,000	-	18	10,018
Horowhenua District Council	47,000	618	366	47,985
Hurunui District Council	12,000	-	67	12,067
Hutt City Council	49,000	281	401	49,682
Kaipara District Council	-	-	-	-
Kapiti Coast District Council	130,000	-	480	130,480
Manawatu District Council	41,000	27	303	41,330
Marlborough District Council	28,000	-129	175	28,046
Masterton District Council	40,000	-	194	40,194
Matamata-Piako District Council	24,500	-	98	24,598
Nelson City Council	25,000	-	150	25,150
New Plymouth District Council	56,000	-	221	56,221
Opotiki District Council	3,500	49	25	3,574
Otorohanga District Council	9,000	235	73	9,308
Palmerston North City Council	77,000	-	376	77,376
Porirua City Council	20,000	-	140	20,140
Queenstown Lakes District Council	60,000	1,096	444	61,539
Rotorua District Council	55,000	599	573	56,172
Selwyn District Council	35,000	-	66	35,066
South Taranaki District Council	62,000	-	234	62,234
South Wairarapa District Council	-	-	-	-
Tararua District Council	9,000	-	45	9,045
Tasman District Council	90,000	-	428	90,428
Taupo District Council	100,000	-	423	100,423
Tauranga City Council	215,000	525	1,062	216,587
Thames-Coromandel District Council	35,000	-	89	35,089
Timaru District Council	51,000	45	334	51,378
Upper Hutt City Council	18,000	-	72	18,072
Waikato District Council	50,000	-	215	50,215
Waimakariri District Council	55,000	324	409	55,733
Waipa District Council	13,000	-	22	13,022
Wellington City Council	138,000	-	712	138,712
Western Bay of Plenty District Council	70,000	-	127	70,127
Whakatane District Council	28,000	-	101	28,101
Whanganui District Council	41,000	-	182	41,182
Whangarei District Council	98,000	43	507	98,550
	4,978,500	25,170	28,272	5,031,942

Notes to the Financial Statements

6 Bills issued

As at 30 June 2016 in \$000's	Face Value	Unamortised Premium	Accrued Interest	Total
13 July 2016	50,000	(42)	-	49,958
17 August 2016	50,000	(156)	-	49,844
14 September 2016	50,000	(238)	-	49,762
12 October 2016	25,000	(163)	-	24,837
16 November 2016	25,000	(219)	-	24,781
14 December 2016	25,000	(266)	-	24,734
	225,000	(1,084)	-	223,916

7 Bonds Issued

As at 30 June 2016 in \$000's		Face Value	Unamortised Premium	Accrued Interest	Fair Value Hedge Adjustment	Total
15 December 2017	6% coupon	1,015,000	24,292	2,662		
15 March 2019	5% coupon	1,180,000	29,129	17,315		
15 April 2020	3% coupon	565,000	(18,322)	3,566		
15 May 2021	6% coupon	1,320,000	79,629	10,115		
15 April 2023	5.5% coupon	1,285,000	70,428	14,869		
15 April 2025	2.75% coupon	100,000	(3,157)	579		
15 April 2027	4.5% coupon	755,000	23,373	7,148		
Total		6,220,000	205,372	56,254	338,032	6,819,658

As at 30 June 2015 in \$000's		Face Value	Unamortised Premium	Accrued Interest	Fair Value Hedge Adjustment	Total
15 December 2017	6% coupon	1,015,000	40,097	2,496		
15 March 2019	5% coupon	1,110,000	33,719	16,137		
15 April 2020	3% coupon	365,000	(21,839)	2,274		
15 May 2021	6% coupon	1,170,000	72,162	8,775		
15 April 2023	5.5% coupon	1,010,000	41,034	11,535		
15 April 2027	4.5% coupon	285,000	8,683	2,663		
		4,955,000	173,856	43,880	101,583	5,274,319

Notes to the Financial Statements

8 Borrower notes

Borrower notes are subordinated debt instruments (which are required to be held by each local authority that borrows from LGFA in an amount equal to 1.6% of the aggregate borrowings by that local authority).

LGFA may convert borrower notes into redeemable shares if it has made calls for all unpaid capital to be paid in full and the LGFA Board determines it is still at risk of imminent default.

As at 30 June 2016 in \$000's	Face value	Accrued Interest	Total
Ashburton District Council	240	30	270
Auckland Council	34,112	3,118	37,230
Buller District Council	320	6	326
Canterbury Regional Council	400	5	405
Christchurch City Council	19,224	1,508	20,732
Far North District Council	160	17	177
Gisborne District Council	272	20	292
Gore District Council	96	1	97
Greater Wellington Regional Council	4,080	257	4,337
Grey District Council	320	38	358
Hamilton City Council	3,680	434	4,114
Hastings District Council	800	85	885
Hauraki District Council	544	43	587
Horizons Regional Council	160	16	176
Horowhenua District Council	752	81	833
Hurunui District Council	272	15	287
Hutt City Council	1,264	79	1,343
Kaipara District Council	560	3	563
Kapiti Coast District Council	2,400	236	2,636
Manawatu District Council	816	62	878
Marlborough District Council	448	38	486
Masterton District Council	704	75	779
Matamata-Piako District Council	392	37	429
Nelson City Council	560	38	598
New Plymouth District Council	976	94	1,070
Opoitiki District Council	80	3	83
Otorohanga District Council	144	20	164
Palmerston North City Council	1,232	103	1,335
Porirua City Council	376	23	399
Queenstown Lakes District Council	1,200	119	1,319
Rotorua District Council	1,579	124	1,703
Selwyn District Council	560	86	646
South Taranaki District Council	992	86	1,078
South Wairarapa District Council	120	0	120
Taranua District Council	144	11	155
Tasman District Council	1,440	150	1,590
Taupo District Council	2,000	182	2,182
Tauranga City Council	4,400	394	4,794
Thames-Coromandel District Council	560	52	612
Timaru District Council	816	89	905
Upper Hutt City Council	392	21	413
Waikato District Council	960	76	1,036
Waimakariri District Council	1,200	71	1,271
Waipa District Council	208	21	229
Wellington City Council	3,728	216	3,944
Western Bay of Plenty District Council	1,120	107	1,227
Whakatane District Council	448	45	493
Whanganui District Council	656	55	711
Whangarei District Council	1,952	165	2,117
	99,859	8,556	108,415

Notes to the Financial Statements

As at 30 June 2015 in \$000s	Face value	Accrued Interest	Total
Ashburton District Council	240	19	259
Auckland Council	27,600	1,999	29,599
Buller District Council	-	-	-
Canterbury Regional Council	-	-	-
Christchurch City Council	14,920	920	15,840
Far North District Council	160	12	172
Gisborne District Council	272	11	283
Gore District Council	-	-	-
Greater Wellington Regional Council	2,480	153	2,633
Grey District Council	320	24	344
Hamilton City Council	3,600	311	3,911
Hastings District Council	800	58	858
Hauraki District Council	544	26	570
Horizons Regional Council	160	11	171
Horowhenua District Council	752	50	802
Hurunui District Council	192	7	199
Hutt City Council	784	40	824
Kaipara District Council	-	-	-
Kapiti Coast District Council	2,080	161	2,241
Manawatu District Council	656	37	693
Marlborough District Council	448	19	467
Masterton District Council	640	51	691
Matamata-Piako District Council	392	25	417
Nelson City Council	400	22	422
New Plymouth District Council	896	61	957
Opotiki District Council	56	1	57
Otorohanga District Council	144	14	158
Palmerston North City Council	1,232	63	1,295
Porirua City Council	320	11	331
Queenstown Lakes District Council	960	74	1,034
Rotorua District Council	880	77	957
Selwyn District Council	560	66	626
South Taranaki District Council	992	53	1,045
South Wairarapa District Council	-	-	-
Taranua District Council	144	6	150
Tasman District Council	1,440	101	1,541
Taupo District Council	1,600	117	1,717
Tauranga City Council	3,440	259	3,699
Thames-Coromandel District Council	560	34	594
Timaru District Council	816	57	873
Upper Hutt City Council	288	11	299
Waikato District Council	800	49	849
Waimakariri District Council	880	30	910
Waipa District Council	208	15	223
Wellington City Council	2,208	115	2,323
Western Bay of Plenty District Council	1,120	126	1,246
Whakatane District Council	448	30	478
Whanganui District Council	656	34	690
Whangarei District Council	1,568	102	1,670
	79,656	5,464	85,120

Notes to the Financial Statements

9 Reconciliation of net profit / (loss) to net cash flow from operating activities

For the year ended 30 June 2016 in \$000's	2016	2015
Net profit/(loss) for the period	9,545	9,204
Cash applied to loans to local government	(1,374,440)	(1,284,042)
Non-cash adjustments		
Amortisation and depreciation	(756)	(185)
Working capital movements		
Net change in trade debtors and receivables	(224)	192
Net change in prepayments	(212)	(98)
Net change in accruals	248	151
Net Cash From Operating Activities	(1,365,838)	(1,274,778)

10 Share Capital

As at 30 June 2016 LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. All ordinary shares rank equally with one vote attached to each ordinary share. Ordinary shares have a face value of \$1 per share.

Notes to the Financial Statements

Shareholder Information

Registered holders of equity securities as at 30 June 2016.

	2016		2015	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional Council	3,731,960	8.3%	3,731,960	8.3%
Greater Wellington Regional Council	3,731,960	8.3%	3,731,960	8.3%
Tasman District Council	3,731,960	8.3%	3,731,960	8.3%
Tauranga City Council	3,731,960	8.3%	3,731,960	8.3%
Wellington City Council	3,731,960	8.3%	3,731,960	8.3%
Western Bay of Plenty District Council	3,731,960	8.3%	3,731,960	8.3%
Whangarei District Council	1,492,784	3.3%	1,492,784	3.3%
Hastings District Council	746,392	1.7%	746,392	1.7%
Marlborough District Council	400,000	0.9%	400,000	0.9%
Selwyn District Council	373,196	0.8%	373,196	0.8%
Gisborne District Council	200,000	0.4%	200,000	0.4%
Hauraki District Council	200,000	0.4%	200,000	0.4%
Horowhenua District Council	200,000	0.4%	200,000	0.4%
Hutt City Council	200,000	0.4%	200,000	0.4%
Kapiti Coast District Council	200,000	0.4%	200,000	0.4%
Manawatu District Council	200,000	0.4%	200,000	0.4%
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North City Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames-Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
Whanganui District Council	200,000	0.4%	200,000	0.4%
	45,000,000	100%	45,000,000	100%

Notes to the Financial Statements

Capital Management

LGFA's capital is equity, which comprises share capital and retained earnings. The objective of managing LGFA's equity is to ensure LGFA achieves its goals and objectives for which it has been established, whilst remaining a going concern.

Dividend

During the year LGFA paid a dividend of \$1,607,500 (\$0.06826 per paid up share) on 15 October 2015. (2015: \$1,765,000 (\$0.0706 per paid up share).

11 Operating Leases

The future aggregate minimum lease payments to be made under non-cancellable operating leases are as follows:

For the year ended 30 June 2016 in \$000's	2016	2015
Less than one year	69	67
Between one and five years	89	133
Total non-cancellable operating leases	158	200

12 Other Assets

As at 30 June 2016 in \$000s	2016	2015
Property, plant and equipment	43	46
Intangible Assets ¹	912	1,035
Total Other Assets	955	1,081

1. Intangible assets comprise acquired and internally developed software costs incurred for the implementation of LGFA's treasury management system.

13 Loans to local government not yet advanced

As at 30 June 2016, loans to local government totalling \$50 million, and corresponding borrower notes for \$800,000, had been contractually agreed for forward settlement in July 2016.

14 Capital Commitments

As at 30 June 2016, there are no capital commitments.

15 Contingencies

There are no material contingent liabilities at balance date.

16 Related parties

Identity of related parties

The Company is related to the local authorities set out in the Shareholder Information in note 10.

Notes to the Financial Statements

The Company operates under a Statement of Intent with the respective local authorities that requires the Company to provide debt to them at the lowest possible interest rates and to enhance their certainty of access to debt markets.

Shareholding local authorities, and non-shareholder local authorities who borrow more than \$20 million, are required to enter into a guarantee when they join or participate in LGFA. The guarantee is in respect of the payment obligations of other guaranteeing local authorities to the LGFA (cross guarantee) and of the LGFA itself.

Related party transactions

LGFA was established for the purpose of raising funds from the market to lend to participating councils. The lending to individual councils is disclosed in note 5, and interest income recognised on this lending is shown in the Statement of comprehensive income.

The purchase of LGFA borrower notes by participating councils is disclosed in note 8, and the interest expense on these is shown in the Statement of comprehensive income.

Transactions with key management personnel

Salaries \$704,084 (2015: \$563,231)

Fees paid to directors are disclosed in operating overheads in Note 4.

17 Subsequent events

Subsequent to balance date, LGFA has issued \$215 million in bonds through two tenders.

Subsequent to balance date, on 20 September 2016, the Directors of LGFA declared a dividend of \$1,392,500.00 (\$0.0557) per paid up share

**Independent
Auditor's Report**



**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2016.**

The Auditor-General is the auditor of New Zealand Local Government Agency Limited (the company). The Auditor-General has appointed me, Graeme Edwards, using the staff and resources of KPMG, to carry out the audit of the financial statements and the performance information of the company on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 32 to 57, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 18 to 27.

In our opinion:

- the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards.
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2016.

Our audit was completed on 20 September 2016. 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 of Directors and our responsibilities, and 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 the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence shareholders overall understanding of the financial statements and the performance information. 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and performance information in order to design audit procedures that are



Independent Auditor's Report

appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

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 of Directors;
- the appropriateness of the reported performance information within the company's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the company.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Markets Conduct Act 2013.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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

Graeme Edwards

KPMG
On behalf of the Auditor-General
Wellington, New Zealand

Other Disclosures

Credit Rating

As at 30 June 2016, LGFA has the following credit ratings:

Rating Agency	Local currency		Foreign currency	
	Long term	Short term	Long term	Short term
Standard & Poors	AA+	A-1+	AA	A-1+
Fitch	AA+	F1+	AA	F1+

Board of Directors

INTERESTS REGISTER

Name of Director	Nature and extent of interest	
Craig Stobo	Director Precinct Properties New Zealand Limited Elevation Capital Management Limited Saturn Portfolio Management Limited Stobo Group Limited AIG Insurance NZ Limited Fliway Group Limited Bureau Limited	General disclosure Chair, Establishment Board, Local Government Risk Agency
John Avery	Director Spider Tracks Limited Fund Managers Auckland Limited Regional Facilities Auckland Limited Strategic Pay Limited Strategic Pay Trustee Service Limited	General disclosure The New Zealand School of Dance (Trustee) Stinger Trust (Trustee)
Philip Cory-Wright	Director South Port New Zealand Limited Matariki Forests Limited	
Abby Foote*	Director Z Energy Limited BNZ Life Insurance Limited Livestock Improvement Corporation Limited	
Linda Robertson	Director RML Consulting Limited Dunedin City Holdings Limited Dunedin City Treasury Limited King Country Energy Limited NZ Registry Services Limited NZPM Group Limited Auckland Council Investments Limited Crown Irrigation Investments Limited	General disclosure Audit and Risk Committee, Ministry of Social Development Technical Advisory Committee, NZ Export Credit Office Chair, Audit and Risk Committee, Central Otago District Council
Mike Timmer		General disclosure Officer, Greater Wellington Regional Council Chairman of Finance Committee, Physiotherapy New Zealand

* Subsequent to balance date: Director,
The Museum of New Zealand Te Papa
Tongarewa

Other Disclosures

DIRECTOR REMUNERATION

Director	2016(\$)
Craig Stobo	\$84,000
Paul Anderson*	\$19,833
John Avery	\$47,600
Philip Cory-Wright	\$47,600
Abby Foote	\$50,400
Mike Timmer**	\$28,692
Linda Robertson**	\$28,692
Total	\$306,817

* Resigned during year.

** Commenced during year.

STAFF REMUNERATION

Total remuneration	2016
\$100,000 to \$109,999	1
\$190,000 to \$199,999	1
\$240,000 to \$249,999	1
\$450,000 to \$459,999	1
Total staff receiving \$100,000 or more	4

DONATIONS

No donations were made by LGFA during the year ended 30 June 2016.

WAIVERS FROM NZX LIMITED (NZX)

LGFA's fixed rate bonds are quoted on the NZX Debt Market (**LGFA Bonds**). NZX has granted LGFA a number of waivers from the NZX Listing Rules.

Waiver from Rule 3.2.1

NZX has granted LGFA a waiver from NZX Listing Rule 3.2.1(a) to the extent that this requires the trust deed under which the LGFA Bonds are issued (**Trust Deed**) to provide that the appointment of a new trustee is to be approved by an extraordinary resolution of the holders of the Securities to which the Trust Deed relates. Effective from 10 May 2016, LGFA ceased to rely on this waiver as the Trust Deed was amended to comply with NZX Listing Rule 3.2.1(a).

Waiver from Rule 5.2.3

NZX has granted LGFA a waiver from NZX Listing Rule 5.2.3 to the extent that this requires the LGFA Bonds to be held by at least 100 members of the public holding at least 25% of the number of securities of that class issued.

The waiver from NZX Listing Rule 5.2.3 was provided on the conditions that:

- LGFA clearly and prominently disclose the waiver, its conditions and its implications in its annual reports and in each profile or offering Document for the LGFA Bonds;
- LGFA will disclose market liquidity as a risk in each offering document (excluding any offering document referred to in paragraph (f) of the definition of "Offering Document" under NZX Listing Rule 1.6.1) for the LGFA Bonds; and
- the nature of LGFA's business and operations do not materially change from its business and operations as at the date of the waiver decision.

The effect of the waiver is that the LGFA Bonds may not be widely held and there may be reduced market liquidity in the LGFA Bonds.

Waiver from Rule 6.3.2

NZX has granted LGFA a waiver from NZX Listing Rule 6.3.2 so that the deemed date of receipt of notices for a holder of LGFA Bonds who has supplied LGFA with an address outside of New Zealand, will be five working days after that notice is posted to that physical address.

Other Disclosures

NET TANGIBLE ASSETS

Net tangible asset per \$1,000 of listed bonds as at 30 June 2016 is \$1.17 (2015: \$1.09)

EARNINGS PER SECURITY

\$1.53 (2015: \$1.85)

AMOUNT PER SECURITY OF FINAL DIVIDENDS

Not applicable

SPREAD OF QUOTED SECURITY HOLDERS

Spread of bondholders (LGF010, LGF020, LGF030, LGF040, LGF050, LGF060 and LGF070)
as at 31 August 2016

Nominal Holding Range	Holder Count	Nominal Holding Quantity	Holding Quantity %
10,000 to 50,000	659	16,774,000	0.3%
50,001 to 100,000	154	11,357,000	0.2%
100,001 to 500,000	234	54,341,000	0.8%
500,001 to 1,000,000	37	28,546,000	0.4%
Over 1,000,000	175	6,323,982,000	98.3%
Total	1,259	6,435,000,000	100.0%



Directory

Postal address

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Lambton Quay
Wellington 6145

Street address

WELLINGTON
Level 8
City Chambers
142 Featherston Street
Wellington 6011

AUCKLAND

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Corner Albert and Custom Street
Auckland 1010

Office hours

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Except Public Holidays

Phone

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Personnel e-mail addresses

firstname.lastname@lgfa.co.nz

Website

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 [Follow us twitter.com/nzlgfa](https://twitter.com/nzlgfa)

Right: Ashley Bridge (Cones Road, Rangiora) – midway through construction. December 2014. Waimakiriri District Council. Photo: Aaron Campbell.

Back cover: Walter Nash Centre – opened October 2015. The centre comprises five indoor courts, meeting rooms, the Taita Library and a fitness suite. Hutt City Council.



Item 13

Attachment 1



LGFA 
NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY



Statement of Intent 2015/16

1. Introduction

This Statement of Intent (SOI) sets out the intentions and expectations of New Zealand Local Government Funding Agency Limited (LGFA).

The LGFA is enabled under the Local Government Borrowing Act 2011 and is a council-controlled organisation (CCO) for the purposes of the Local Government Act 2002.

The SOI is prepared in accordance with section 64(1) of the Local Government Act 2002.

2. Nature and scope of activities

LGFA will raise debt funding either domestically and/or offshore in either NZ dollars or foreign currency and provide debt funding to New Zealand local authorities, and may undertake any other activities considered by the Board of LGFA to be reasonably related or incidentally to, or in connection with, that business.

The LGFA will only lend to local authorities that enter into all the relevant arrangements with it (Participating Local Authorities) and comply with the LGFA's lending policies.

In lending to Participating Local Authorities, LGFA will:

- Operate in a manner to ensure LGFA is successful and sustainable in the long-term;
- Educate and inform Participating Local Authorities on matters within the scope of LGFA's operations;
- Provide excellent service to Participating Local Authorities;
- Ensure excellent communication exists and be professional in its dealings with all its stakeholders; and
- Ensure its products and services are delivered in a cost effective manner.

3. Objectives

Principal Objectives

In accordance with the Local Government Act 2002, in carrying on its business, the principal

objectives of LGFA will be to:

- Achieve the objectives and performance targets of the shareholders in LGFA (both commercial and non-commercial) as specified in this SOI;
- Be a good employer;
- Exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and
- Conduct its affairs in accordance with sound business practice.

Primary objectives

LGFA will operate with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:

- Providing savings in annual interest costs for all Participating Local Authorities;
- Making longer-term borrowings available to Participating Local Authorities;
- Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice; and
- Offering more flexible lending terms to Participating Local Authorities.

LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each Participating Local Authority's financial position and the general issues confronting the Local Government sector. This includes

- LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and visit each Participating Local Authority on an annual basis;
- LGFA will commence work on analysing finances at the Council group level. Previously the analysis was undertaken at the Council parent level; and
- LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues.

Additional objectives

LGFA has a number of additional objectives which complement the primary objective. These objectives will be measurable and achievable and the performance of the company in achieving its objectives will be reported annually. These additional objectives are to:

- Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6;
- Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities;

- Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4;
- Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency;
- Achieve the Financial Forecasts set out in section 4;
- Meet or exceed the Performance Targets outlined in section 5; and
- Comply with its Treasury Policy, as approved by the Board.

4. Financial forecasts

LGFA's financial forecasts for the three years to 30 June 2018 are:

Financial Year (\$m)	2015/16	2016/17	2017/18
Comprehensive income			
Net interest revenue	16.36	18.18	18.93
Issuance and operating expenses	5.94	6.88	7.43
P & L	10.42	11.29	11.50
Financial position			
Dividend	(1.75)	(1.75)	(1.75)
Retained earnings	18.32	27.86	37.62
Total assets	6,059.60	7,348.07	7,996.77
Total LG loans	5,885.6	7,095.60	7,735.60
Total bonds	5,955.00	7,225.00	7,865.00
Total borrower notes	94.17	113.53	123.77
Total equity	43.32	52.86	62.62
Shareholder Funds/Total Assets	0.7%	0.7%	0.8%

5. Performance targets

LGFA has the following performance targets:

- LGFA's average cost of funds on debt issued relative to the average cost of funds for New Zealand Government Securities for the 12 month period to:
 - 30 June 2016 will be less than 0.50% higher.
 - 30 June 2017 will be less than 0.50% higher.
 - 30 June 2018 will be less than 0.50% higher.
- The average base margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period to:
 - 30 June 2016 will be no more than 0.10%.

LGFA Statement of Intent 2015/16. Page 3

- 30 June 2017 will be no more than 0.10%.
- 30 June 2018 will be no more than 0.10%.

In relation to the 2015/16 financial year, the 5 bps reduction (to 10 bps) in base margin on long dated borrowing is in line with the projected reduction outlined in the previous 2014/15 SOI.

Although issuance and operating expenses are forecast to rise, LGFA's financial position is expected to be sufficiently strong to enable a reduction in the base margin per the targets above, subject to shareholder consultation on future options for capital structure and the liquidity facility.

- LGFA's annual issuance and operating expenses for the period to:
 - 30 June 2016 will be less than \$5.94 million.
 - 30 June 2017 will be less than \$6.88 million.
 - 30 June 2018 will be less than \$7.43 million.
- Total lending to Participating Local Authorities at:
 - 30 June 2016 will be at least \$5,885 million.
 - 30 June 2017 will be at least \$7,095 million.
 - 30 June 2018 will be at least \$7,735 million.
- Savings on borrowing costs for council borrowers:
 - LGFA will demonstrate the savings to council borrowers achieved in the relevant financial year and compared to previous financial years.

6. Dividend policy

LGFA will seek to maximise benefits to Participating Local Authorities as Borrowers rather than Shareholders. Consequently it is intended to pay a limited dividend to Shareholders.

The Board's policy is to pay a dividend that provides an annual rate of return to Shareholders equal to LGFA cost of funds plus 2.00% over the medium term.

At all times payment of any dividend will be discretionary and subject to the Board's legal obligations and views on appropriate capital structure.

7. Governance

Board

The Board is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with the Companies Act 1993, the Local Government Act 2002, the Local Government Borrowing Act 2011, the Company's Constitution, the Shareholders' Agreement for LGFA and this SOI.

The Board will comprise between four and seven directors with a majority of independent directors.

The Board's approach to governance is to adopt "best practice" with respect to:

- The operation of the Board.
- The performance of the Board.
- Managing the relationship with the Company's Chief Executive.
- Being accountable to all Shareholders.

All directors are required to comply with a formal Charter, to be reviewed from time to time in consultation with Shareholders.

The Board will meet on a regular basis and no less than 6 times each year.

Shareholders' Council

The Shareholders' Council is made up of between five and ten appointees of the Shareholders (including an appointee from the Crown). The role of the Shareholders' Council is to:

- Review the performance of LGFA and the Board, and report to Shareholders on that performance on a periodic basis (no less frequently than quarterly).
- Make recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors.
- Make recommendations to Shareholders as to any changes to policies, or the SOI, requiring their approval.
- Ensure all Shareholders are fully informed on LGFA matters and to coordinate Shareholders on governance decisions.

8. Information to be provided to Shareholders

The Board aims to ensure that the Shareholders are informed of all major developments affecting LGFA's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public. The LGFA will adhere to a 'no surprises' approach in its dealings with its Shareholders.

Annual Report

The LGFA's balance date is 30 June.

By 30 September each year, the Company will provide to the Shareholders an Annual Report complying with Sections 67, 68 and 69 of the Local Government Act 2002, the Companies Act and Financial Reporting Act. The Annual Report will contain the information necessary to enable an informed assessment of the operations of the company, and will include the following information:

- Directors' Report.

- Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position, Statement of Cashflows, Statement of Accounting Policies and Notes to the Accounts.
- Comparison of the LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Auditor's Report on the financial statements and the performance targets.
- Any other information that the directors consider appropriate.

Half Yearly Report

By 28 February each year, the Company will provide to the Shareholders a Half Yearly Report complying with Section 66 of the Local Government Act 2002. The Half Yearly Report will include the following information:

- Directors' commentary on operations for the relevant six month period.
- Comparison of LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Un-audited half-yearly Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position and Statement of Cashflows.

Quarterly Report

By 31 January, 30 April, 31 July, and 31 October each year, the Company will provide to the Shareholders' Council a Quarterly Report. The Quarterly Report will include the following information:

- Commentary on operations for the relevant quarter, including a summary of borrowing margins charged to Participating Local Authorities (in credit rating bands).
- Comparison of LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Analysis of the weighted average maturity of LGFA bonds outstanding.
- In the December Quarterly Report only, commentary on the Net Debt/Total Revenue percentage for each Participating Local Authority that has borrowed from LGFA (as at the end of the preceding financial year).
- To the extent known by LGFA, details of all events of review in respect of any Participating Local Authority that occurred during the relevant quarter (including steps taken, or proposed to be taken, by LGFA in relation thereto).

Statement of Intent

By 1 March in each year the Company will deliver to the Shareholders its draft SOI for the following year in the form required by Clause 9(1) of Schedule 8 and Section 64(1) of the Local Government Act 2002.

Having considered any comments from the Shareholders received by 30 April, the Board will deliver the completed SOI to the Shareholders on or before 30 June each year.

Shareholder Meetings

The Board will hold an Annual General Meeting between 30 September and 30 November each year to present the Annual Report to all Shareholders.

The Company will hold a meeting with the Shareholders' Council approximately every six months – prior to the Annual General Meeting and after the Half Yearly Report has been submitted. Other meetings may be held by agreement between the Board and the Shareholders' Council.

9. Acquisition/divestment policy

LGFA will invest in securities in the ordinary course of business. It is expected that these securities will be debt securities. These investments will be governed by LGFA's lending and/or investment policies as approved by the Board and/or Shareholders.

Any subscription, purchase or acquisition by LGFA of shares in a company or organisation will, if not within those investment policies, require Shareholder approval other than as concerns the formation of wholly-owned subsidiaries and the subscription of shares in such wholly-owned subsidiaries.

10. Activities for which compensation is sought from Shareholders

At the request of Shareholders, LGFA may (at its discretion) undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full cost of providing such as activities.

Currently there are no activities for which compensation will be sought from Shareholders.

11. Commercial value of Shareholder's investment

LGFA will seek to maximise benefits to Participating Local Authorities as Borrowers rather than Shareholders.

Subject to the Board's views on the appropriate capital structure for LGFA, the Board's intention will be to pay a dividend that provides an annual rate of return to Principal Shareholders equal to LGFA cost of funds plus 2.00% over the medium term.

As the Shareholders will have invested in the LGFA on the basis of this limited dividend, the Board considers that at establishment the commercial value of LGFA is equal to the face value of the Shareholders' paid up Principal Shares - \$25 million.

In the absence of any subsequent share transfers to the observed share transfers on 30 November 2012, the Board considers the current commercial value of LGFA is at least equal to the face value of the Shareholders' paid up Principal Shares - \$25 million.

12. Accounting policies

LGFA has adopted accounting policies that are in accordance with the New Zealand International Financial Reporting Standards and generally accepted accounting practice. A Statement of accounting policies is attached to this SOI.

This statement is taken from the Financial Statements presented as part of LGFA's Annual

Report 2013-2014 (updated where necessary).

ATTACHMENT: Statement of accounting policies

a Reporting Entity

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

LGFA is controlled by participating local authorities and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating local authorities.

The registered address of LGFA is Level 8, 142 Featherston Street, Wellington Central, Wellington 6011.

b Statement of compliance

LGFA is registered under the Companies Act 1993 and is a reporting entity as defined by the Financial Reporting Act 1993. LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements and accounting policies comply with the specific recognition, measurement and disclosure requirements of NZ IFRS and New Zealand Generally Accepted Accounting Practice (NZGAAP). The financial statements comply with International Financial Reporting Standards.

c Basis of Preparation

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless separately identified. The functional currency of LGFA is New Zealand dollars.

Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

The following accounting standard has been early adopted by LGFA.

NZ IFRS 9: *Financial Instruments*. The first two phases of this new standard (which is incomplete as at 30 June 2013) were approved by the Accounting Standards Review Board in November 2009 and November 2010. The standard addresses the issues of classification and measurement of financial assets and financial liabilities and becomes effective for annual reporting periods commencing on or after 1 January 2015.

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements. Those which may be relevant to LGFA are as follows:

- Amendments to NZ IAS 32: *Financial Instruments: Disclosures*. Effective for periods beginning on or after 1 January 2014. This amendment provides clarification on the ability to set-off financial instruments.
- NZ IFRS 13: *Fair Value Measurement*. Effective for periods beginning on or after 1 January 2013. This standard provides a single source of guidance on determining fair value.

d Financial instruments

Financial assets

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents include cash on hand; cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date an assessment is made whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

e Other assets

Property, plant and equipment (PPE)

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

f Other liabilities

Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

g Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

h Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

i Segment reporting

LGFA operates in one segment being funding of participating local authorities in New Zealand.

j Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. Refer note 2b for fair value determination for financial instruments.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.



2015/2016

Waikato Regional Airport Limited Statement of Intent

June 2015



Statement of Intent – 2015/2016
Waikato Regional Airport Limited



Hamilton Airport

1.0 Introduction

This statement is presented by the Directors in accordance with s.64 (1) Local Government Act 2002 and sets out the Board's intentions for the Company for the year ended 30 June 2016 and succeeding two financial years.

2.0 Strategic Intent

The Airport has identified its core purpose and key objectives that recognise the strategic intent of the business:

Core Purpose

1. Enabler of air services to the region
2. Operate a first class, safe and compliant regional airport
3. Strategic positioning of the business to enhance capital value

Key Objectives

1. Operate an efficient and compliant airport
2. Enhance the traveller experience
3. Maintain a viable aeronautical business
4. Maximise revenue diversification through non-aeronautical business opportunities

3.0 In Pursuing its Goals the Company will:

- At all times behave in a professional and ethical manner in all its business dealings with its customers and stakeholders
- Be a good employer
- Identify and recognise Shareholders' expectations, within the bounds of corporate prudence

4.0 Nature and Scope of Activities to be Undertaken

(4.1) Operate an efficient and compliant airport

Operate a safe, secure and compliant airport by providing for essential projects together with any compliance expenditure warranted

(4.2) Enhance the traveller experience

Maximise traveller satisfaction and airport experience

(4.3) Maintain a viable aeronautical business

Identify opportunities to develop new, and expand existing, domestic passenger services

Promote development and growth of the general aviation sector

Protect future aeronautical opportunities by completing the runway designation, to allow the main runway to be extended up to 2984m when supported by an appropriate business case

Position the airport as an efficient, cost-effective international port of arrival for private, corporate and medical aircraft

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Statement of Intent – 2015/2016
Waikato Regional Airport Limited



(4.4) Maximise revenue diversification through non-aeronautical business opportunities

Support the development of land within the bounds of a sound strategic approach to long-term planning for the airport precinct

Identify and market for lease all available surplus airport-owned land

(4.5) Ensure appropriate internal and external resource to enable a commercially driven and high performing organisation

Knowledgeable and capable, high performing and appropriately resourced management team to ensure sound reporting and accountability, and delivery of the strategic plan

(4.6) Capital Expenditure

Planned major capital expenditure included in the 3 year forecast is 2016:\$1,430k; 2017:\$650k; 2018:\$670k. Included in the 2016 year is \$1.13m for the completion of the runway designation.

(4.7) Strategic Activities

Key activities for the 2015/16 year are:

- Optimise domestic passenger services
- Completion of runway designation appeal process
- Maximise property lease income
- Completion of the review of Titanium Park Joint Venture

5.0 Shareholders' Funds to Total Assets

Years ending 30 June	2016	2017	2018
Shareholders' funds to total assets	75%	75%	76%

Definitions:

Shareholders' funds Total assets less the total liabilities.

Total assets The value of all assets reported in the Company's statement of financial position at the end of each reporting period.

6.0 Statement of Accounting Policies

The accounting policies adopted by the Group for the year ending 30 June 2016 and succeeding 2 years are those as adopted in the 2014 Annual Report adjusted for the concessions provided for by Tier 2 of the new accounting standards framework issued by the External Reporting Board in April 2012.

7.0 Performance Targets

The following annual performance targets exclude any Titanium Park land sales.

		Year Ended 30 June		
Based on consolidated company forecasts		2016	2017	2018
7.1	Earnings before interest, taxation & depreciation (EBITDA)	\$2,061,000	\$1,903,000	\$1,872,000
7.2	Net surplus after tax	(\$421,000)	(\$701,000)	(\$760,000)
7.3	Net profit after tax to average shareholders' funds	-1%	-1%	-1%

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Statement of Intent – 2015/2016
Waikato Regional Airport Limited



7.4	Net profit after tax to total assets	-1%	-1%	-1%
7.5	Net cash flow (operating & investing)	(\$632,000)	\$28,000	\$101,000
7.6	Total liabilities/shareholders' funds (debt/equity ratio)	25.75	25.75	24.76
Applicable to parent company operations only		2016	2017	2018
7.7	Percentage of non-landing charges Revenue	64%	64%	64%
7.8	Interest cover	2.86x	2.76x	3.00x
<i>The interest cover measures the number of times the net profit before interest, tax and depreciation (EBITDA) covers interest paid on debt</i>				
Non-financial performance targets				
7.9 Health & Safety				
7.9.1	Facilitate Health & Safety meetings every 2 months with representatives from each company department			
7.9.2	Zero WorkSafe notifiable accidents/injuries			
7.9.3	Commission independent review of the company's Health & Safety framework. Implement recommendations from the independent review to ensure best-practice compliance			
7.10 Operational Compliance				
7.10.1	To achieve the Airport Certification Standards as required by the Civil Aviation Authority and as evidenced by Civil Aviation Authority audit reports			
7.10.2	Ensure airport is operationally available for all scheduled passenger services (except for uncontrollable events)			
7.10.3	Facilitate noise management meetings each 4 months in accordance with the Noise Management Plan			
7.11 Customer Satisfaction				
7.11.1	Collect, document and act (where viable) on customer feedback forms to continuously monitor and improve the customer experience. Maintain a database to ensure recurring negative feedback is promptly acted upon			

8.0 Dividend Policy

In view of the priority to reduce debt, and as agreed by Shareholders, the Directors propose to recommend that no dividend be paid for the next three years and that the dividend payment decisions for subsequent years are determined at the annual general meeting each year.

9.0 Information to be provided to Shareholders

- 9.1 The Annual Report of the Company will include:
- Chairman & General Managers' Report;
 - Statement of Comprehensive Income;
 - Statement of Movements in Equity;

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Statement of Intent – 2015/2016
Waikato Regional Airport Limited



Hamilton Airport

- Statement of Financial Position; and
 - Statement of Cash Flows.
- 9.2 An Interim Report circulated to Shareholders each half-year will include:
- Chairman's Report; and
 - Summary of the unaudited financial results for the six months ended 31 December.

10.0 Future Investment Proposals

If the Company wishes to subscribe for, purchase, or otherwise acquire shares in any other company or any other organisation it can do so only after first obtaining approval from the majority of shareholders at either a General Meeting or at a Special Meeting convened for that purpose.

11.0 Commercial Value of the Shareholders Investment

No valuation of shares has been completed.

The consolidated balance sheet of WRAL as at 30 June 2014 shows shareholder equity of \$59.5m. Company investment in Titanium Park Joint Venture is recorded at cost. Company Property, Plant & Equipment is based upon a 2011 valuation except for land which was revalued as at 30 June 2013. Company assets such as runways, aprons, taxiways and the terminal building are based upon depreciated replacement cost.

12.0 Compensation from Local Authorities

There are no activities of the Company for which the Directorate would seek compensation from any local authority.



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2016 RESULTS AT A GLANCE

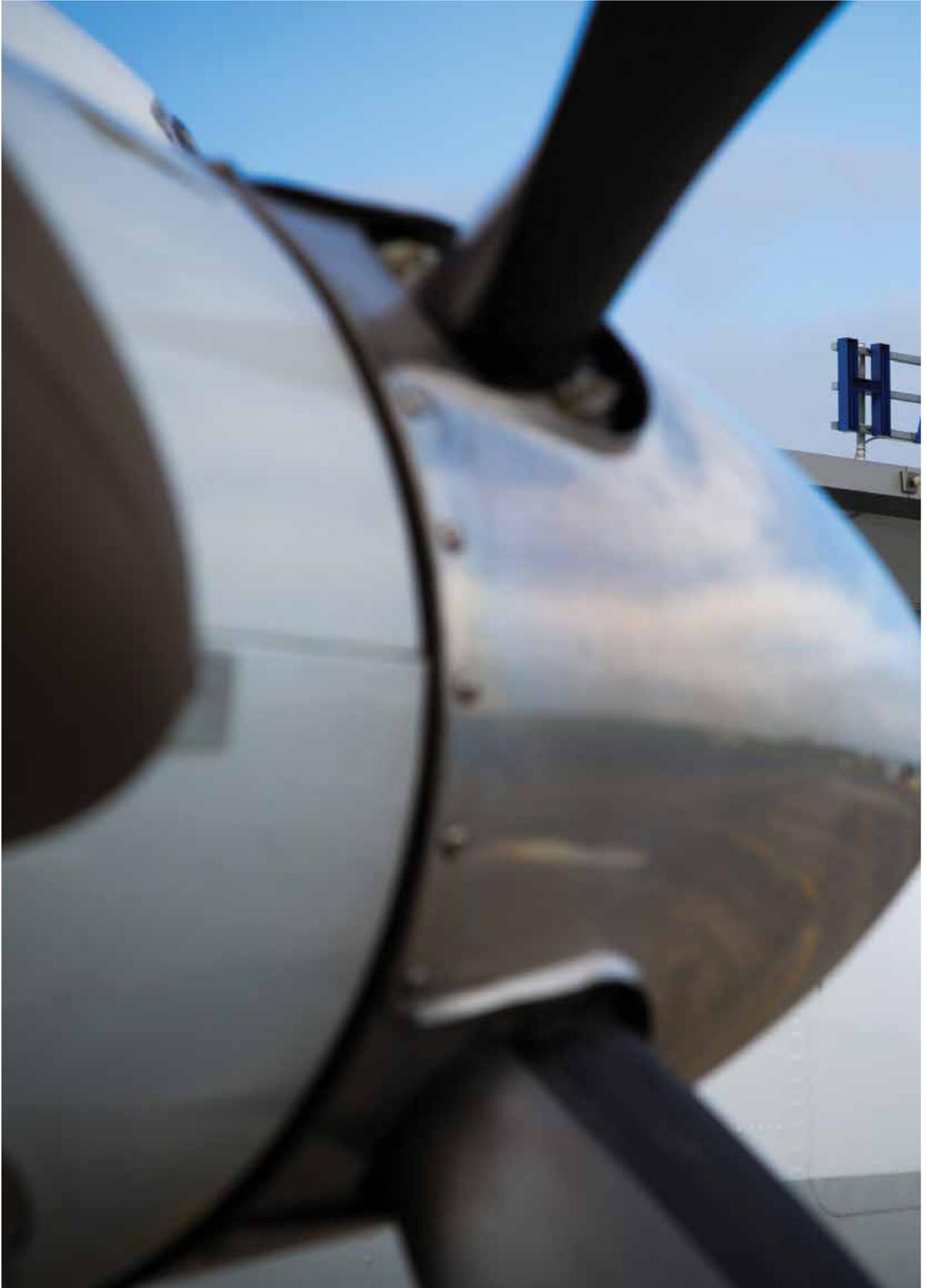
KEY FACTS

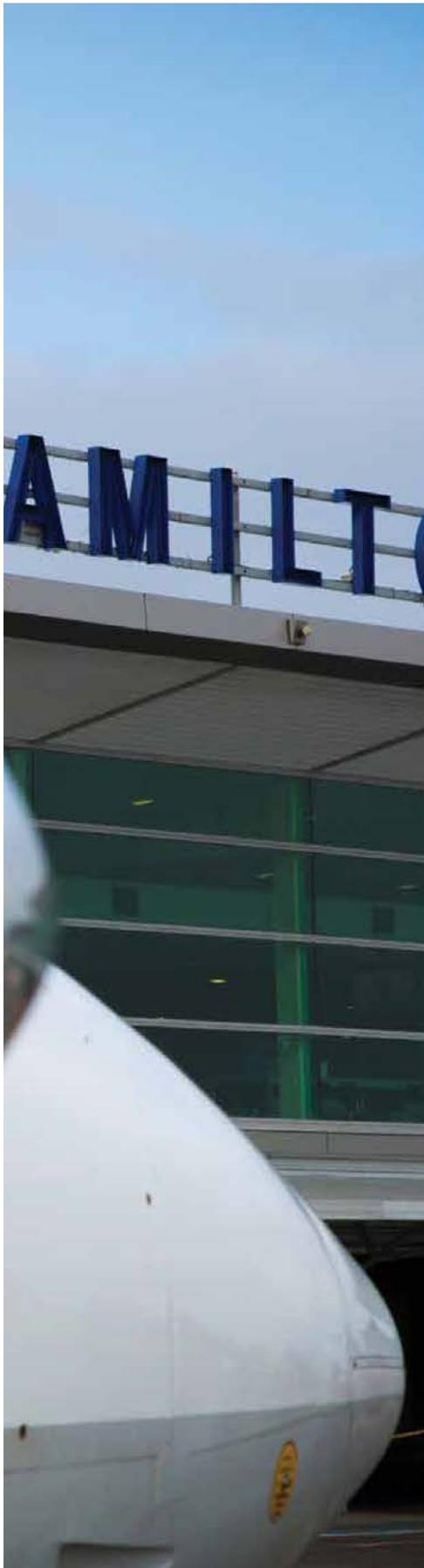
- Operating Revenue up \$0.6m (excluding land sales)
- Land Sales Net Income \$0.6m (2015: \$0.8m)
- EBITDA \$3.2m (2015: \$3.3m)
- Operating Profit before Tax \$0.5m; up \$0.2m on 2015
- \$2.8m Positive Operating Net Cash Flow (2015: \$2.8m)
- \$2.2m Debt Repayment
- 303,000 Passengers; up 12,000 on 2015
- 115,819 aircraft movements; down 8.8% on 2015 (weather impact on pilot training)



Item 14

Attachment 2





CHAIR AND CHIEF EXECUTIVES' 2016 ANNUAL REPORT

The Board and Management of Waikato Regional Airport Limited (WRAL) are pleased to report a solid financial and operational performance for the 2015/2016 financial year with an operating surplus before tax of \$0.5m. Key areas of focus were operational efficiency, improvements to passenger experience and debt repayment.

Emphasis was placed on providing an improved passenger experience with the rebrand of the airport terminal bookstore, finalising plans for a new food and beverage offering and completing the new Air New Zealand Regional Lounge.

The dissolution of the joint venture partnership between WRAL's subsidiary Titanium Park Limited and Titanium Park Development Ltd on 31 March 2016 has created an opportunity for WRAL to reconsider the use of land surrounding the airport. An independent director has been appointed to the board of Titanium Park Limited and the new Board will develop a comprehensive property business plan in the coming year.

Continuing on from previous years, a major focus for the Board and Management has been the ongoing review and implementation of health and safety practices and procedures with the introduction of the new Health and Safety at Work Act 2015.

WRAL Group

The Group Operating Revenue for the 2015/2016 financial year (excluding land sales) is \$7.5m up on the prior year by \$0.6m. This was primarily driven by a growth in commercial landing charges, increased passenger numbers, car park revenue and tourism funding. Group Operating Expenditure (including depreciation) of \$7.6m is \$0.1m higher than the prior year due to increased expenditure for tourism related costs, WRAL staff restructuring costs and an increase in depreciation and amortisation expenses. Overall the Group's Operating Profit before tax of \$0.5m is an increase of \$0.2m on the prior year.

Net cash flow from Operating and Investing Activities was \$2.8m, this is up from the prior year by \$0.5m due to land sales. The airport's core debt facility of \$7.4m decreased from the prior year by \$2.2m, mostly assisted through land sales. The interest rate hedging facility was closed out during the year to take advantage of lower floating interest rates.

The five yearly valuation of aeronautical infrastructure assets resulted in a valuation of \$40.6m, an increase of \$6.1m to the asset base. The valuation was completed by Beca using a depreciated replacement cost (DRC) valuation. The total asset revaluation gains were partially offset by an increase in deferred tax liability of \$1.7m.

The WRAL Group Balance Sheet remains strong and shows Shareholders' Equity of \$64.4m, up \$4.7m on the prior year and is mostly as a result of the aeronautical infrastructure asset revaluation.



WRAL Group	2016 \$000	2015 \$000	Variance \$000
Operating and Other Revenue	8,079	7,400	679
Direct Expenses	(4,858)	(4,106)	(752)
EBITDA	3,221	3,294	(73)
Depreciation	(2,278)	(2,101)	(177)
Finance Costs	(434)	(712)	278
Disposals of Assets	2	10	(8)
Operating Surplus before Taxation and before Interest Rate Swap gains	511	491	22
Interest Rate Swap (losses)	(21)	(202)	181
Operating Surplus before Taxation	490	289	201
Net Cash Flow for Operating & Investment Activities	2,791	2,225	542

WRAL Parent

The core purpose and key objectives for the 2015/2016 year has been to operate the airport in an efficient and compliant way whilst maintaining a viable aeronautical business. As shown in the following table, revenue was up on prior year by \$0.2m as a result of increased car park revenue and commercial landing charges. Operating expenditure increased by \$0.1m mainly due to staff restructuring costs bringing EBITDA in line with the prior year of \$2.5m. Overall, WRAL Parent's Operating Deficit before tax of \$0.2m is up on prior year by \$0.3m.

WRAL Parent	2016 \$000	2015 \$000	Variance \$000
Operating and Other Revenue	5,718	5,561	157
Direct Expenses	(3,204)	(3,095)	(109)
EBITDA	2,514	2,466	48
Depreciation	(2,257)	(2,089)	(168)
Finance Costs	(430)	(674)	244
Disposals of Assets	2	10	(8)
Operating Deficit before Taxation and before Interest Rate Swap losses	(171)	(287)	116
Interest Rate Swap (losses)	(21)	(202)	181
Operating Deficit before Taxation	(192)	(489)	297
Net Cash Flow for Operating & Investment Activities	2,642	752	1,890



Airline and Passenger Numbers

Hamilton Airport Management continued to foster strong and positive relationships with Air New Zealand and other airline partners across operational, marketing and strategic levels.

Air New Zealand continued its strategy of investing in regional services and infrastructure, with the opening of the new Air New Zealand Regional Lounge in June 2016, providing significantly increased lounge space for members. This provides an improved passenger experience within the terminal building alongside the rebrand of the airport's bookstore and finalised plans for a new café to be operated by Waikato company Mavis & Co.

The withdrawal of Air New Zealand's 19-seater Beech aircraft saw the cessation of its Hamilton - Auckland service in February 2016. It will also cease operation of Beech aircraft on the Palmerston North route in late August 2016. The replacement Q300 48 seater aircraft will more than double capacity on the route.

Further capacity increases from 1 October 2016 are:

- **Hamilton – Christchurch route**, an increase of 30% with the introduction of an additional six return flights per week.
- **Hamilton – Wellington route**, an increase of 10-15% with all peak morning and evening flights to be serviced by the larger 68 seater ATR.

Despite the withdrawal of the Hamilton - Auckland - Auckland route, passenger numbers have grown in volume from 291,000 in 2014/2015 to 303,000 in 2015/2016. This is primarily due to significant growth on the Wellington and Christchurch sectors and services provided by Kiwi Regional Airlines between Hamilton and Nelson from November 2015. While Kiwi Regional Airlines' service was well received over the summer months, the decision to cease operations from 31 July 2016 was made.

Airport Operations

Hamilton Airport continues to meet CAA certification obligations regarding safety and security. Operational projects for the 2015/2016 financial year included:

- New and improved general aviation airfield signage that has been installed to assist aircraft during ground movement operations.
- Additional passenger safety control barriers installed on the terminal apron to assist with passenger movements to and from the aircraft.

Hamilton Airport remains New Zealand's second busiest Civil Aviation Part 139 certified airport in terms of aircraft movements. This is primarily driven by high levels of pilot training flights predominately by CTC Aviation Training. Total movements for the 2015/2016 financial year were 115,819 or an average of 317 movements every day. This is down slightly on the 2014/2015 financial year of 126,717 due to weather and a delay in new pilot intakes.

Titanium Park

WRAL dissolved by mutual agreement its joint venture partnership in Titanium Park, effective 31 March 2016, retaining ownership of critical land adjacent to the airport runway. Despite challenges arising from a tougher than expected economic environment over the past 8 years, the dissolution opens up potential for WRAL to develop land surrounding the airport. The recent construction of the new roundabout on the intersection of State Highways 3 and 21 has improved access into the Western Precinct area. A comprehensive and long-term business plan for all WRAL land is under way.



Hamilton & Waikato Tourism

Hamilton & Waikato Tourism (HWT) has had another successful year of operation. Strong and enduring relationships have continued with HWT's seven partner Councils and tourism operators resulting in a combined investment of \$1.6m for tourism, marketing and development activities. HWT finished the year in a sound financial position.

With the first year of additional funding from partner councils, HWT allocated the increased investment to addressing the challenges of the domestic market and broadening its scope to include developing the region's visitor proposition. A key focus has been the development of a Tourism Opportunities Plan which provides a clear direction to realise the visitor potential of the region in partnership with key stakeholders and agencies.

Key highlights for the year include:

- Investment of \$0.4m in HWT's activities from the region's tourism industry.
- Expanded investment in domestic campaign activity; Explore Your Own Backyard and Short Escapes.
- Additional investment from WEL Energy Trust to support HWT's development activities.
- Development of a Tourism Opportunities Plan identifying product development and investment opportunities.
- Participation in Tourism New Zealand's \$1.4m Tour the North campaign in Australia
- Increased focus on attracting conferences through additional Convention Bureau capacity.
- Hosting 137 international and 14 domestic media outlets.
- Hosting 346 international travel trade (individuals).
- Exhibiting at TRENZ in Rotorua with over 300 international buyers attending.
- Preparation of development reports for Sanctuary Mountain Maungatautari and Otorohanga Kiwi House in partnership with owners/stakeholders.

New Zealand's tourism sector is experiencing exceptional growth with international visitor arrivals and expenditure at its highest level ever. This growth is forecast to continue and estimated to reach four million international arrivals in the next four years. Domestic tourism has also been buoyant and is showing steady growth with domestic guest nights up 5.7% for the past two years.

The Hamilton and Waikato region's \$1.2b visitor industry has shared in this growth with increased commercial guest nights and international visitor expenditure. HWT will continue to work with local government and industry by providing compelling "reasons to visit" within key markets with a focus on overnight stays, minimising seasonality, and encouraging regional dispersal to enable the benefits of tourism to be shared more broadly.

HWT's Chief Executive Kiri Gouiter left June 2016 after seven years' service. Jason Dawson has been appointed Chief Executive and will join the organisation in August 2016.

Health & Safety

The health and safety of travellers, employees, contractors and airport tenants is of utmost importance to the airport's Board and Management. Regular safety committee meetings and operational reviews are conducted both internally and with assistance from an independent safety consultant. A high degree of focus has been placed on ensuring health and safety requirements are compliant with the recently introduced Health and Safety at Work Act 2015. During the year there was one lost time injury with three injuries occurring in total.



Community Engagement

During the year, Hamilton Airport hosted several preschool and school groups providing guided tours of the airport and its operations.

The Airport Community Liaison Group continued to meet regularly throughout the year with the objective of addressing aircraft air noise raised by the community. The airport maintains a structured Noise Management Plan, being a district planning requirement, to identify possible mitigation measures and forming recommendations for resolution.

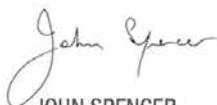
Board

During the 2015/2016 financial year James Yearsley attended Board meetings as part of the Institute of Directors Emerging Director program. We thank James for his contribution and support. His knowledge of aerodrome operations and aviation in general was much appreciated.

Conclusion

On behalf of the Board and Management, Hamilton Airport would like to thank our five Shareholders and acknowledge the support from the wider Councils who participate in the support of the regional tourism organisation.

The focus for Hamilton Airport's future lies in its key objectives of operating an efficient and compliant airport while maximising revenue diversification through its aeronautical and non-aeronautical business opportunities.

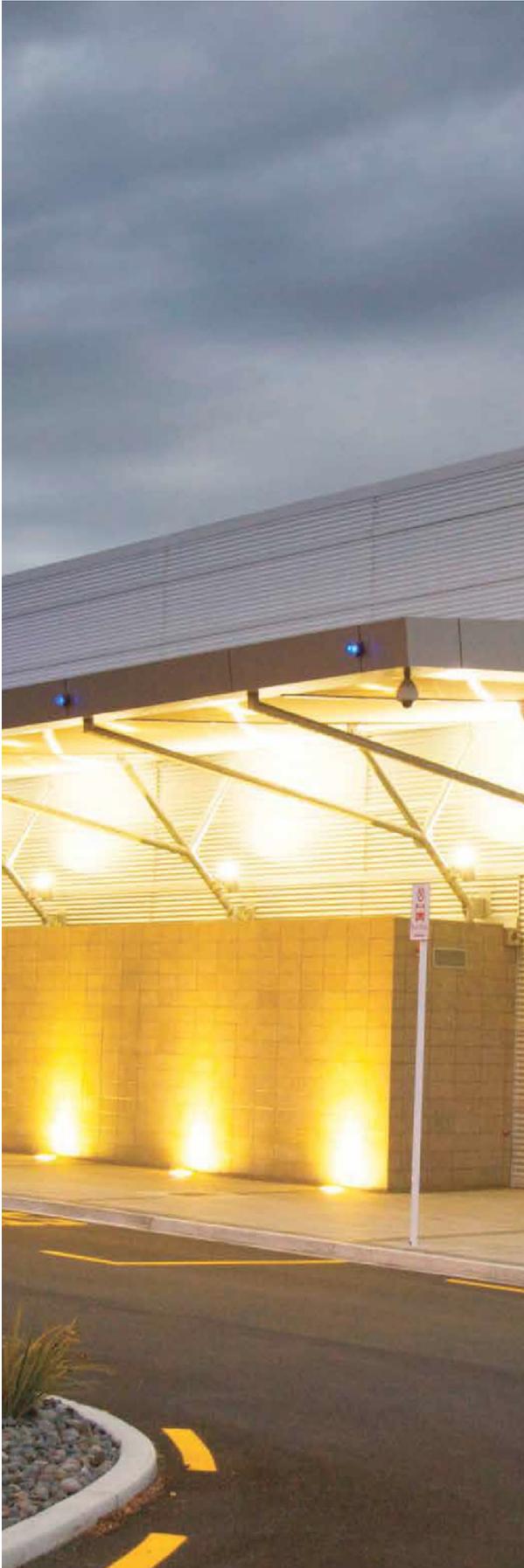

JOHN SPENCER
Chairman


MARK MORGAN
Chief Executive

Item 14

Attachment 2





INDEX TO THE FINANCIAL STATEMENTS

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CORPORATE DIRECTORY

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the Year Ended 30 June 2016

	Note	2016 \$000	2015 \$000
REVENUE			
Operating Revenue	14	7,428	6,854
Other Gains	15	20	16
Land sales - Titanium Park		618	841
Finance income		13	54
Total Revenue		8,079	7,765
EXPENSES			
Operating expenses		2,660	2,436
Employee benefit expenses		1,904	1,763
Bad debts written off		2	1
Depreciation and amortisation	18	2,278	2,101
Directors' fees	26	170	173
Finance costs		434	712
Audit fees	29	98	88
Other losses	15	23	202
Total expenses		7,589	7,476
OPERATING SURPLUS BEFORE TAXATION		490	289
Taxation	19	154	120
OPERATING SURPLUS AFTER TAXATION		336	169
Gain on property revaluation		4,400	-
Total Other Comprehensive Revenue and Expense		4,400	-
TOTAL COMPREHENSIVE REVENUE AND EXPENSE		4,736	169
Total comprehensive revenue and expense attributable to			
Equity holders of the parent		4,736	169

The attached Statement of Accounting Policies and Notes form part of, and are to be read in conjunction with the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2016

	Note	2016 \$000	2015 \$000
Balance at 1 July		59,669	59,500
Total comprehensive revenue and expense		4,736	169
BALANCE AT 30 JUNE		64,405	59,669
Total and comprehensive revenue and expense attributable to Equity holders of the parent		4,736	169

BALANCE SHEET

As at 30 June 2016

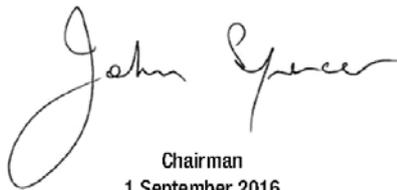
	Note	2016 \$000	2015 \$000
EQUITY			
Share capital	11	14,860	14,860
Asset revaluation reserve	11	33,078	28,677
Retained earnings	11	16,467	16,132
Total Equity		64,405	59,669
<i>Represented by:</i>			
CURRENT ASSETS			
Cash and cash equivalents	6	432	514
Trade and other receivables	3	606	506
Prepayments		19	18
Inventories		83	97
Term deposits	7	-	287
Development property	8	11,446	11,512
		12,586	12,934
CURRENT LIABILITIES			
Term liabilities – current portion	10	85	83
Derivative financial instruments	23	-	611
Payables and accruals	2	1,792	1,221
Income tax payable		249	355
Employee entitlements	22	252	173
Income in advance		85	221
		2,463	2,664
WORKING CAPITAL SURPLUS		10,123	10,270

BALANCE SHEET CONTINUED

As at 30 June 2016

	Note	2016 \$000	2015 \$000
NON CURRENT ASSETS			
Property, plant and equipment	9	64,658	61,761
Investment property	25	3,750	3,730
Other financial assets	24	-	25
Intangible assets	26	1,227	-
Other assets	21	84	93
		69,719	65,609
NON CURRENT LIABILITIES			
Term loans	10	7,298	9,539
Deferred taxation	20	8,138	6,671
		15,436	16,210
NET ASSETS		64,405	59,669

The attached Statement of Accounting Policies and Notes form part of, and are to be read in conjunction with the Financial Statements.


Chairman
1 September 2016


Director
1 September 2016

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2016

	Note	2016 \$000	2015 \$000
CASH FLOW FROM OPERATING ACTIVITIES			
Operating revenue		7,832	7,802
Interest received		13	54
Payments to suppliers and employees		(4,245)	(4,457)
Income taxes paid		(504)	(355)
GST (net)		43	63
Interest paid		(434)	(712)
Costs of development property		66	414
Net cash from operating activities	17	2,771	2,809
CASH FLOW FROM INVESTING ACTIVITIES			
Sales of Shares (Paper Plus)		25	-
Purchase of property, plant and equipment		(302)	(457)
Proceeds from sale of property, plant and equipment		10	-
Funds placed on deposit		287	(127)
Net cash from investing activities		20	(584)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of borrowings		(2,871)	(1,973)
Net cash from financing activities		(2,871)	(1,973)
Net increase in cash and cash equivalents		(82)	252
Cash and cash equivalents at the beginning of the year		514	262
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	432	514

The attached Statement of Accounting Policies and Notes form part of, and are to be read in conjunction with the Financial Statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

The Waikato Regional Airport Limited Group has designated itself as a public benefit entity (PBE) for financial reporting purposes. The financial statements of Waikato Regional Airport Limited are for the year ended 30 June 2016. The financial statements were authorised for issue by the Board of Directors on 1 September 2016.

Basis for Preparation

The Company and Group have prepared the Consolidated Financial Statements in accordance with the Companies Act 1993, the Local Government Act 2002, the Airport Authorities Act 1966 and the Financial Reporting Act 2013.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR) and authoritative notices that are applicable to entities that apply PBE Standards.

The entity is eligible and has elected to report in accordance with Tier 2 PBE Standards RDR on the basis that the entity has no public accountability and is not large as defined in XRB A1.

Subsidiary and Consolidation

The purchase method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation. TPL is a participant in Titanium Park Joint Venture and TPL's interest in the Joint Venture is accounted for using the line by line (proportionate) method of consolidation. The Company's investment in its subsidiaries is carried at cost in the parent entity financial statements.

Specific Accounting Policies

The following particular accounting policies, which materially affect the measurement of financial results and financial position, have been applied:

a) Trade and Other Receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

b) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

c) Inventories

Stock on hand has been valued at the lower of cost and net realisable value on a weighted average cost basis, after due allowance for damaged and obsolete stock. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

d) Property, Plant and Equipment

Property, plant and equipment consists of:

- *Operational Assets* - These include land, buildings, security fences, furniture and fittings, computer equipment, motor vehicles and plant and equipment.
- *Infrastructure Assets* - These include runways, aprons and taxiways, other paved areas and underground-reticulated systems.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

Classification

The ten classifications of property, plant and equipment are: freehold land, freehold buildings, runways, aprons and taxiways, other paved areas, motor vehicles, plant and equipment, computer equipment, furniture and fittings, fencing and underground reticulated systems.

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 the Company and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus/loss.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment at rates that will write off the cost of the assets over their estimated useful lives.

The estimated useful lives of the major classes of assets are:

Buildings	5 - 59 years
Runways, Aprons and Taxiways	5 - 74 years

Other Paved Areas	9 - 14 years
Motor Vehicles	5 - 15 years
Furniture and Fittings	3 - 50 years
Plant and Equipment	2 - 50 years
Computer Equipment	2 - 6 years
Fencing	10 - 47 years
Reticulated Systems	4 - 74 years

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end. A valuation of runways, aprons & taxiways, other paved areas, and reticulated systems was undertaken on 30 June 2016 and the useful lives of those assets were adjusted at that time to reflect the valuation undertaken on those assets.

Revaluation

Those asset classes that are revalued are valued on a five-yearly valuation cycle on the basis described below. All other assets are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

Operational Land and Buildings

At fair value determined from market-based evidence. All valuations are undertaken or reviewed by an independent registered valuer and are usually carried out on a five-yearly cycle.

Infrastructure Assets

At fair value determined on a depreciated replacement cost basis by an independent registered valuer and are usually carried out on a five-yearly cycle.

e) Intangible Assets

Software Acquisition

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

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

Costs associated with the development and maintenance of the Company's website are recognised as an expense when incurred.

Amortisation

Computer software licences are amortised on a straight-line basis over their estimated useful life of 3 years. Amortisation begins when the asset is available for use and ceases at the date that the asset is disposed of. The amortisation charge for each period is recognised in the surplus/loss.

Other Intangible Assets

Other Intangible Assets include Designation Assets.

The Light Designation asset has a carrying value of \$268k at 30 June 2016 with a remaining amortisation period of four years. The Runway Designation asset has a carrying value of \$952k at 30 June 2016 with a remaining amortisation period of 10 years.

f) Taxation

Income tax expense in relation to the surplus or loss for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences

or tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the statement of comprehensive revenue and expense, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

g) Goods and Services Tax

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the balance sheet.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

h) Investments

Investments in bank deposits are initially measured at fair value plus transaction costs.

After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest method less any provision for impairment.

i) Employee Entitlements

Short-term benefits

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave.

The Company recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

j) Statement of Cash Flows

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

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

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

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.

k) Operating Leases

Operating lease payments, where the lessors effectively retain substantially all of the risks and benefits of ownerships of the leased items, are recognised in the determination of the operating surplus in equal instalments over the lease term.

There are no non-cancellable operating leases.

l) Revenue

Revenue is measured at the fair value of consideration received.

Revenue from exchange transactions

Operating Revenue

Operating revenue is recognised when earned.

Interest Income

Interest income is recognised using the effective interest method.

Rental Income

Rental income arising on property owned by the Company is accounted for on a straight line basis over the lease term.

Revenue from non-exchange transactions

Council funding

Hamilton and Waikato Tourism Limited receives council funding and it is recognised as revenue when it becomes receivable unless there is an obligation to return the funds if conditions of the grant are not met. If there is such an obligation, the funding is initially recorded as income received in advance and recognised as revenue when conditions of the funding are satisfied.

m) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

n) Financial assets

The Company classifies its financial assets into the following four categories:

- Financial assets at fair value through profit or loss
- Held to maturity investments
- Loans and receivables
- Financial assets at fair value through other comprehensive revenue and expense

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the surplus/loss.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

Purchases and sales of investments are recognised on trade date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long term debt instruments held. Other techniques, such as estimated discounted cash-flows, are used to determine fair value for the remaining financial instruments.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus/loss.

Financial assets in this category include interest rate swaps.

Held to maturity

Held to maturity investments are non-derivatives financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the surplus/loss. Loans and receivables are classified as "trade and other receivables" in the balance sheet.

o) Impairment of financial assets

At each balance sheet date, the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the surplus/loss.

p) Accounting for derivative financial instruments

The Company uses derivative financial instruments to manage exposure to interest rate risks arising from financial activities.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date.

The gain or loss from re-measuring derivatives at fair value is recognised in the surplus/loss.

The Company is party to financial instruments with off balance sheet risk to meet financing needs. These financial instruments include a bank overdraft facility.

Revenues and expenses in relation to all financial instruments are recognised in the surplus/loss and are shown in the balance sheet at their estimated fair value.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

q) Investment property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, the Company measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the surplus/loss.

r) Impairment of non-financial assets

Non-financial 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 that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable 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 the revaluation reserve, the balance is recognised in the surplus/loss.

For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus/loss.

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 surplus/loss, a reversal of the impairment loss is also recognised in the surplus/loss.

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the surplus/loss.

s) Non-Current assets held for sale

An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. On classification as 'Held for Sale', non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as 'Held for Sale' are included in the surplus/loss.

t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

u) Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

v) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

w) Critical accounting estimates and assumptions

In preparing these financial statements the Directors and Management have made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment useful lives and residual values

At each balance date the Directors and Management review the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the Directors and Management to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Directors and Management, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the statement of comprehensive revenue and expense, and carrying amount of the asset in the balance sheet. The Directors and Management minimises the risk of this estimation uncertainty by:

- physical inspection of assets;
- asset replacement programmes;
- review of second-hand market prices for similar assets; and
- analysis of prior asset sales

No significant changes have been made to assumptions concerning useful lives and residual values. The carrying amounts of property, plant and equipment are disclosed in note 9.

x) Development property

Development property is stated at the lower of cost and net realisable value. Development property comprises land, infrastructure and other costs incurred that are directly related to the development activity. Net realisable value is the discounted value of forecast sales less estimated costs of completion and the estimated selling expenses. Development property is not depreciated.

y) Changes in Accounting Policies

There have been no changes to accounting policies during the year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

2. PAYABLES AND ACCRUALS

	2016 \$000	2015 \$000
Accounts payable	605	519
Accruals	1,187	702
Total Payables and Accruals	1,792	1,221

3. TRADE AND OTHER RECEIVABLES

	2016 \$000	2015 \$000
Gross trade and other receivables	606	506
Total Trade and Other Receivables	606	506

The carrying amount of receivables that are past due date, but not impaired, whose terms have been renegotiated is nil (2015: nil).

At balance date, all overdue receivables have been assessed for impairment and no provisions are required. As at 30 June 2016, the Company has identified no debtors that are insolvent.

4. COMMITMENTS

	2016 \$000	2015 \$000
Lease commitments		
Share generator & cable	-	8
Vehicle	-	-
Office equipment	1	5
	1	13

	2016 \$000	2015 \$000
Operating Lease commitments as lessee		
Less than 12 months	1	12
Between 1 and 5 years	-	1
Greater than 5 years	-	-
Total Operating Lease Commitments	1	13

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

5. CONTINGENT LIABILITIES

The Group has no contingent liabilities (2015: nil).

6. CASH AND CASH EQUIVALENTS

	2016 \$000	2015 \$000
Cash on hand	7	7
Cash at bank	425	507
Total Cash and Cash Equivalents	432	514

7. TERM DEPOSITS

	2016 \$000	2015 \$000
Term deposits	-	287
Total Term Deposits	-	287

8. DEVELOPMENT PROPERTY

	2016 \$000	2015 \$000
Development property	11,446	11,512
Total Development Property	11,446	11,512

Waikato Regional Airport Limited's subsidiary Titanium Park Limited was a partner in the Titanium Park Joint Venture. The Titanium Park Joint Venture was terminated 31 March 2016 with Titanium Park Limited being transferred 37.2 hectares of land as part of the termination agreement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Vehicles	Runways, aprons and taxiways	Other paved areas	Plant and equipment	Computer equipment	Furniture and fittings	Fencing	Reticulated systems	Total
2016 \$000											
Cost											
Opening balance	22,817	19,886	1,215	20,019	2,498	1,659	235	1,246	566	1,237	71,378
Additions	-	3	-	22	23	5	88	42	-	14	197
Disposals	-	-	(25)	-	-	-	(58)	-	-	-	(83)
Transfers	-	(25)	-	(1,095)	(191)	(46)	-	-	-	14	(1,340)
Closing balance	22,817	19,864	1,190	18,946	2,330	1,664	265	1,288	566	1,276	70,205
Accumulated depreciation											
Opening balance	-	2,221	549	3,458	748	1,198	197	951	169	126	9,617
Depreciation	-	572	89	963	189	101	38	90	33	37	2,112
Disposals	-	-	(14)	-	-	-	(57)	-	-	-	(71)
Transfers	-	(3)	-	-	-	-	-	-	-	3	-
Closing balance	-	2,790	624	4,421	937	1,299	178	1,041	202	166	11,658
Revaluation	-	1,677	-	4,061	433	-	-	-	(167)	107	6,111
Carrying amounts											
At 30 June 2015	22,817	17,665	666	16,561	1,750	461	38	295	397	1,111	61,761
At 30 June 2016	22,817	18,751	568	18,568	1,826	363	87	247	198	1,217	64,858

The total amount of property, plant and equipment in a construction / development phase is \$66,655 (2015:\$ 1,528,526)

	Land	Buildings	Vehicles	Runways, aprons and taxiways	Other paved areas	Plant and equipment	Computer equipment	Furniture and fittings	Fencing	Reticulated systems	Total
2015 \$000											
Cost											
Opening balance	22,817	19,886	1,215	19,884	2,302	1,644	251	1,279	563	1,216	71,056
Closing balance	22,817	19,866	1,21	20,019	2,498	1,659	235	1,246	566	1,237	71,378
Accumulated depreciation											
Opening balance	-	1,650	495	2,498	560	1,143	184	907	137	90	7,664
Closing balance	-	2,221	549	3,458	748	1,198	197	951	169	126	9,617
Carrying amounts											
At 30 June 2014	22,817	18,236	719	17,386	1,742	501	67	372	426	1,126	63,392
At 30 June 2015	22,817	17,665	666	16,561	1,750	461	38	295	397	1,111	61,761

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

VALUATION

Asset class	Valuation approach	Valuer	Fair Value \$000
Land	Fair market, highest and best use basis determined from prevailing market-based evidence and conditions	Quotable Value Limited	\$22,733
Building and Security Fencing	Fair market or, where appropriate, depreciated replacement cost	Beca Valuations Ltd	\$18,949
Runways, Taxiways, Aprons and Other Paved Areas	Optimised depreciated replacement cost	Beca Valuations Ltd	\$20,412
Reticulated Systems	Optimised depreciated replacement cost	Beca Valuations Ltd	\$1,217

The effective date of building and security fencing, runways, taxiways, aprons and other paved areas and reticulated systems valuations (excluding land) is 30 June 2016.

All land was revalued with an effective date of 30 June 2013 (\$22,732,500).

Neither valuer has an interest or relationship with any party that would impair its objectivity or independence.

10. TERM LIABILITIES

BNZ Bank Loan Facilities

At 30 June 2016 the Company had the following facilities with the BNZ Bank:

- i. An overdraft facility of \$500,000 repayable on demand. The interest rate on this facility is the BNZ Bank's market connect overdraft base rate plus a margin.
- ii. A Customised Average Rate Loan (CARL) of up to \$9,500,000 that matures on 17 October 2017. The amount outstanding on this facility at 30 June 2016 was \$6,043,000 (2015: \$8,200,000).
- iii. A second Customised Average Rate Loan (CARL) of \$1,600,000 that matures on 1 February 2018. The amount outstanding on this facility at 30 June 2016 was \$1,339,840 (2015: \$1,422,400).

The \$1.6m CARL facility is secured over buildings at Boyd Road, Hamilton.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

11. EQUITY

	2016		2015	
	No. 000s	\$000	No. 000s	\$000
Ordinary shares issued				
Balance of shares as at 1 July	4,035	24,460	4,974	24,460
Less uncalled capital	-	-	939	9,600
Repurchase uncalled capital	939	-	-	-
Issued and called shares at 30 June	4,974	14,860	4,035	14,860
Less called but unpaid	-	-	-	-
Issued paid shares at 30 June	4,974	14,860	4,035	14,860

During the year Waikato Regional Airport Limited repurchased all 939,334 shares of uncalled capital.

All ordinary shares carry equal voting rights and the right to share in any surplus on winding up. None of the shares carry fixed dividend rights.

The shareholding of Waikato Regional Airport Limited as at 30 June 2016 is as follows:

Shareholder	No. of Shares	Percentage
Hamilton City Council	2,486,752	50.0 %
Waipa District Council	777,110	15.6 %
Matamata District Council	777,110	15.6 %
Waikato District Council	777,110	15.6 %
Otorohanga District Council	155,422	3.1 %
	4,973,504	100.0 %

Asset Revaluation Reserve	2016 \$000	2015 \$000
As at 1 July	28,677	28,677
Revaluation gain	6,112	-
Deferred tax on movement	(1,711)	-
As at 30 June	33,078	28,677

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

Asset Revaluation Reserve consists of:	2016 \$000	2015 \$000
Land	14,428	14,428
Buildings	4,092	2,885
Fencing	232	352
Reticulated systems	777	700
Runway, apron & taxiways	12,388	9,463
Other paved areas	1,161	849
As at 30 June	33,078	28,677

Retained Earnings	2016 \$000	2015 \$000
As at 1 July	16,132	15,963
Surplus for the year	336	169
As at 30 June	16,468	16,123

12. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on normal commercial terms during the year.

Shareholders

During the financial year the Group received payments from the following shareholders:

- Hamilton City Council, a total of \$585,000 (excl GST) for regional tourism funding under a service level agreement and regional campaigns (2015: \$392,483).
- Waipa District Council, a total of \$150,000 (excl GST) for regional tourism funding under a service level agreement (2015: \$100,000).
- Waikato District Council, a total of \$150,000 (excl GST) for regional tourism funding under a service level agreement (2015: \$100,000).
- Matamata-Piako District Council, a total of \$150,000 (excl GST) for regional tourism funding under a service level agreement (2015: \$100,000).
- Otorohanga District Council, a total of \$60,000 (excl GST) for regional tourism funding under a service level agreement (2015: \$40,000).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

Subsidiaries

Hamilton & Waikato Tourism Limited, a wholly owned subsidiary of the Company, made the following transactions with the Company during the year:

Related Party	Nature of transactions	Relationship with company	2016 \$000		2015 \$000	
			Transaction	Outstanding balance as at 30/06/16	Transaction	Outstanding balance as at 30/06/15
Hamilton & Waikato Tourism Limited	Contribution to marketing	Subsidiary	-	-	11	-
Hamilton & Waikato Tourism Limited	Receipt of insurance contribution	Subsidiary	-	-	-	-
Hamilton & Waikato Tourism Limited	Provision of services under a service level agreement	Subsidiary	40	-	40	-
Hamilton & Waikato Tourism Limited	Receipt of services under a service level agreement	Subsidiary	(49)	-	(49)	(9)
			(9)	-	2	(9)

Subsidiaries

Titanium Park Limited, a wholly owned subsidiary of Waikato Regional Airport Limited, made the following transactions with the Company during the year:

Related Party	Nature of transactions	Relationship with company	2016 \$000		2015 \$000	
			Transaction	Year End	Transaction	Year End
Titanium Park Limited	Cash advances to facilitate funding for the Joint Venture operations	Subsidiary	(1,157)	3,195	48	4,352
Titanium Park Limited	Cash advance to facilitate funding for 188 Narrows Road	Subsidiary	-	2,919	-	2,919
Titanium Park Limited	Interest charged on advances	Subsidiary	-	2,507	480	2,507
			(1,157)	8,621	528	9,778

Key Management Personnel Compensation	2016 \$000	2015 \$000
Salaries and other short-term employee benefits	798	688
Total Key Management Personnel Compensation	798	688

Key management personnel comprises directors and the Group's management team.

There were no other material related party transactions during the year other than those already disclosed in the notes to these financial statements.

13. EVENTS OCCURRING AFTER BALANCE DATE

Nil.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

14. OPERATING REVENUE

	2016 \$000	2015 \$000
Exchange Revenue		
Car park	1,591	1,473
Landing charges and departure charges	2,258	2,189
Rentals and concessions	1,866	1,612
Shop trading & other	363	367
Non-exchange revenue		
Other	1,650	1,214
Total Operating Revenue	7,428	6,855

15. OTHER GAINS

Other gains	2016 \$000	2015 \$000
Gain on disposal of PPE	-	6
Gain on changes in fair value of investment property (note 25)	20	10
Total Other Gains	20	16

Other losses	2016 \$000	2015 \$000
Loss on sale of property, plant and equipment	2	-
Loss on fair value adjustment – interest rate swaps (note 23)	21	202
Total Other Losses	23	202

16. FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The financial risks relate to the following financial instruments: trade receivables, cash and cash equivalents, trade and other payables and borrowings.

Risk management is carried out by the Company's Board of Directors. The Board identifies and evaluates financial risks and provides written principles for overall risk management, as well as written policies covering specific areas, such as interest-rate risk, credit risk, and investing excess liquidity.

	2016 \$000	2015 \$000
Financial Assets at Fair Value through Statement of Comprehensive Revenue and Expense		(611)
Financial Assets at Fair Value through Other Comprehensive Revenue and Expense	-	25
Loans and Receivables	1,154	1,129
Financial Liabilities Measured at Amortised Cost	7,383	10,661

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

17. RECONCILIATION OF NET SURPLUS/(DEFICIT) AFTER TAX TO NET CASH FROM OPERATING ACTIVITIES

	2016 \$000	2015 \$000
Surplus/(deficit) after tax Add/(deduct) non cash items	336	169
Depreciation & amortisation	2,276	2,101
Deferred taxation	(244)	(466)
(Gains)/losses in fair value of investment property	(20)	10
Net interest rate swap (gains)/losses	21	202
Add/(deduct) items classified as investing or financing activities		
(Gains)/losses on disposal of property, plant & equipment	2	(6)
Add/(deduct) movements in working capital		
Trade & other receivables	(89)	106
Prepayments	(1)	99
Payables & accruals	518	(104)
Employee entitlements	79	(1)
Income in advance	(134)	(5)
Goods and services taxation	43	63
Inventories	14	18
Development property	66	414
Other assets allocation	10	8
Income tax payable	(108)	231
Net Cash from Operating Activities	2,771	2,809

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

18. DEPRECIATION & AMORTISATION OF ASSETS BY CLASS

	2016 \$000	2015 \$000
Buildings	572	571
Vehicles	89	89
Runways, apron & taxiways	966	960
Other paved areas	189	188
Plant & equipment	101	99
Computer equipment	38	35
Furniture & fittings	90	84
Fencing	32	32
Reticulated systems	37	36
	2,114	2,094
Intangible assets – runway designation	162	-
– computer software	2	7
Total Depreciation & Amortisation of Assets	2,278	2,101

19. INCOME TAXATION

	2016 \$000	2015 \$000
Current year	398	544
Prior period adjustment	-	36
Movement in temporary differences	(244)	(460)
	154	120

Reconciliation of Effective Tax Rate	%	2016 \$000	%	2015 \$000
Surplus for the period excluding income tax		490		289
Prima facie income tax based on domestic tax rate	28.0%	137	28.0%	80
Effect of non-deductible expenses	3.42%	17	8.17%	24
Effect of tax exempt income	0.0%	-	0.0%	-
Prior period adjustment	0.0%	-	12.36%	36
Effect of tax rate change from 30% to 28%	0.0%	-	(6.96%)	(20)
Capital gain on sale	0.0%	-	0.0%	-
	31.42%	154	41.57%	120

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

20. DEFERRED TAX LIABILITIES

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

\$000	Property plant and equipment	Financial assets	Employee entitlements	Other	Total
Balance as at 30 June 2014	7,360	(115)	(23)	(85)	7,137
Charged to profit and loss	(401)	(56)	-	(3)	(460)
Tax loss recognised	-	-	-	(6)	(6)
Charged to equity	-	-	-	-	-
Balance as at 30 June 2015	6,959	(171)	(23)	(94)	6,671
Charged to profit and loss	(496)	171	(2)	77	(250)
Tax loss recognised	-	-	-	6	6
Charged to equity	1,711	-	-	-	1,711
Balance as at 30 June 2016	8,174	-	(25)	(11)	8,138

21. OTHER ASSETS

	2016 \$000	2015 \$000
CTC apron costs (amortise over lease period)	84	93
Total Other Assets	84	93

Operating Lease Incentive

During the year ended 30 June 2005 the Company leased land to CTC Aviation Training (NZ) Limited for the purpose of establishing a flight training school. As an incentive to attract CTC to enter the lease, the Company agreed to pay 50% of the costs of constructing an apron.

As this payment is considered to be an operating lease incentive, the cost to the Company has been separately identified and will be amortised over the period of the 20 year lease as a reduction in lease income.

22. EMPLOYEE ENTITLEMENTS

	2016 \$000	2015 \$000
Annual leave	102	85
Accrued salary and wages	150	88
Total Employee Benefit Liabilities	252	173

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

23. DERIVATIVE FINANCIAL INSTRUMENTS

There were no derivative financial instruments in place at year end.

	2016 \$000	2015 \$000
Fair value of interest rate swaps – 1 July	(611)	(409)
Gain/(Loss) during year	(21)	(202)
Swap closed out during year	632	
Fair Value of Interest Rate Swaps	-	(611)

24. OTHER FINANCIAL ASSETS

	2016 \$000	2015 \$000
Shares – Paper Plus	25	25
Shares – Paper Plus Sold	(25)	
Total Other Financial Assets	-	25

There were no impairment provisions for other financial assets.

25. INVESTMENT PROPERTY

The Company has identified three classifications of land as strategically important holdings as they relate directly to the aviation operations and related activities, or are considered in the airport's long term strategy of facilitating future growth in the aeronautical capability of the airport.

The Company's criteria for identifying property as of strategic importance is:

- Land areas on which runways, taxiways, aprons, terminal and apron servicing areas as currently placed or anticipated in the Airport Master Plan.
- Land areas abutting the land areas described above.
- Other land that is reserved for aviation related activities.

Land that does not meet the criteria above or that is not property available for sale is classified as investment property.

The Company's investment properties are valued annually at fair value effective 30 June. All investment properties were valued on open market evidence and conditions that prevailed as at 30 June 2016. The valuation was performed by Mairi MacDonald, Registered Valuer, ANZIV, SPINZ, an independent valuer from Quotable Value Limited. Quotable Value Limited is an experienced valuer with extensive market knowledge in the types of investment properties owned by the Company.

	2016 \$000	2015 \$000
Opening balance	3,730	3,720
Transfer from property, plant & equipment	-	-
Fair value gain on valuation	20	10
Closing Balance	3,750	3,730

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

26. INTANGIBLE ASSETS

	2016 \$000	2015 \$000
Acquired Assets		
Balance at 1 July	107	107
Additions	107	-
Disposals	(108)	-
Transfers	1,286	-
Balance at 30 June	1,392	107
Accumulated Amortisation & Impairment Losses		
Balance at 1 July	107	100
Amortisation expense	167	7
Disposal	(109)	-
Balance at 30 June	165	107
Carrying Amounts		
Balance at 1 July	-	7
Balance at 30 June	1,227	-

27. ASSET IMPAIRMENT

There has been no impairment of assets recognised in 2016 (2015: nil).

28. DIRECTORS' FEES

	2016 \$000	2015 \$000
Waikato Regional Airport Limited – Board of Directors	104	104
Hamilton & Waikato Tourism Limited – Board of Directors	30	33
Titanium Park Limited	36	36
Total Directors' Fees	170	173

The Board of Titanium Park Joint Venture no longer has an independent Chairman. Fees paid to the independent Chairman are \$0 for the year. The Group's one half share of those fees is \$0 (2015: \$5,406).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

29. AUDIT FEES

The Parent audit fees per the Audit Proposal Letter is \$62,126 (2015: \$60,416).

30. DONATIONS

During the year the Company made donations to charities totaling \$261 (2015: \$895).

31. PERFORMANCE TARGETS AND RESULTS

The Company prepares an annual Statement of Corporate Intent, which is approved by Shareholders and incorporates financial and performance measures for the ensuing year.

A comparison of the Company's actual results for the year, excluding Titanium Park land sales and excluding revaluation gains, are shown below against forecast.

The Group has achieved all finance performance targets for 2016 year (2015: Achieved)

Performance targets and results for Group	Actual 2016	Target Statement of Corporate Intent	Met	Comment	Actual 2015	Target Statement of Corporate Intent
Net surplus / (deficit) after tax (total comprehensive revenue and expense)	(\$262,000)	(\$421,000)	Y	Favourable by \$139,000 compared to target. The 2015/2016 year target excludes TPL land sales.	\$169,000	\$111,000
Net profit/(loss) after tax to average shareholder funds	0.54%	(1%)	Y	Percentage is better than planned.	0.26%	0.0%
Net profit/(loss) after tax to total assets	0.41%	(1%)	Y	Percentage is better than planned.	0.22%	0.0%
Percentage of non-landing charges revenue	81%	64%	Y	The percentage of non-landing charges revenue ratio is higher than the target due to increased passenger numbers, car park revenue and tourism funding.	81.03%	64.4%
Earnings before interest, taxation and depreciation	\$2,565,000	\$2,061,000	Y	The 2015/2016 year target excludes TPL land sales.	\$3,294,000	\$2,680,000
Net cash flow (operating and investing)	\$2,789,000	(\$632,000)	Y	Actual result is better than planned.	\$2,225,000	(\$375,000)
Total liabilities/shareholders' funds: debt/equity ratio	21:79	25:75	Y	The ratio is more favorable than planned.	24:76	26:74
Interest cover (parent only and calculated on the basis of interest from TPL and revaluations being excluded)	5.81	2.86	Y	The ratio is more favorable than planned.	3.38	2.91

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2016

Non - Financial Performance targets and results (Group)

2016 Target	Comment	Met	2015 Target	Comment
Facilitate Health & Safety meetings every 2 months with representatives from each company department.	Health and Safety meetings are undertaken on monthly basis.	Y		New target for 2016
Zero Work Safe notifiable accidents/injuries.	There was one notifiable incident.	N		New target for 2016
Commission independent review of the company's Health & Safety framework. Implement recommendations from the independent review to ensure best-practice compliance.	An independent review was undertaken and recommendations completed. Enhancing of existing tenant and contractors H&S control procedures were implemented. All existing H&S frameworks have been updated to include the provisions of the Health and Safety at Work Act 2015 requirements.	Y		New target for 2016
To achieve the Airport Certification Standards as required by the Civil Aviation Authority.	Two audits were undertaken by the Civil Aviation Authority of New Zealand (CAA) during the year and the airport continues to meet the Airport Certification Standards.	Y	To achieve the Airport Certification Standards as required by the Civil Aviation Authority.	No audits were undertaken by the Civil Aviation Authority of New Zealand (CAA) during the year and the airport continues to meet the Airport Certification Standards.
Ensure airport is operationally available for all scheduled passenger services (except for uncontrollable events)	There have no incidences of scheduled flights being operationally impacted by controllable events.	Y		New target for 2016
Facilitate noise management meetings each 4 months in accordance with the Noise Management Plan	Regular meetings have been facilitated every 4 months.	Y		New target for 2016
Collect, document and act (where viable) on customer feedback forms to continuously monitor and improve the customer experience. Maintain a database to ensure recurring negative feedback is promptly acted upon.	During the period 1 July 2015 to 30 June 2016, customer feedback cards were positioned in the terminal with 19 cards collected and documented. All items are considered by the management team and addressed where appropriate. Personal complaints are responded to.	Y	Collect, document and act (where viable) on customer feedback forms to continuously monitor and improve the customer experience. Maintain a database to ensure recurring negative feedback is promptly acted upon.	Customer feedback cards are positioned in the terminal. From 1 July 2014 to 30 June 2015 there were 32 customer feedback cards collected and documented. All items are considered by the management team and addressed where appropriate. Personal complaints are responded to.

STATUTORY INFORMATION

For the Year Ended 30 June 2016

Dividend

The Directors recommend that no dividend be declared.

Directors' Interests

The following directors have made a general disclosure of interest with respect to any transaction or proposed transaction that may be entered into with other entities on the basis of him being a director, partner, trustee or officer of those entities.

Director	Entity	Interest	Director	Entity	Interest	
J Spencer	Advisory Board for Iron Duke Limited	Chair		Fisher & Paykel Finance Holdings Limited	Director	
	Derby Street Limited	Director		Fisher & Paykel Finance Limited	Chair	
	KiwiRail Holdings Limited	Chair		Gardon Limited	Director	
	Mitre 10 (New Zealand) Limited	Director		Guarda Trust	Trustee	
	Mitre 10 Holdings Limited	Director		Homeopathic Trust	Trustee	
	Mitre 10 Imports Limited	Director		IT Partners Group Limited	Director	
	Mitre 10 Retail Limited	Director		IT Partners Limited	Director	
	Raukawa Iwi Development Limited	Chair		Jarvis Trading Limited	Director	
	Taupo Mega Limited	Director		Larsen Family Trust	Trustee	
	Te Awamutu Mega Limited	Director		Lightwire Limited	Director	
	Tertiary Education Commission	Chair		MCC Properties Limited	Director	
	Wellington Mega Limited	Director		Milk Management Company Limited	Director	
	C da Silva	Andrew Johnson Business Trust		Trustee	Ocean Sands Trust	Trustee
		Ata Rangī Pastoral Limited		Director	Retail Financial Services Limited	Director
Certus Group Limited		Director	Te Maunga Trust	Trustee		
Columbus Financial Services Limited		Director	Titanium Park Limited	Director		
Consumer Finance Limited		Director	Trelise Cooper Group Limited	Director		
Consumer Insurance Services Limited		Director	Trelise Cooper Properties Limited	Director		
Coromandel Trust		Trustee	Waikato Rental Trust	Trustee		
Da Silva Advisory Limited		Director				
Fisher & Paykel Financial Services Limited		Director				

Continued on following page

STATUTORY INFORMATION

For the Year Ended 30 June 2016

Director	Entity	Interest	Director	Entity	Interest
A Cotton	Access IR Group Limited	Director		Institute of Directors Professional Committee	Member
	Australasian Investor Relations Association Pty Limited	Director		Meteorological Services of New Zealand Limited	Director
	Donny Trust	Trustee		National Council Representative Institute of Directors New Zealand Incorporated	Member
	External Reporting Board	Member		National Infrastructure Advisory Board	Member
	Merlin Consulting Limited	Director		Titanium Park Limited	Chair
	Merlin Group Limited	Director		Waikato District Council Audit & Risk Committee	Chair
M Devlin	City Care Limited	Director		Waikato Institute of Directors	Chair
	Harrison Grierson Consultants Limited	Chair		Waikato Plan Joint Committee	Chair
	Harrison Grierson Holdings Limited	Director		Waikato University Risk Management Committee	Member
	IT Partners Group	Director		WEL Networks Limited	Chair
	Institute of Directors New Zealand Incorporated	Chartered Fellow			

Use of Company Information

No notices were received from Directors requesting use of Company information received in their capacity as Directors that would not have been otherwise available to them.

Share Dealing

No Director holds shares in the Company nor acquired or disposed of any interest in shares in the Company during the year.

Directors' Remuneration

Director remuneration paid during the year was as follows:

Director	Role	2016 \$000
J Spencer	WRAL Chair	35
M Devlin	WRAL Director, TPL Chair	39
C da Silva	WRAL Director, TPL Director	39
A Cotton	WRAL Director, Audit & Risk Chair	23
G Dwyer	TPL Director	4
G Osbourne	HWTL Chair	10
S Douglas	HWTL Director	7
D Scarlet	HWTL Director	7
R Weir	(Resigned February 2016)	5
A Bounds	(Resigned July 2015)	1

No other remuneration or benefits have been paid or given to Company's directors.

STATUTORY INFORMATION

For the Year Ended 30 June 2016

Insurance

Directors' and Officers' liability insurance is with Vero Liability Insurance Ltd, with the policy for the parent Company extending to the Company.

Remuneration of Employees

Directors' and Officers' liability insurance is with Vero Liability Insurance Ltd, with the policy for the parent Company extending to the Company.

Amount of Remuneration	Employees
\$220,000 - \$229,999	1
\$180,000 - \$189,999	1
\$160,000 - \$169,999	1

Remuneration includes salary, performance bonuses and motor vehicle allowances received in their capacity as employees.

AUDIT REPORT

For the Year Ended 30 June 2016

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Waikato Regional Airport Limited Group's financial statements and performance information for the year ended 30 June 2016

The Auditor-General is the auditor of Waikato Regional Airport Limited Group (the Group). The Auditor-General has appointed me, Clarence Susan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Group, consisting of Waikato Regional Airport Limited and its subsidiaries and other controlled entities, on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 10 to 35, that comprise the balance sheet as at 30 June 2016, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 35 to 36.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards Reduced Disclosure Regime.
- the performance information of the Group presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives, for the year ended 30 June 2016.

Our audit was completed on 1 September 2016. 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 of Directors and our responsibilities, and explain our independence.

AUDIT REPORT

For the Year Ended 30 June 2016

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 the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. 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 in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information 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 the Group's internal control.

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 of Directors;
- the appropriateness of the reported performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the performance information for the Group.

AUDIT REPORT

For the Year Ended 30 June 2016

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements and the performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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



Clarence Susan
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand

FIVE YEAR REVIEW

For the Year Ended 30 June 2016

	2016 \$000's	2015 \$000's	2014 \$000's	2013 \$000's	2012 \$000's
Revenue	8,079	7,765	7,022	7,225	7,984
Increase/-Decrease	4%	11%	(3%)	(10%)	13%
Expenditure	7,589	7,476	7,274	7,475	7,514
Increase/-Decrease	2%	3%	(3%)	0%	7%
Operating Surplus before Abnormal Item* and Taxation	470	273	(245)	(245)	345
Increase/-Decrease	72%	211%	(0%)	(171%)	236%
Operating Surplus before Tax Item	490	289	(252)	(250)	470
PERFORMANCE INDICATORS					
Operating Surplus (after abnormal item and taxation) to Average Shareholder's Equity	0.54%	0.28%	(0.4%)	(0.4%)	0.4%
Percentage of Non-Landing Charges Revenue to Total Revenue	85%	81%	82%	81%	82%
Total Equity	64,405	59,669	59,500	59,732	59,162
Total Liabilities	17,899	18,874	20,937	19,967	19,074
Total Assets	82,304	78,543	80,437	79,699	78,235
Net Asset Backing per Share	\$15.96	\$14.79	\$14.75	\$14.80	\$14.67
Shareholders' Equity Ratio	78%	76%	74%	75%	76%
Passengers					
- Domestic	303,135	291,385	294,396	294,512	315,662
- International	-	-	-	11,384	38,406
- Total	303,135	291,385	294,396	305,896	354,068

* Abnormal item includes gains/losses on sale of property, plant and equipment.

CORPORATE DIRECTORY

For the Year Ended 30 June 2016

Board of Directors	John Spencer CNZM (Chair) Carlos da Silva Annabel Cotton Margaret Devlin
Chief Executive Officer	Mark Morgan
General Manager Operations	Simon Hollinger
Finance Manager	Nikki Orange
Registered Office	Hamilton Airport Terminal Building Hamilton Airport Airport Road, R D 2 Hamilton 3282
Telephone	07 848 9027
Facsimile	07 843 3627
E-mail	wral@hamiltonairport.co.nz
Web Site	www.hamiltonairport.co.nz
Bankers	Bank of New Zealand
Solicitors	Tompkins Wake, Hamilton
Auditors	Audit New Zealand, Hamilton on behalf of the Controller and Auditor-General



Item 14

Attachment 2



NZ Local Government Insurance Corporation Ltd (Trading as Civic Assurance)

STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six Months				Full Year		
	Note	2016 Group	2015 Group	2016 Parent	2015 Parent	2015 Group	2015 Parent
REVENUE							
Underwriting Surplus/ (Deficit)		1,774	12	1,774	12	2,613	2,613
Administration Fees		1,362	1,449	1,362	1,449	2,757	2,757
Income from Investments		201	51	201	51	68	68
Property Income		369	359	369	359	852	852
Interest Income		-	-	-	-	4	4
		<u>3,706</u>	<u>1,871</u>	<u>3,706</u>	<u>1,871</u>	<u>6,294</u>	<u>6,294</u>
EXPENDITURE							
Property Operating Expenses		219	227	219	227	416	416
Depreciation & Amortisation		21	36	21	36	54	54
Employee Remuneration		884	515	884	515	1,321	1,321
Other Expenses		1,067	813	1,067	814	1,678	1,678
		<u>2,191</u>	<u>1,591</u>	<u>2,191</u>	<u>1,592</u>	<u>3,469</u>	<u>3,469</u>
Plus Share of Profit of Associate		6	-	6	-	-	-
Less Taxation Expense/ (Credit)	5	426	78	426	78	44	44
NET SURPLUS/ (DEFICIT) AFTER TAXATION		<u>1,095</u>	<u>202</u>	<u>1,095</u>	<u>201</u>	<u>2,781</u>	<u>2,781</u>

STATEMENT OF MOVEMENTS IN EQUITY (Unaudited)
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six Months				Full Year	
	2016 Group	2015 Group	2016 Parent	2015 Parent	2015 Group	2015 Parent
Equity as at 1 January	16,032	13,251	16,099	13,318	13,251	13,318
Net Surplus After Taxation	1,095	202	1,095	201	2,781	2,781
Ordinary Shares Issued during the year	197	-	197	-	-	-
EQUITY AS AT 30 JUNE	<u>17,324</u>	<u>13,453</u>	<u>17,391</u>	<u>13,519</u>	<u>16,032</u>	<u>16,099</u>

STATEMENT OF FINANCIAL POSITION (Unaudited)
AS AT 30 JUNE 2014

	2016 Group	2015 Group	2016 Parent	2015 Parent	2015 Group	2015 Parent
EQUITY						
Capital	10,764	10,566	10,764	10,566	10,566	10,566
Retained Earnings	6,560	2,887	6,627	2,953	5,466	5,533
TOTAL EQUITY	<u>17,324</u>	<u>13,453</u>	<u>17,391</u>	<u>13,519</u>	<u>16,032</u>	<u>16,099</u>
Represented By:						
Current Assets						
Bank & Cash Equivalents	6,949	794	6,899	743	454	404
Receivables	313	328	313	328	49,349	49,349
Reinsurance Recoveries	-	488,188	-	488,188	519,559	519,559
TOTAL CURRENT ASSETS	<u>7,262</u>	<u>489,310</u>	<u>7,212</u>	<u>489,259</u>	<u>569,362</u>	<u>569,312</u>
Non-Current Assets						
Property, Plant & Equipment & Intangible Assets	285	248	285	248	265	265
Deferred Tax Asset	3,206	3,598	3,206	3,598	3,632	3,632
TOTAL NON CURRENT ASSETS	<u>3,491</u>	<u>3,846</u>	<u>3,491</u>	<u>3,846</u>	<u>3,897</u>	<u>3,897</u>
Investments						
NZ Government & Local Authority Stock, LG Online	3	3	-	-	3	-
Investment Property	7,587	7,181	7,587	7,181	7,425	7,425
TOTAL INVESTMENTS	<u>7,590</u>	<u>7,184</u>	<u>7,587</u>	<u>7,181</u>	<u>7,428</u>	<u>7,425</u>
TOTAL ASSETS	<u>18,343</u>	<u>500,340</u>	<u>18,290</u>	<u>500,286</u>	<u>580,687</u>	<u>580,634</u>
Current Liabilities						
Sundry Creditors & Accrued Charges	307	533	307	533	553,927	553,927
TOTAL CURRENT LIABILITIES	<u>307</u>	<u>533</u>	<u>307</u>	<u>533</u>	<u>553,927</u>	<u>553,927</u>
INSURANCE PROVISIONS	592	486,234	592	486,234	10,608	10,608
Non Current Liabilities						
Subordinated Debt	120	120	-	-	120	-
TOTAL LIABILITIES	<u>1,019</u>	<u>486,887</u>	<u>899</u>	<u>486,767</u>	<u>564,655</u>	<u>564,535</u>
EXCESS OF ASSETS OVER LIABILITIES	<u>17,324</u>	<u>13,453</u>	<u>17,391</u>	<u>13,519</u>	<u>16,032</u>	<u>16,099</u>

The notes to the accounts on page 3 form part of and are to be read in conjunction with these Statements.

NZ Local Government Insurance Corporation Ltd (Trading as Civic Assurance)

**STATEMENT OF CASH FLOWS (Unaudited)
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Notes	Six Months				FULL YEAR	
		2016 Group	2015 Group	2016 Parent	2015 Parent	2015 Group	2015 Parent
Cash Flows from Operating Activities							
Cash from operating activities:		11,297	16,390	11,297	16,390	6,769	6,769
Cash applied to operating activities:		4,873	19,736	4,873	19,737	10,200	10,200
Net Cash Outflow from Operating Activities	4	6,424	(3,346)	6,424	(3,347)	(3,431)	(3,431)
Cash Flows from Investing Activities							
Cash provided from investing activities:		6	100	6	100	0	0
Cash applied to investing activities:		132	184	132	184	339	339
Net Cash Inflow from Investing Activities		(126)	(84)	(126)	(84)	(339)	(339)
Cash Flows from Financing Activities							
Cash was provided from financing activities:		197	-	197	-	-	-
Cash applied to financing activities:		-	-	-	-	-	-
Net Cash Inflow from Financing Activities		197	-	197	-	-	-
Net Decrease in Cash Held		6,495	(3,430)	6,495	(3,431)	(3,770)	(3,770)
Opening Cash Balance as at 1 January		454	4,224	404	4,174	4,224	4,174
Closing Cash Balance as at 30 June		<u>6,949</u>	<u>794</u>	<u>6,899</u>	<u>743</u>	<u>454</u>	<u>404</u>
Being:							
Bank & Cash Equivalents		<u>6,949</u>	<u>794</u>	<u>6,899</u>	<u>743</u>	<u>454</u>	<u>404</u>

The notes to the accounts on page 3 form part of and are to be read in conjunction with this statement.

NZ Local Government Insurance Corporation Ltd (Trading as Civic Assurance)

Notes to the Financial Statements

1 Accounting policies

The accounting policies applied in the preparation of the half year financial statements are consistent with those disclosed in the 2015 annual report except the investment property has not been revalued.

2 Basis of Preparation

These interim financial statements have been prepared in accordance with FRS-24 and should be read in conjunction with the Company's annual financial report for the year ended 31 December 2015. Disclosures in these interim financial statements are less extensive than those in the annual financial report.

3 Comparative figures.

The comparative figures are for the six months ended 30 June 2015 and the year ended 31 December 2015.

4 Reconciliation of net surplus after tax with cash flow from operating activity.

	Six Months				Full Year	
	2016 Group	2015 Group	2016 Parent	2015 Parent	2015 Group	2015 Parent
Reported Surplus After Taxation	1,095	202	1,095	201	2,781	2,781
Add/(less) non cash items						
Depreciation	21	36	21	36	54	54
Insurance Provisions	(10,016)	(22,336)	(10,016)	(22,336)	(497,962)	(497,962)
Deferred Tax Liability	426	78	426	78	44	44
Net change in fair value of property	-	-	-	-	(133)	(133)
Unrealised net change in value of investments	-	-	-	-	101	101
	(9,569)	(22,222)	(9,569)	(22,222)	(497,896)	(497,896)
Add/(less) movements in other working capital items						
Accounts Receivable	568,593	19,582	568,593	19,582	(60,810)	(60,810)
Accounts Payable	(553,621)	(614)	(553,621)	(614)	552,781	552,781
Reinsurance Received in Advance	-	(326)	-	(326)	326	326
Tax Refund Due	2	39	2	39	39	39
	14,974	18,681	14,974	18,681	491,684	491,684
Less Items Classified as investing activity	(76)	(7)	(76)	(7)	-	-
Less Items Classified as financing activity	-	-	-	-	-	-
Net Cash Outflow from Operating Activities	<u>6,424</u>	<u>(3,346)</u>	<u>6,424</u>	<u>(3,347)</u>	<u>(3,431)</u>	<u>(3,431)</u>

5 Income Tax

The income tax liability for June 2016 is nil as the Company has unused tax credits with which it will use to offset any income tax expense.

6 Contingent liabilities.

The contingent liabilities are:

- i) 100,000 uncalled shares in the wholly owned subsidiary, Local Government Superannuation Trustee Limited
- ii) 1,000 uncalled shares in the wholly owned subsidiary, Local Government Mutual Funds Trustee Limited
- iii) 1,000 uncalled shares in the wholly owned subsidiary, Civic Assurance Limited
- iv) 100,000 uncalled shares in the wholly owned subsidiary, NZ Local Government Finance Corporation Limited (LGFC).
- v) 100 uncalled shares in the wholly owned subsidiary, SuperEasy Limited.
- vi) 100 uncalled shares in the wholly owned subsidiary, Local Government Finance Corporation Limited.

7 Events occurring after reporting date

There have been no significant events since the reporting date that affect the results disclosed in the half year financial statements.

8 Financial Strength Rating

The Company's current AM Best Financial Strength Rating, dated 7 April 2016, is "B+, Stable outlook" and Issuer Credit Rating is bbb- (stable outlook). AM Best is a rating agency approved by the Reserve Bank of New Zealand. An explanation about AM Best's Credit Ratings is available on AM Best's website at www.ambest.com.

9 Solvency

The Company's current Solvency Margin as set out in our most recent solvency return as at 30 June 2016 filed with the Reserve Bank of New Zealand was \$8.849m with a ration of 2.69.

**NEW ZEALAND LOCAL GOVERNMENT
INSURANCE CORPORATION LIMITED
trading as Civic Assurance**

STATEMENT OF INTENT

FOR THE YEAR ENDED 31 DECEMBER 2016

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Civic Assurance

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1.0 Mission Statement

Mission Statement of Civic Assurance
To provide insurance, risk-financing and superannuation solutions to the local government sector

2.0 Corporate Goals

The specific goals of the Company are:

- 2.1 To operate as a sound and successful business.
- 2.2 To be active in the provision of insurance to the local government sector.
- 2.3 To be the primary supplier of risk-financing and superannuation services to the local government sector.
- 2.4 To investigate and facilitate, as appropriate, new products and markets in insurance, risk-financing and superannuation and such other markets that it believes could prove beneficial to its shareholders and the local government sector.
- 2.5 To regain and retain a claims paying ability rating of A- or better.

Civic Assurance

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3.0 Nature and Scope of Activities

- 3.1 For traditional insurance, the Company has offered and intends to offer in the future:
- Competitive prices.
 - An honest and fair process for managing claims.
 - Products from which the profits are returned to the sector through the Company's local government shareholders.
- 3.2 The Company provides administration, reinsurance, accounting, and a range of other services to Civic Property Pool, Riskpool and LAPP.
- 3.3 The Company provides superannuation services for local government and local government staff via SuperEasy and SuperEasy KiwiSaver.
- 3.4 The Company investigates and facilitates as appropriate new insurance, risk-financing and superannuation services and/or markets that it believes will prove beneficial to its shareholders and the local government sector.
- 3.5 In a modest and selective way the Company provides sponsorship for a range of local government activities at regional and national level.

4.0 Profits, Dividend Policy & Projections

The Company historically has three main sources of revenue: insurance premiums, fees from providing administration and accounting services, and investment income. The profit outlook is as follows:

Profits from providing insurance: These will take a while to build following the Company's withdrawal from the property insurance market after it was unable to secure suitable reinsurance terms for 1 July 2011. The Company intends to re-enter the local government insurance market from 30 June 2016.

Profits from providing administration and accounting services: The fee income generated contributes significantly to Civic's overheads.

Profits from investment income: Civic's investment income is mainly from its rental income from Civic Assurance House, a nine-storey Wellington CBD office building.

Until such time that Civic has re-established itself as a provider of insurances to the local government sector, it is not meaningful to provide financial projections. However, following profitable years in 2014 and 2015, Civic expects 2016 to be profitable.

5.0 Performance Targets and Measures

- 5.1 To replace its provisional insurance licence from RBNZ with a full insurance licence.
- 5.2 To obtain and maintain a claims paying ability rating from rating agency AM Best of 'A- (Excellent)' or better.
- 5.3 To provide superannuation services to at least 90% of local authorities.
- 5.4 To continue to be an efficient and effective administration manager for Civic Property Pool, Riskpool and LAPP.

Civic Assurance

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6.0 Reporting to Shareholders

- An annual report for 2015 by 31 May 2016 containing:
 - A review of the Company's operations by Directors
 - Statement of Financial Performance
 - Statement of Movements in Equity
 - Statement of Financial Position
 - Statement of Cash Flows
 - Notes to the Financial Statements
 - Auditor's Report on the above Financial Statements
- A report on the first half of 2016 by 30 September 2016 containing:
 - A review of the Company's operations during the half year
 - Unaudited half-yearly accounts

7.0 Acquisitions/Disposals

Any acquisition or disposal which is equivalent to 50% or more of the Company's assets will fall under the definition of a "major transaction" in the Company's constitution and approval of the shareholders will be sought in accordance with the constitution. Any acquisition which is equivalent to 25% or more but less than half of the Company's assets will fall under the definition of a "minor transaction" in the Company's constitution, and consultation with shareholders will take place.

8.0 Transactions with Related Parties

The Company has 72 local authority shareholder members plus TrustPower (holding 1.21% at 22 February 2016). Local Government Superannuation Trustee Limited and Local Government Mutual Funds Trustee Limited are wholly owned subsidiaries of the Company. Because it is sharing management resources, the Local Authority Protection Programme (LAPP) and Civic Property Pool are also considered to be related parties. Transactions with shareholder members include insurances, other risk-financing services, and superannuation related financial services.

Charges from shareholder members and charges to shareholder members will be made for services provided as part of the normal trading activities of the Company and its subsidiaries. Transactions with shareholder members are on a wholly commercial basis.

Civic Assurance

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