

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

**Date:** Tuesday 7 November 2017  
**Time:** 9.30am  
**Meeting Room:** Council Chamber  
**Venue:** Municipal Building, Garden Place, Hamilton

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## **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.

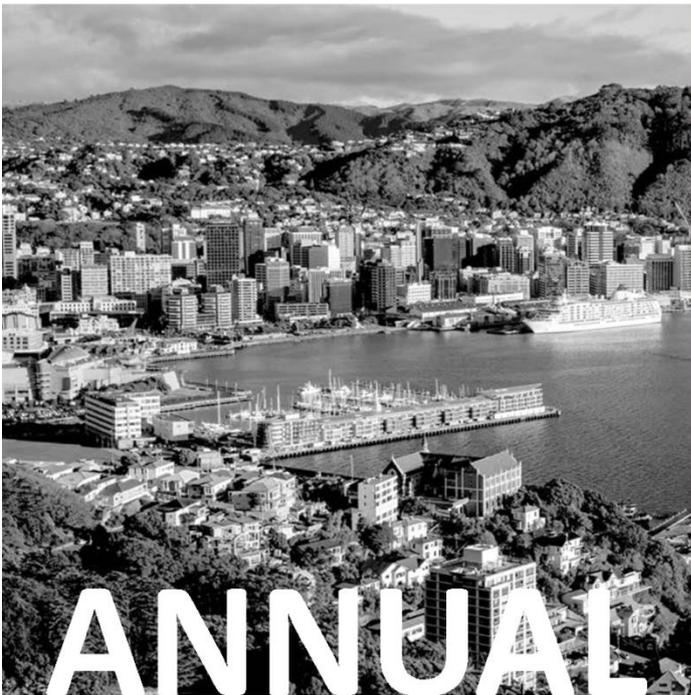
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# ANNUAL REPORT

30 JUNE  
**2017**



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Attachment 1

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Cover: Wellington Harbour. Te Whanganui-a-Tara, the great harbour of Tara. Wellington City Council.

Left: Wanaka Recreation Centre, opened 7 July 2016. Queenstown Lakes District Council.

# CHAIR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2017

"LGFA's stakeholder centric approach continues to add value to all stakeholders with bespoke lending, longer tenors and improved borrowing costs benefiting councils. A measured approach to primary issuance and greater secondary market liquidity and depth has led to increased offshore investor participation in LGFA bonds."

*Craig Stobo, Chair LGFA Board*



On the sixth anniversary of our first Annual Report, Directors are pleased to record another period of strong financial and non-financial performance to 30 June 2017 and to highlight the following developments over the past year.

#### **Strong financial and operational performance**

LGFA total interest income for the financial year of \$320.7 million was a 15.3% increase over the 2015-16 financial year result of \$278.2 million while net operating profit of \$11.05 million for the financial year was a 15.7% increase on the 2015-16 financial year result of \$9.55 million.

Net interest income and operating profit exceeded both the previous year's result and the Statement of Intent (SOI) forecast due to the refinancing behaviour of councils relating to their loans from LGFA maturing in December 2017. Rather than repay their loans early, a significant number of councils have placed the proceeds from refinancing on term deposit with banks. This has resulted in LGFA having a larger loan book than expected and hence net interest income is higher.

Expenses have been managed under budget over the past year. While the introduction of the LGFA bond facility (and related issuance of \$350 million of treasury stock) has added to some costs, this initiative has helped improve secondary market liquidity in LGFA bonds, making them more attractive to investors.

LGFA bonds continue to be an attractive investment for investors while LGFA has also delivered improvements in funding costs and extended the tenor of lending available to our council borrowers. This has been achieved through investment by the organisation in the previous year relating to the listing of LGFA bonds on the NZX, transition to Financial Markets Conduct Act, introduction of short-dated lending to councils and issuance of LGFA Bills.

The financial strength of LGFA was reaffirmed in late 2016 by credit rating agencies Standard & Poor's and Fitch who both maintained our credit rating at AA+, which very importantly is the same as the New Zealand Government.

Chair's report



Tairua Wharf project. Thames-Coromandel District Council.

**Borrowing activity**

LGFA issued \$1.285 billion of bonds over the year and outstandings now total \$7.855 billion (including \$350 million of treasury stock) across eight maturities from 2017 to 2033. A highlight for the year was the debut issuance of an April 2033 bond, reinforcing the proven issuance strategy of replicating the New Zealand Government bond curve. LGFA is now the largest issuer of NZD securities after the New Zealand Government and our bonds are amongst the largest and most liquid New Zealand dollar debt instruments available for investors.

LGFA continues to issue short-dated LGFA Bills ranging in maturities from three months to 12 months through a combination of monthly tenders and private placements. Outstandings under the programme have reached \$350 million. These instruments provide a source of funding for short-dated lending to our council borrowers and assist LGFA with liquidity management.

## Chair's report

### Lending to the sector

LGFA was established in December 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. The original 31 shareholders including the Crown remain as shareholders. Over the past year, we added three new members with Central Hawkes Bay District Council, Northland Regional Council and Waitomo District Council joining. Total membership is now 53 councils.

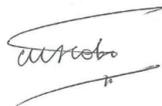
Bespoke long-dated lending continues to be popular for councils in that it provides flexibility as to maturity dates of borrowing and the date of drawdown. LGFA lent \$707 million on a bespoke basis over the financial year. This was approximately 49% of our total long-dated lending over that period.

Short-dated lending for terms less than 12 months has been well received by councils and as at 30 June 2017, LGFA had \$222 million of short-term loans outstanding to 18 councils.

The tenor of lending by LGFA to the sector continued to lengthen with the average term of borrowing by councils over the 12-month period of 8.0 years.

### Acknowledgments

The Agency's work cannot be implemented without the support of our staff, fellow directors, Shareholders Council and the New Zealand Debt Management Office (NZDMO), all whose efforts should be acknowledged. 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.



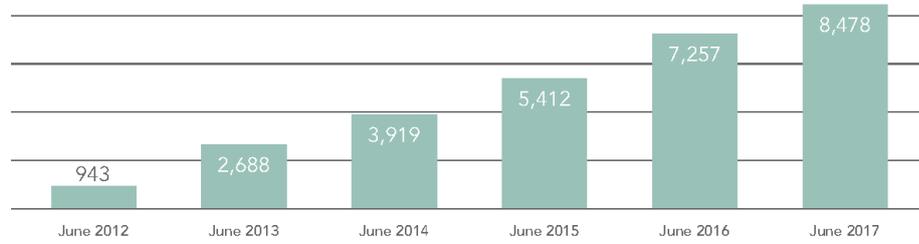
Craig Stobo  
Chair, LGFA Board

**Chair's report**

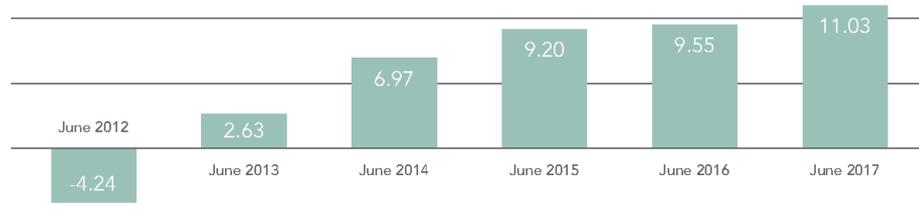
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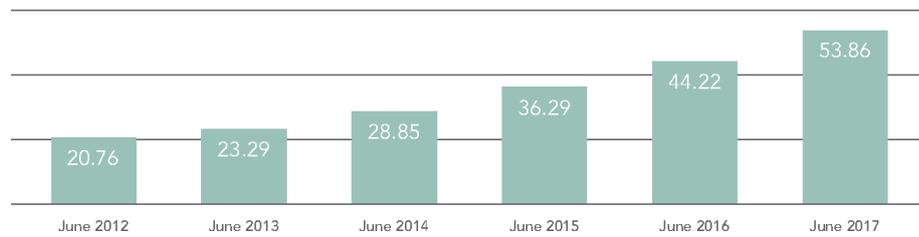
**Total assets (NZ\$m)**



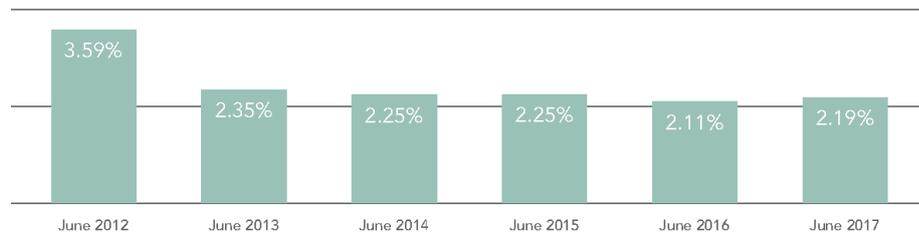
**Profit and loss (NZ\$m)**



**Shareholder equity (NZ\$m)**



**Shareholder funds and borrower notes / total assets (%)**



# CORPORATE GOVERNANCE

## NZX Corporate Governance Best Practice Code

The LGFA Board is committed to ensuring the Company demonstrates ongoing commitment to strong and sound corporate governance.

LGFA is a listed issuer on the NZX Main Board and this section sets out the Company's compliance with the eight core principles underpinning the NZX Corporate Governance Best Practice Code 2017.

The Company considers that its governance practices have not materially differed from the NZX Code for the year ended 30 June 2017. Areas where the Company has implemented alternative measures to the Code are as follows:

An Issuer should establish a nomination committee to recommend Director appointments to the Board.

The process for the nomination and remuneration of directors is documented in the Constitution of New Zealand Local Government Funding Agency Limited and outlined below.

An Issuer should establish a remuneration committee to recommend remuneration packages for Directors to shareholders.

The following governance documents referred to in this section are available on the LGFA website: <http://www.lgfa.co.nz/about-lgfa/governance>:

- LGFA Constitution
- Shareholders Agreement
- Code of Ethics
- Board Charter
- Audit and Risk Committee Charter
- Internal Audit Charter
- Diversity Policy

### PRINCIPLE 1 – Code of ethical behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.

#### Code of Ethics

LGFA has adopted a formal Code of Ethics, incorporating both our Conflicts of Interest Policy and Code of Conduct Policy, which sets out the standards that both directors and employees of LGFA are expected to follow to reflect the values of LGFA.

The Company recognises impartiality and transparency in governance and administration are essential to maintaining the integrity of LGFA. Accordingly, the Conflicts of Interest Policy formally provides guidance to employees and directors of 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

## Corporate governance

avoid all actions, relationships and other circumstances that may impact on their ability to exercise their professional duties.

The Code of Conduct Policy requires employees and directors to carry out their roles while maintaining high standards of integrity and conduct by clearly setting out our standards for expected behaviour. In addition, the policy sets out the Company's commitment to behave in a fair and reasonable manner to employees, while providing a fair and safe working environment.

The Company has adopted a Protected Disclosures and Whistle Blowing Policy which provides procedure, support and protection to persons who disclose information which they reasonably believe to be about serious wrong doing in or by LGFA.

### Financial Products Trading Policy

LGFA has formally adopted a Financial Products Trading Policy, which applies to all directors, employees and contractors, and details LGFA's policy on, and rules for dealing in, listed debt securities issued by LGFA and any other quoted financial products of LGFA.

### PRINCIPLE 2 – Board composition & performance

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

### 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:

- 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.

## Corporate governance

### 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.

### 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 the listed companies Precinct Properties New Zealand Limited, AIG Insurance (NZ board) and Fliway Group Limited. He has directorship and 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, Papa Rererangi i Puketapu (New Plymouth Airport) 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, 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 Z Energy Limited, Livestock Improvement Corporation Limited, The Museum of New Zealand Te Papa Tongarewa and Television New Zealand Limited.

#### **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 Chair of the Audit and Risk Committee for Central Otago District Council. Her

**Corporate governance**

Attachment 1

previous directorship roles include New Zealand Post Limited, Kiwibank Limited, the Earthquake Commission, Catalyst Risk Management Limited and Speirs Group Limited.

**Mike Timmer. Non-independent Director**

CA, BBS, BAgSci, INFINZ (Cert), M.Inst.D

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, 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	Tenure
Craig Stobo (Chair)	1 December 2011	19 November 2013	5 years, 7 months
John Avery	1 December 2011	24 November 2015	5 years, 7 months
Philip Cory-Wright	1 December 2011	24 November 2016	5 years, 7 months
Abby Foote	1 December 2011	25 November 2014	5 years, 7 months
Linda Robertson	24 November 2015	24 November 2015	2 years, 7 months
Mike Timmer	24 November 2015	24 November 2016	2 years, 7 months

**Meetings of the Board**

The table below shows attendances at Board, committee and strategy meetings by directors during the year ended 30 June 2017. In addition to the scheduled meetings, additional meetings are convened as necessary to consider specific issues.

Director	Board	Audit & Risk Committee
Craig Stobo (Chair)	6/6	--
John Avery	5/6	--
Philip Cory-Wright	6/6	3/4
Abby Foote	6/6	4/4
Linda Robertson	6/6	4/4
Mike Timmer	6/6	4/4

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## Corporate governance

### Board performance review

The Board has established an annual formal self-assessment procedures to assess director, board and committee performance. In addition, Board performance is reviewed by external consultants on a periodic basis.

### Director training

As part of LGFA's commitment to ongoing director education, LGFA regularly invites directors to attend relevant industry conferences and training events, as well as organising for industry experts to attend and present to directors at Board meetings.

### Diversity

The LGFA is committed to promoting a culture that supports both workplace diversity and inclusion within the organisation.

The Company has formally adopted a Diversity Policy which applies to both LGFA staff and directors. Diversity and inclusiveness at LGFA involves recognising the value of individual differences and managing them in the workplace. Diversity in this context covers gender, age, ethnicity, cultural background, sexual orientation, religious belief, disability, education and family responsibilities.

Appointments to the LGFA Board are made in accordance with the Constitution of the Company and the Shareholders Agreement.

As at 30 June 2017, the gender diversity of directors is as follows:

	Female	Male
As at June 2017	2	4
As at June 2016	2	4

As at 30 June 2017, the gender diversity of staff is as follows:

	Female	Male
As at June 2017	2	4
As at June 2016	2	4

### 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, 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.

## Corporate governance

### PRINCIPLE 3 – Board committees

The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

#### Audit and Risk Committee

The LGFA Audit and Risk Committee is a committee of the Board.

The Audit and Risk Committee is governed by an Audit and Risk Committee Charter, which states that the purpose of the Audit and Risk Committee 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 LGFA. It assists the Board to fulfil its duties by considering, reviewing, and monitoring:

- Risk management framework and processes;
- Internal control environment and mechanisms;
- Processes relating to the preparation and audit of financial statements of 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.

#### Audit and Risk Committee composition

Audit and Risk Committee members are appointed by the Board. Membership comprises at least three directors, the majority of whom must be independent. The members of the Audit and Risk Committee as at the date of this Annual Report are:

- Abby Foote (Chair)
- Philip Cory-Wright
- Linda Robertson
- Mike Timmer

### PRINCIPLE 4 – Reporting & disclosure

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

The Board is committed to ensuring the highest standards are maintained in financial reporting and disclosure of all relevant information.

The Audit and Risk Committee has responsibility to provide assurance to the Board that due process has been followed in the preparation and audit of the financial statements of LGFA and to ensure there are appropriate processes and activities to ensure compliance with relevant regulatory and statutory requirements.

The Company has adopted a formal Continuous Disclosure Policy, the requirements of which ensure that LGFA meets the continuous disclosure requirements of the NZX Listing Rules.

## Corporate governance

### PRINCIPLE 5 – Remuneration

The remuneration of directors and the CEO should be transparent, fair and reasonable.

The remuneration of the Board takes into account the size and complexity of the Company and the responsibilities, skills, performance and experience of the directors. A specialist independent adviser may be used to ensure the remuneration is appropriate.

Board remuneration is determined by an Ordinary Resolution of shareholders. The current board remuneration was approved by shareholder resolution at the Annual General Meeting on 24 November 2015.

The remuneration of the CEO is determined by the Board and is reviewed on an annual basis taking into consideration the scope and complexity of the position with reference to the remuneration of CEOs of similar organisations. A specialist independent adviser may be used to ensure the remuneration is appropriate.

The CEO remuneration package comprises a fixed cash component of \$480,000 per annum as at 30 June 2017 (\$450,000, 2016) and an at-risk short-term incentive of up to 15% of the fixed cash component. The short-term incentive payment is made annually at the Board's discretion subject to the CEO and the Company meeting a range of specific performance objectives for the respective financial year.

### PRINCIPLE 6 – Risk management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

LGFA recognises that an effective risk management framework is a critical part of its business structure. LGFA is exposed to both business and treasury related risks as a result of its normal business activities that relate to raising and on-lending funds to local councils.

LGFA adopts the three lines of defence model to ensure that essential risk management functions are completed using a systematic approach that reflects industry best practice:

- The first line of defence relates to the operational risk and control within the business. Managers within the business are responsible for identifying controls, maintaining effective controls, assessing the controls and mitigating risks. The first line of defence establishes risk ownership within the business.
- The second line of defence relates to establishing risk control within the organisation. The second line of defence involves reviewing risk reports, checking compliance against the risk management framework and ensuring that risks are actively and appropriately managed.
- The third line of defence establishes risk assurance using both internal and external audit functions to highlight control weaknesses and inefficiencies to management. The audit functions provide independent assurance on the risk governance framework.

The Audit and Risk Committee assists the Board by considering, reviewing and monitoring LGFA's risk management framework and processes, and the internal control environment and mechanisms.

LGFA continually reviews its core business risks. This review process includes the identification and assessment of core business risks which are ranked using predetermined criteria for both the likelihood and potential impact of each risk. LGFA maintains a company-wide risk register which records all identified risks, potential impacts and the controls and mitigation strategies used to manage the risks.

## Corporate governance

LGFA has treasury exposures arising from its normal business activities that principally relate to the raising and on-lending of funds. LGFA manages treasury exposures under a Board approved Treasury Policy. The objectives for the Treasury Policy are to:

- Effectively manage balance sheet and interest rate risk within the interest rate risk control limits to protect LGFA's capital position and Net Interest Margin over time.
- Fund participating local authorities in the most cost-effective manner and in accordance with the operating principles, values and objectives of LGFA.
- Protect LGFA's assets and prevent unauthorised transactions.
- Promote a professional image of financial and management control to all external parties.
- Minimise operational risk by maintaining adequate internal controls, systems and staffing competencies.
- Provide timely reporting to the LGFA Board with meaningful and accurate reporting of interest rate exposures, liquidity, asset and liability maturity, funding, counterparty credit, performance and Policy compliance.

A more detailed description of LGFA's risk management processes for treasury exposures is available on the LGFA website: [www.lgfa.co.nz/for-investors/risk-management](http://www.lgfa.co.nz/for-investors/risk-management)

### Internal audit

LGFA has established an internal audit function to provide assurance that LGFA's risk management, governance and internal controls are operating effectively.

The Audit and Risk Committee has responsibility for oversight of the internal audit function, including:

- Reviewing the Internal Audit Charter, the operations of the internal audit and organisational structure of the internal audit function;
- Reviewing and approving the annual audit plan;
- Reviewing the effectiveness of the internal audit function; and
- Meeting separately with the internal auditor to discuss any matters that the Audit and Risk Committee or Internal Audit believes should be discussed privately.

### Health and safety

LGFA is committed to a safe and healthy work environment and has formally adopted a LGFA Health and Safety Policy that clearly sets out the duty of directors and staff under the Health and Safety at Work Act 2015. A staff health and safety committee has been established with responsibility to continuously review health and safety issues and ongoing compliance with the Act, with reporting to the Board on health and safety issues at each Board meeting.

### PRINCIPLE 7 – Auditors

The Board should ensure the quality and independence of the external audit process.

### External audit

The external audit of LGFA is conducted in accordance with Section 14 of the Public Audit Act 2001, including the appointment of the external auditors of LGFA by the Auditor-General.

The Audit and Risk Committee has responsibility for all processes relating to the audit of financial statements, including the setting of audit fees and ensuring the independence and objectivity of the auditors.

## Corporate governance

The external audit of LGFA is conducted in accordance with a formal external audit plan which is reviewed and approved by the Audit and Risk Committee on an annual basis.

The external auditor attends the Company's Annual General Meeting.

### PRINCIPLE 8 – Shareholder rights & relations

The Board should respect the rights of shareholders and foster relationships with shareholders that encourage them to engage with the issuer.

#### LGFA shareholders

LGFA has 31 shareholders, comprising the New Zealand Government (20%) and 30 councils (80%).

New Zealand Government	Otorohanga District Council
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	

#### Foundation documents

The LGFA Constitution and the Shareholders' Agreement are foundation documents of the Company.

The LGFA Constitution defines the rights and the exercise of powers of shareholders, the acquisition and redemption of Company shares, proceedings of shareholder meetings, voting at meetings and the right to demand polls, shareholder proposals and review of management.

The Shareholders' Agreement is an agreement between the Company and its shareholders which clearly defines the Company's business, its objectives, the role of the Board, the establishment of the Shareholders' Council and the approval rights of the shareholders.

#### 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;

## Corporate governance

- 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, Chair
- Carol Bellette, Christchurch City Council
- John Bishop, Auckland Council, Deputy Chair
- David Bryant, Hamilton City Council
- Mohan De Mel, Tauranga City Council
- Mike Drummond, Tasman 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



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Te Kuiti Wastewater Treatment Plant.  
Waitomo District Council.

## Statement of service performance

The statement of service performance details LGFA's performance against the objectives and targets set out in the LGFA Statement of Intent 2016-17.

### 1 2016-17 PERFORMANCE OBJECTIVES

The Statement of Intent 2016-17 (SOI) sets out two primary performance objectives and nine complementary performance objectives for LGFA for the year ended 30 June 2017:

Primary objectives	Additional objectives
<p>1. LGFA will operate with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:</p> <ul style="list-style-type: none"> <li>i. Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing;</li> <li>ii. Making longer-term borrowings available to Participating Local Authorities;</li> <li>iii. Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice; and</li> <li>iv. Offering more flexible lending terms to Participating Local Authorities.</li> </ul> <p>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:</p> <ul style="list-style-type: none"> <li>i. 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;</li> <li>ii. LGFA will analyse finances at the Council group level where appropriate;</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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;</li> <li>2. Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities;</li> <li>3. Issue a new long-dated LGFA bond;</li> <li>4. 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;</li> <li>5. Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015;</li> <li>6. Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency;</li> <li>7. Achieve the Financial Forecasts (excluding the impact of ALL) set out in section 4;</li> <li>8. Meet or exceed the Performance Targets outlined in section 5; and</li> <li>9. Comply with its Treasury Policy, as approved by the Board.</li> </ul>

## Statement of service performance

### 1 PERFORMANCE AGAINST PRIMARY OBJECTIVES

This section sets out LGFA's performance for the year ended 30 June 2017 against the two primary objectives set out in the 2016-17 Statement of Intent.

#### 1.1 LGFA will operate with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:

- (i) **Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing;**

LGFA aims to minimise its issuance margin over swap rates to provide cost-effective funding to councils. The LGFA margin to swap will depend upon a number of factors including the relative demand and supply of high grade bonds, general credit market conditions, performance of New Zealand Government bonds 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, then LGFA only has influence over investor perception amongst the above factors that determine LGFA spreads to 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 (spreads widening).

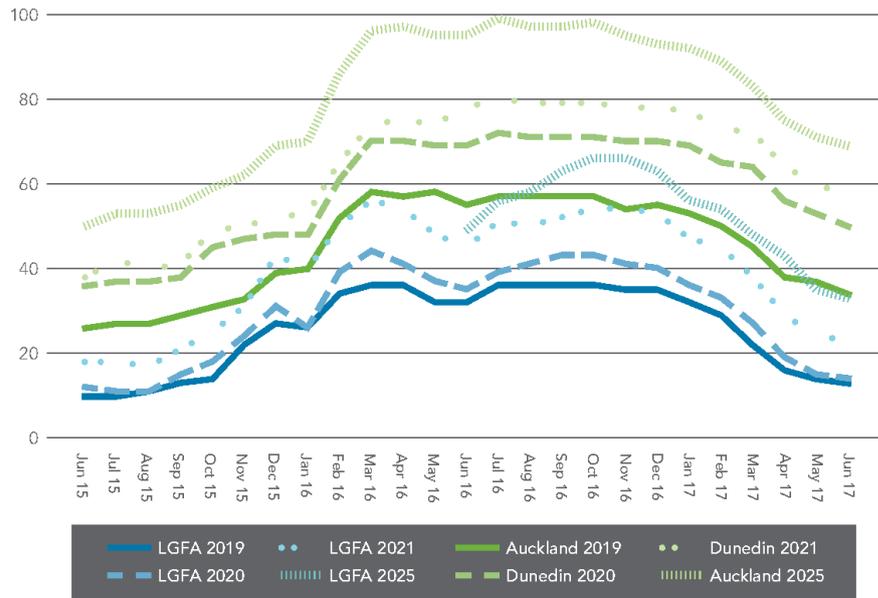
LGFA spreads to swap have consistently narrowed since it first began issuing bonds in February 2012 and over the past year, spreads to swap as measured by secondary market levels have narrowed between 12 bps and 27 bps.

LGFA bond margin to swap	As at 30 June 2017 (bps)	As at 30 June 2016 (bps)	Pricing movement (bps)
15 Dec 17	9	21	-12
15 Mar 19	12	33	-21
15 Apr 20	15	38	-23
15 May 21	20	43	-23
15 Apr 23	27	50	-23
15 Apr 25	38	57	-19
15 Apr 27	43	70	-27
14 Apr 33	72	n/a	n/a

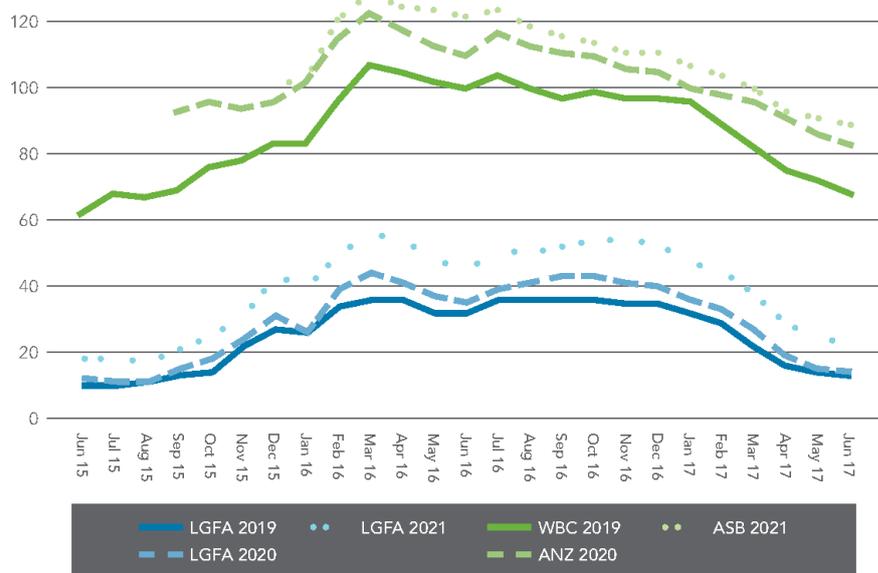
LGFA continues to provide savings in borrowing cost for councils relative to other sources of borrowing. We compare our secondary market spreads on LGFA bonds to those of Auckland Council and Dunedin City Treasury (as a proxy for councils borrowing in their own name) and a mix of banks (as a proxy for general market conditions).

# Statement of service performance

Secondary market credit spread to swap for LGFA and council bonds (basis points)



Secondary market credit spread to swap for LGFA and bank bonds (basis points)



**Statement of service performance**

Attachment 1

From the table below, we estimate that based upon secondary market spread data as at 30 June 2017, LGFA was saving AA-rated councils between 12 bps and 22 bps depending upon the term of maturity.

30 June 2017	Auckland 2019	Dunedin 2020	Dunedin 2021	Auckland 2022	Auckland 2025
AA-rated councils margin to swap (bps)	33	47	50	54	66
Less LGFA margin to swap (bps)	-12	-15	-20	-24	-38
LGFA gross funding advantage (bps)	21	32	30	30	28
Less LGFA base margin (bps)	-9	-10	-10	-10.5	-11
Total saving (bps)*	12	22	20	19.5	17

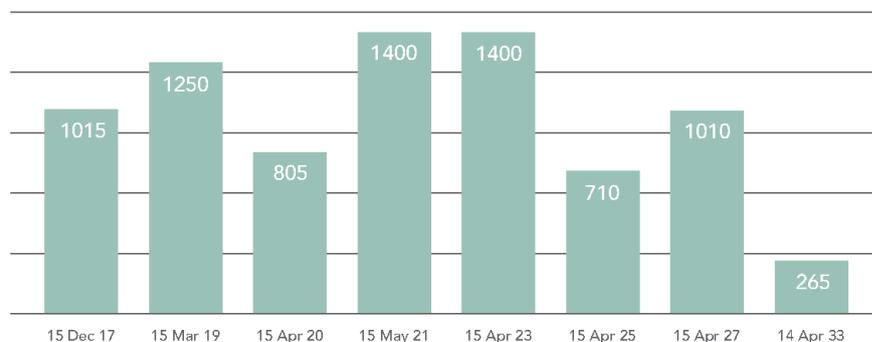
\* Note that from this year we have excluded from the estimated savings any positive impact from the 'LGFA effect' that was equivalent to 10 bps of savings evident when LGFA first commenced lending in February 2012.

(ii) **Making longer-term borrowings available to Participating Local Authorities;**

In April 2017, LGFA commenced issuance of a 16-year bond (April 2033). Because of this issuance, LGFA now offers councils the ability to extend their longest dated LGFA borrowing out to April 2033 from the previous maximum maturity date of April 2027.

The following chart shows the total LGFA bond outstandings, including treasury stock, by maturity as at 30 June 2017.

LGFA bonds on issue (\$ million)



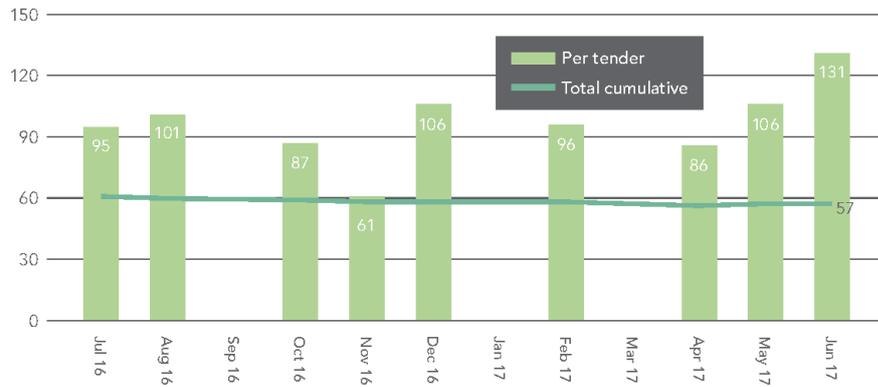
The average term of borrowing by councils over the 12-month period to 30 June 2017 was 96 months compared to the average borrowing term over the previous 12-month period to June 2016 of 94 months.

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 for the past 12 months.

Item 7

## Statement of service performance

Average total months to maturity – on-lending to councils



(iii) **Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practices;**

LGFA listed its bonds on the NZX Debt Market in November 2015 and this has led to greater awareness and participation in LGFA bonds by domestic retail and offshore investors. Average turnover on the NZX Debt Market since listing has been \$16 million per month or 10% of the total turnover of the NZX Debt Market.

LGFA commenced the issuance of LGFA Bills for terms of three months and six months in late 2015. Because of this issuance, LGFA can now offer short-term loans of less than one year to councils. As at 30 June 2017, LGFA has short-term loans outstanding to 18 councils of \$222 million.

LGFA held nine bond tenders during the 12-month period to 30 June 2017, with an average tender volume of \$143 million and a range of \$90 million to \$190 million in size.

**LGFA bond issuance by tender (\$ million)**

Excludes issuance of treasury stock (\$350m)



**Statement of service performance**

Attachment 1

Item 7

All tenders were successful and fully subscribed. The average bid-coverage ratio across the nine bond tenders was 2.96 times and this compared to the average of 3.30 times for all 47 bond tenders held since LGFA first commenced issuance in February 2012.

LGFA bond tender results by maturity	2016-17 annual issuance amount	LGFA tender average bid coverage ratio	LGFA tender average successful bid range
15 Dec 17	Nil	n/a	n/a
15 Mar 19	\$20 m	3.38 x	0 bps
15 Apr 20	\$190 m	4.42 x	2 bps
15 May 21	\$30 m	2.80 x	4 bps
15 Apr 23	\$65 m	3.20 x	3 bps
15 Apr 25	\$560 m	2.50 x	6 bps
15 Apr 27	\$205 m	3.30 x	2 bps
14 Apr 33	\$215 m	2.40 x	7 bps
Across all LGFA maturities	\$1,285 m	2.96 x	3.7 bps

The average successful bid range (difference between the highest and lowest successful bid yield) at each tender was 3.7 basis points, with the largest ranges being on the new 2025 and 2033 LGFA maturities.

**(iv) Offering more flexible lending terms to Participating Local Authorities.**

Councils can access flexible lending conditions by using the short-term lending and bespoke lending products. Councils can borrow for terms ranging from 30 days to 16 years at any time they wish to drawdown.

Bespoke lending for council members has continued to grow in popularity over the past year. Since we introduced the ability for councils to have greater flexibility regarding borrowing maturity and date of loan drawdown in February 2015, we have lent \$1.193 billion in bespoke transactions to 36 councils. During the 12-month period to 30 June 2017 we lent \$707 million on a bespoke basis to 29 councils. This was 49% of total term lending to our council members over that period.

Short-term borrowing by councils as at 30 June 2017 was \$222 million comprising borrowing from 18 councils for terms between one and 12 months.

**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 headroom 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 lending covenants.

## Statement of service performance

(ii) **LGFA will analyse finances at the Council group level where appropriate;**

LGFA reviews the financial position of each council on a parent basis except for Auckland Council where LGFA analyses the financial statements at both parent and group level. This is because Auckland Council is the only council to deliver a wide range of its essential services on a group basis.

(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 DIA, OAG, LGNZ, Ministry of Business Innovation and Employment (MBIE), Treasury and the Local Government Commission during the 2016-17 year to discuss sector issues. LGFA presented at each of the quarterly media briefings organised by LGNZ.

## 2 PERFORMANCE AGAINST ADDITIONAL OBJECTIVES

In addition to the two primary performance objectives, LGFA has nine additional performance objectives which complement the primary objectives. This section sets out LGFA's performance for the year ended 30 June 2017 against the additional objectives set out in the 2016-17 Statement of Intent.

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 SOI.**

LGFA policy is to pay a dividend that provides an annual rate of return to shareholders equal to LGFA cost of funds plus 2%.

On 31 August 2017, the directors of LGFA declared a dividend for the year to 30 June 2017 of \$1,390,000 (\$0.0556 per share). This is calculated on LGFA's cost of funds for the 2016-17 year of 3.56% plus a 2% margin. This is similar to the previous year dividend of \$0.0557 per share.

The impact from the current low interest rate is that LGFA has a lower cost of funds. While council borrowers benefit from lower borrowing costs, the dividend payment calculated on the above guidance is lower than it would otherwise be in an environment of higher interest rates.

2.2 **Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities.**

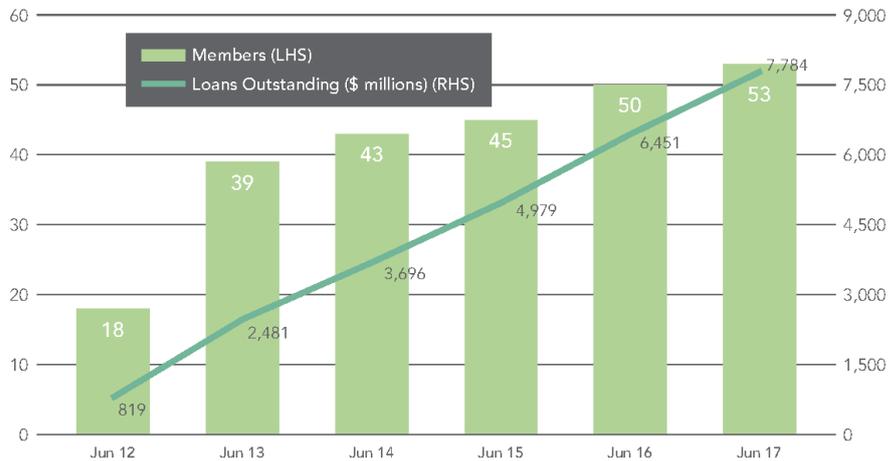
Three councils joined LGFA in the 12-month period to June 2017, bringing the total number of council members to 53. Waitomo District Council joined as a borrower and guarantor while Central Hawkes Bay District Council and Northland Regional Council both joined as a borrower.

Councils have strongly supported LGFA by joining as members and borrowing from LGFA. As at 30 June 2017, 50 participating councils have so far borrowed from LGFA.

**Statement of service performance**

Attachment 1

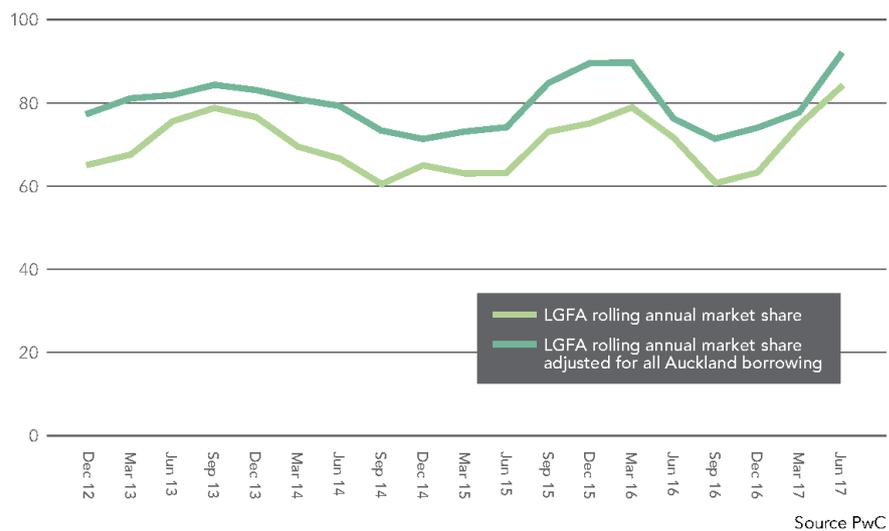
LGFA Council Members and LGFA loans outstanding



Item 7

The following chart shows LGFA’s share of new local government long-term debt issuance and is derived from data provided by PwC. Our share of long-term borrowing by the sector including non-members of LGFA was 82.9% for the 12-month period to 30 June 2017. 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 LGFA estimated market share for the 12-month period to 30 June 2017 was 91.3%.

LGFA market share – rolling one year average



## Statement of service performance

### 2.3 Issue a new long-dated LGFA bond.

On 5 April 2017, LGFA commenced the issuance of the 14 April 2033 bond (Tender 44). As at 30 June 2017, there was NZD 265 million on issue (including NZD 50 million of treasury stock).

### 2.4 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 SOI.

Issuance and operating expenses for the 12-month period to 30 June 2017 were \$6.468 million which is \$112k below SOI forecast. This variance is the consequence of:

Issuance and on-lending costs (excluding AIL) at \$1.845 million were \$106k below budget due to lower fees relating to the NZDMO facility and credit rating agencies, offset by higher NZX and legal costs from the additional bond issuance associated with the introduction of the bond lending facility.

Operating costs at \$2.828 million were \$22k below budget and reflected lower overheads and travel costs than forecast, offset by higher personnel costs.

Approved Issuer Levy payments of \$1.795 million were in line with our forecast of \$1.783 million.

### 2.5 Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015.

LGFA has a Health and Safety Staff Committee and reporting on health and safety issues are made to the LGFA board on a regular basis by the Risk and Compliance Manager. There were no health and safety incidents during the 2016-17 year.

The Kaikoura earthquake in November 2016 impacted on Wellington CBD buildings. As a result, staff are currently working from the Local Government New Zealand offices until it is safe to return to LGFA's offices.

### 2.6 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 Standard & Poor's (S&P) and Fitch rating agencies in September 2016 as part of their annual review process. S&P subsequently affirmed the long-term rating of LGFA at AA+ (stable outlook) on 10 October 2016 and Fitch affirmed the long-term rating as AA+ (stable outlook) on 14 November 2016.

Both the S&P and Fitch ratings reports are available on our website ([www.lgfa.co.nz/for-investors/ratings](http://www.lgfa.co.nz/for-investors/ratings)).

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 explicitly linked to the New Zealand Sovereign credit rating.

### 2.7 Achieve the Financial Forecasts (excluding the impact of AIL) set out in section 4 of the SOI.

LGFA's financial results for key items set out in Section 4 of the SOI for the 12-month period to 30 June 2017 are

In \$ million	30 June 2017 actual	30 June 2017 SOI forecast
Net interest revenue	17.51	16.58
Issuance and operating expenses excluding Approved Issuer Levy (AIL)	4.67	4.80
Approved Issuer Levy (AIL)	1.80	1.78
Net Profit	11.05	10.0

LGFA net interest revenue was greater than forecast and expenses were less than forecast.

## Statement of service performance

**2.8 Meet or exceed the Performance Targets outlined in section 5 of the SOI.**

LGFA achieved three out of its five performance targets in the 12-month period to 30 June 2017

Current performance targets	Target	Result for 12-month period to 30 June 2017	Outcome
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	Less than 0.50%	0.709%	Not achieved (i)
The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period	No more than 0.10%	0.104%	Not achieved (ii)
LGFA's annual issuance and operating expenses (excluding AIL)	Less than \$4.80m	\$4.67m	Achieved
Total lending to Participating Local Authorities	More than \$7,341m	\$7,736m	Achieved
Savings on borrowing costs for council borrowers relative to other sources of financing and compared to previous years	Demonstrate savings to council borrowers on a relative basis to other sources of financing	LGFA issuance spreads improved relative to standalone council issuers and NZ registered banks	Achieved

- (i) The outcome is dependent upon the term of borrowing by councils as longer terms of council borrowing require longer issuance by LGFA at wider issuance spreads than for shorter dated issuance. What is more relevant for borrowing councils is the average margin to swap.
- (ii) The outcome is dependent upon the term of borrowing by councils as LGFA on-lending margin reflects a term structure premium for longer borrowing.

**2.9 Comply with its Treasury Policy, as approved by the Board.**

LGFA was compliant at all times with the Treasury Policy for the 12-month period ending 30 June 2017.



Attachment 1

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Coutts Island. Environment Canterbury.

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## Directors' declaration

In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 34 to 58:

- Comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 30 June 2017, 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  
31 August 2017



A. Foote, Director  
31 August 2017

## Statement of comprehensive income

For the year ended 30 June 2017 in \$000s

	Note	Year ended 2017	Year ended 2016
<b>Interest income from</b>			
Cash and cash equivalents		598	1,153
Loans to local government		219,852	212,438
Marketable securities		2,518	3,333
Deposits		3,782	3,991
Derivatives		93,950	57,237
Fair value hedge ineffectiveness	2c	-	-
<b>Total interest income</b>		<b>320,700</b>	<b>278,152</b>
<b>Interest expense on</b>			
Bills		6,029	3,224
Bonds		293,749	256,247
Borrower notes		3,159	3,150
Bond repurchase transactions		249	-
<b>Total interest expense</b>		<b>303,186</b>	<b>262,621</b>
<b>Net interest income</b>		<b>17,514</b>	<b>15,531</b>
<b>Operating expenses</b>			
Issuance and on-lending expenses	3	3,640	3,166
Operating expenses	4	2,828	2,820
<b>Total expenses</b>		<b>6,468</b>	<b>5,986</b>
<b>Net operating profit</b>		<b>11,046</b>	<b>9,545</b>
<b>Total comprehensive income for the year</b>		<b>11,046</b>	<b>9,545</b>

## Statement of changes in equity

For the year ended 30 June 2017 in \$000s

	Note	Share capital	Retained earnings	Total equity
Equity as at 30 June 2015		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 on 15 October 2015		-	(1,608)	(1,608)
<b>Equity as at 30 June 2016</b>		<b>25,000</b>	<b>19,224</b>	<b>44,224</b>
Net operating profit			11,046	11,046
Total comprehensive income for the year			11,046	11,046
Transactions with owners				
Dividend paid on 14 October 2016			(1,392)	(1,392)
<b>Equity as at 30 June 2017</b>	<b>11</b>	<b>25,000</b>	<b>28,878</b>	<b>53,878</b>

## Statement of financial position

As at 30 June 2017 in \$000s

	Note	2017	2016
<b>Assets</b>			
<b>Financial assets</b>			
Cash and bank balances		49,919	37,084
Receivable unsettled bond repurchases		13,723	
Borrower notes receivable		-	800
Loans to local government	5	7,783,932	6,451,332
Marketable securities		127,641	139,339
Deposits		149,949	89,828
Derivatives in gain	2d	364,953	537,379
<b>Non-financial assets</b>			
Prepayments		544	535
Other assets	13	760	955
<b>Total assets</b>		<b>8,491,421</b>	<b>7,257,252</b>
<b>Equity</b>			
Share capital		25,000	25,000
Retained earnings		28,878	19,224
<b>Total equity</b>		<b>53,878</b>	<b>44,224</b>
<b>Liabilities</b>			
<b>Financial liabilities</b>			
Trade and other payables		453	182
Loans to local government not yet advanced		-	50,000
Accrued expenses		554	593
Bills	6	348,179	223,916
Bonds	7	7,865,401	6,819,658
Borrower notes	8	131,614	108,415
Bond repurchases		25,682	-
Derivatives in loss	2d	65,660	10,264
<b>Total liabilities</b>		<b>8,437,543</b>	<b>7,213,028</b>
<b>Total equity and liabilities</b>		<b>8,491,421</b>	<b>7,257,252</b>

## Statement of cash flows

For the year ended 30 June 2017 in \$000s

	Note	Year Ended 2017	Year Ended 2016
<b>Cash flow from operating activities</b>			
Cash applied to loans to local government		(1,385,002)	(1,374,440)
Interest paid on bonds issued		(341,100)	(296,800)
Interest paid on bills issued		(6,029)	(3,224)
Interest paid on bond repurchases		(247)	(26)
Interest received from loans to local government		222,121	218,821
Interest received from cash & cash equivalents		597	1,142
Interest received from marketable securities		2,688	1,076
Interest received from deposits		2,661	4,059
Net interest on derivatives		137,262	89,718
Payments to suppliers and employees		(6,246)	(6,165)
<b>Net cash flow from operating activities</b>	10	<b>(1,373,295)</b>	<b>(1,365,838)</b>
<b>Cashflow from investing activities</b>			
Change in marketable securities		11,661	(133,068)
Change in deposits		(59,000)	(19,000)
Change in plant and equipment		195	125
<b>Net cashflow from investing activities</b>		<b>(47,144)</b>	<b>(151,943)</b>
<b>Cashflow from financing activities</b>			
Cash proceeds from bonds issued		1,267,666	1,349,468
Cash proceeds from bills issued		124,263	223,916
Cash proceeds from bond repurchases		11,957	-
Cash proceeds from borrower notes		20,840	19,346
Dividends paid		(1,392)	(1,608)
Cash applied to derivatives		9,940	(67,964)
<b>Net cashflow from financing activities</b>		<b>1,433,274</b>	<b>1,523,158</b>
<b>Net (decrease) / increase in cash</b>		<b>12,835</b>	<b>5,375</b>
Cash, cash equivalents and bank overdraft at beginning of year		37,084	31,708
<b>Cash, cash equivalents and bank overdraft at end of year</b>		<b>49,919</b>	<b>37,083</b>

## 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 2017.

These financial statements were authorised for issue by the Directors on 31 August 2017.

#### B. STATEMENT OF COMPLIANCE

LGFA is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA). These financial statements have been prepared in accordance with that Act and the Financial Reporting Act 2013. LGFA's bonds are quoted on the NZX Debt Market.

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) and they comply with NZ IFRS and other applicable Financial Reporting Standards, 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 (three to seven 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, and 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 of 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).

#### **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).

## Notes to the financial statements

### 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 2017 in \$000s	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with NZ IFRS 9	Fair value
<b>Financial assets</b>				
Cash and bank balances	-	49,919	-	49,919
Trade and other receivables	-	-	-	-
Receivable unsettled bond repurchases	-	13,723	-	13,726
Loans to local government	-	7,783,932	-	8,031,625
Marketable securities	-	127,641	-	127,818
Deposits	-	149,949	-	150,559
Derivatives	-	-	364,953	364,953
	-	<b>8,125,164</b>	<b>364,953</b>	<b>8,738,600</b>
<b>Financial liabilities</b>				
Trade and other payables	453	-	-	453
Bills	348,179	-	-	348,296
Bonds	7,865,708	-	-	7,958,723
Borrower notes	131,614	-	-	131,109
Bond repurchases	25,682	-	-	25,682
Derivatives	-	-	65,660	65,660
	<b>8,371,636</b>	-	<b>65,660</b>	<b>8,529,923</b>

## Notes to the financial statements

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 NZ IFRS 9	Fair value
<b>Financial assets</b>				
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
	-	<b>6,717,583</b>	<b>527,115</b>	<b>7,496,555</b>
<b>Financial liabilities</b>				
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
	<b>7,201,371</b>	-	<b>10,264</b>	<b>7,261,760</b>

### 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 through the use of Value at Risk (VaR) and Partial Differential Hedge (PDH) limits to mitigate the potential change in value of the balance sheet due to

## Notes to the financial statements

changes in interest rates. PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates, whereas VaR measures the expected loss for a given period with a given confidence.

The table below indicates the earliest period in which interest-bearing financial instruments reprice.

As at 30 June 2017 in \$000s	Face value	Less than 6 Months	6 months – 1 Year	1-2 Years	2-5 Years	Over 5 Years
<b>Financial assets</b>						
Cash and bank balances	49,919	49,919	-	-	-	-
Loans to local government	7,735,564	6,670,326	6,538	290,500	426,200	342,000
Receivable unsettled bond repurchases	13,723	13,723	-	-	-	-
Marketable securities	126,302	103,747	7,555	15,000	-	-
Deposits	148,000	138,000	10,000	-	-	-
<b>Financial liabilities</b>						
Bills	(350,000)	(325,000)	(25,000)	-	-	-
Bonds	(7,505,000)	(1,015,000)	-	(1,200,000)	(2,105,000)	(3,185,000)
Borrower notes	(120,198)	(103,179)	(80)	(4,648)	(6,819)	(5,472)
Bond repurchases	(25,682)	(25,682)	-	-	-	-
Derivatives	-	(5,418,200)	-	909,200	1,666,250	2,842,750
<b>Total</b>	<b>72,628</b>	<b>88,654</b>	<b>(987)</b>	<b>10,052</b>	<b>(19,369)</b>	<b>(5,722)</b>

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
<b>Financial assets</b>						
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	-	-	-	-
<b>Financial liabilities</b>						
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)
Bond repurchases	-	-	-	-	-	-
Derivatives	-	(5,114,200)	-	865,500	2,329,450	1,919,250
<b>Total</b>	<b>70,142</b>	<b>59,283</b>	<b>6,347</b>	<b>34,512</b>	<b>(49,345)</b>	<b>19,346</b>

## 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 year ended 30 June in \$000s	2017		2016	
	100 bps increase \$000s	100 bps decrease \$000s	100 bps increase \$000s	100 bps decrease \$000s
<b>Fair value sensitivity analysis</b>				
Fixed rate assets	-	-	-	-
Fixed rate liabilities	272,084	(277,500)	260,219	(264,820)
Derivative financial instruments	(272,084)	277,500	(260,219)	264,820
	-	-	-	-
<b>Cash flow sensitivity analysis</b>				
Variable rate assets	62,982	(62,982)	51,295	(51,295)
Variable rate liabilities	(1,008)	1,008	(820)	820
Derivative financial instruments	(63,867)	63,867	(52,172)	52,172
	<b>(1,893)</b>	<b>1,893</b>	<b>(1,697)</b>	<b>1,697</b>

### 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 2017 in \$000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter- parties	Total carrying value
<b>Financial assets</b>					
Cash and bank balances	49,385	-	534	-	49,919
Trade and other receivables	-	-	-	-	-
Receivable unsettled bond repurchases	-	-	13,723	-	-
Loans to local government	-	7,783,932	-	-	7,783,932
Marketable securities	31,180	16,937	34,845	44,679	127,641
Deposits	-	-	149,949	-	149,949
Derivatives	364,953	-	-	-	364,953
	<b>445,518</b>	<b>7,800,869</b>	<b>199,051</b>	<b>44,679</b>	<b>8,476,394</b>

As at 30 June 2016 in \$000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter- parties	Total carrying value
<b>Financial assets</b>					
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	537,379	-	-	-	537,379
	<b>600,857</b>	<b>6,451,332</b>	<b>160,117</b>	<b>42,657</b>	<b>7,254,962</b>

### 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

## Notes to the financial statements

to meet obligations when they fall due. LGFA is required by policy to maintain sufficient liquidity (comprising a committed liquidity facility and holdings of cash and liquid investments) to meet all operating and funding commitments over a rolling 12-month period.

The New Zealand Debt Management Office (NZDMO) provides a committed liquidity facility that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2017, the undrawn committed liquidity facility was \$500 million (2016: \$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 2017 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
<b>Financial assets</b>							
Cash and bank balances	49,919	-	-	-	-	49,919	49,919
Trade and other receivables							
Receivable unsettled bond repurchases		13,723	-	-	-	13,723	13,723
Loans to local government	-	211,716	1,135,725	4,077,315	3,388,036	8,812,791	7,783,932
Marketable securities	-	58,808	54,569	15,750	-	129,126	127,641
Deposits	-	34,762	116,848	-	-	151,611	149,949
<b>Financial liabilities</b>							
Trade and other payables	(453)	-	-	-	-	(453)	(453)
Bills	-	(200,000)	(150,000)	-	-	(350,000)	(348,179)
Bonds	-	(30,000)	(1,322,225)	(4,225,800)	(3,612,475)	(9,190,500)	(7,865,708)
Bond repurchases	-	(25,684)	-	-	-	(25,684)	(25,684)
Borrower notes	-	-	(17,192)	(66,814)	(62,910)	(146,916)	(131,614)
<b>Derivatives</b>							
	-	(14,673)	149,931	368,393	151,532	655,184	299,600
	<b>49,466</b>	<b>48,652</b>	<b>(32,344)</b>	<b>168,844</b>	<b>(135,817)</b>	<b>98,801</b>	<b>53,126</b>

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
<b>Financial assets</b>							
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
<b>Financial liabilities</b>							
Trade and other payables	(182)	-	-	-	-	(182)	(182)
Loan 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)
<b>Derivatives</b>							
		(13,051)	131,464	348,914	130,946	598,273	527,115
	<b>36,902</b>	<b>94,612</b>	<b>38,611</b>	<b>(98,761)</b>	<b>21,875</b>	<b>93,239</b>	<b>42,527</b>

## 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 uses interest rate swaps to manage this interest rate risk. 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 30 June in \$000s	2017 Gain/(loss)	2016 Gain/(loss)
Hedging instruments – interest rate swaps	(174,572)	236,449
Hedged items attributable to the hedged risk – fixed rate bonds	174,572	(236,449)
<b>Ineffectiveness recognised in profit or loss from fair value hedges</b>	-	-

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 2017 in \$000s	Derivative assets	Derivative liabilities
Gross amounts	364,953	(65,660)
Amounts offset	-	-
Carrying amounts	364,953	65,660
Amounts that don't qualify for offsetting	-	-
Financial assets & liabilities	(65,660)	(65,660)
Collateral	-	-
<b>Net Amount</b>	<b>299,293</b>	-

## Notes to the financial statements

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	-	-
<b>Net Amount</b>	<b>527,115</b>	-

### 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 in \$000s	2017	2016
NZDMO facility fee	442	400
NZX	412	177
Rating agency fees	547	527
Legal fees for issuance	169	144
Regulatory, registry, other fees	37	52
Trustee fees	100	100
Approved issuer levy <sup>1</sup>	1,795	1,628
Information Services	138	120
	<b>3,640</b>	<b>3,148</b>

1. The amount of Approved Issuer Levy is a function of the number of the 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 in \$000s	2017	2016
Consultants	51	164
Directors fees	348	307
Insurance	60	61
Legal fees	37	327
Other expenses	875	716
Auditors' remuneration		
Statutory audit	81	86
Advisory services <sup>1</sup>	4	
Personnel	1,372	1,163
Recruitment	-	14
	<b>2,828</b>	<b>2,838</b>

1. KPMG provided advisory services related to accounting for bond repurchase trades.

**Notes to the financial statements**

Attachment 1

Item 7

**5 Loans to local government**

For the year ended 30 June in \$000s	2017		2016	
	Short-term loans	Loans	Short-term loans	Loans
Ashburton District Council	10,018	25,707	10,006	15,820
Auckland Council	-	2,429,887	-	2,158,614
Buller District Council	-	20,001	-	20,002
Canterbury Regional Council	-	25,083	-	25,036
Christchurch City Council	96,280	1,485,304	65,177	1,209,669
Far North District Council	-	30,121	-	10,040
Gisborne District Council	-	27,085	4,970	17,060
Gore District Council	6,023	11,034	6,026	6,042
Greater Wellington Regional Council	-	280,702	-	255,660
Grey District Council	-	20,551	-	20,655
Hamilton City Council	-	351,028	-	230,663
Hastings District Council	-	60,211	-	50,175
Hauraki District Council	-	41,139	-	34,133
Horizons Regional Council	-	10,013	-	10,015
Horowhenua District Council	12,013	63,923	7,007	47,870
Hurunui District Council	-	23,085	-	17,069
Hutt City Council	-	97,727	-	79,711
Kaipara District Council	8,925	43,172	-	35,156
Kapiti Coast District Council	-	210,623	-	150,471
Manawatu District Council	-	58,094	-	51,035
Marlborough District Council	19,851	63,207	-	28,067
Masterton District Council	2,006	52,209	3,002	44,169
Matamata-Piako District Council	-	29,581	-	24,573
Nelson City Council	-	55,201	10,007	35,171
New Plymouth District Council	-	61,167	-	61,193
Opotiki District Council	-	5,180	-	5,210
Otorohanga District Council	-	9,178	-	9,246
Palmerston North City Council	10,025	77,255	-	77,295
Porirua City Council	-	28,608	9,982	23,621
Queenstown Lakes District Council	7,070	86,177	-	76,371
Rotorua District Council	1,001	114,976	-	100,025
Selwyn District Council	-	35,050	-	35,056
South Taranaki District Council	-	62,267	9,989	62,234
South Wairarapa District Council	4,034	13,586	-	7,536
Tararua District Council	1,004	10,033	-	9,033
Tasman District Council	-	90,273	-	90,314
Taupo District Council	-	125,417	-	125,431
Tauranga City Council	-	347,207	-	277,009
Thames-Coromandel District Council	-	35,061	-	35,069
Timaru District Council	10,047	67,347	9,737	51,325
Upper Hutt City Council	2,997	31,628	-	24,591
Waikato District Council	-	80,265	-	60,212
Waimakariri District Council	10,010	85,797	10,005	75,861
Waipa District Council	-	13,015	-	13,018
Waitomo District Council	5,022	25,027	-	-
Wellington City Council	-	294,047	-	233,884
Western Bay of Plenty District Council	-	105,386	-	70,233
Whakatane District Council	6,021	34,129	3,015	28,076
Whanganui District Council	-	66,327	-	41,162
Whangarei District Council	9,972	142,522	9,968	122,558
	<b>222,318</b>	<b>7,561,614</b>	<b>158,891</b>	<b>6,292,441</b>

## Notes to the financial statements

### 6 Bills on issue

As at 30 June 2017 in \$000's

Maturity date	Face value	Unamortised premium	Accrued interest	Total
12 July 2017	50,000	(30)	-	49,970
4 August 2017	25,000	(46)	-	24,954
16 August 2017	50,000	(129)	-	49,871
13 September 2017	50,000	(204)	-	49,796
26 September 2017	25,000	(126)	-	24,874
11 October 2017	25,000	(143)	-	24,857
26 October 2017	25,000	(172)	-	24,828
15 November 2017	25,000	(194)	-	24,806
27 November 2017	25,000	(223)	-	24,777
13 December 2017	25,000	(232)	-	24,768
26 January 2018	25,000	(322)	-	24,678
	<b>350,000</b>	<b>(1,821)</b>	-	<b>348,179</b>

As at 30 June 2016 in \$000's

Maturity date	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
	<b>225,000</b>	<b>(1,084)</b>	-	<b>223,916</b>

**Notes to the financial statements**

Attachment 1

**7 Bonds on issue**

Bonds on issue do not include LGFA bonds subscribed by LGFA and held as treasury stock. However, LGFA bonds listed on the NZX include LGFA bonds subscribed by LGFA and held as treasury stock. Refer note 9: Treasury stock and bond repurchase transactions.

As at 30 June 2017 in \$000's

Maturity date		Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 December 2017	6% coupon	1,015,000	7,763	2,662		
15 March 2019	5% coupon	1,200,000	19,488	17,609		
15 April 2020	3% coupon	755,000	(12,471)	4,765		
15 May 2021	6% coupon	1,350,000	68,236	10,345		
15 April 2023	5.5% coupon	1,350,000	69,813	15,621		
15 April 2025	2.75% coupon	660,000	(34,201)	3,818		
15 April 2027	4.5% coupon	960,000	33,450	9,089		
14 April 2033	3.5% coupon	215,000	(20,650)	1,604		
<b>Total</b>		<b>7,505,000</b>	<b>131,428</b>	<b>65,513</b>	<b>163,460</b>	<b>7,865,401</b>

As at 30 June 2016 in \$000's

Maturity date		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		
<b>Total</b>		<b>6,220,000</b>	<b>205,372</b>	<b>56,254</b>	<b>338,032</b>	<b>6,819,658</b>

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## 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.

### 9 Treasury stock and bond repurchase transactions

Periodically, LGFA subscribes for LGFA bonds as part of its tender process and holds these bonds as treasury stock. LGFA bonds held by LGFA as treasury stock are derecognised at the time of issue and no liability is recognised in the statement of financial position. As at 30 June 2017, treasury stock had been issued in the following maturities (in \$000s):

	2017	2016
15 March 2019	50,000	-
15 April 2020	50,000	-
15 May 2021	50,000	-
15 April 2023	50,000	-
15 April 2025	50,000	-
15 April 2027	50,000	-
14 April 2033	50,000	-
<b>Total</b>	<b>350,000</b>	<b>-</b>

LGFA makes these treasury stock bonds available to banks authorised as its tender counterparties to borrow under short term repurchase transactions. The objective of the bond lending facility is to assist with improving secondary market liquidity in LGFA bonds. Bonds lent to counterparties are disclosed as a separate stock lending liability on the face of the statement of financial position.

Each month, LGFA notifies the market the amount of outstanding repurchase transactions and LGFA bonds held as treasury stock.

As at 30 June 2017, bond repurchase transactions comprised:

		30 June 2017	30 June 2016
		Bond repurchase trades	Bond repurchase trades
15 March 2019	5% coupon	-	-
15 April 2020	3% coupon	-	-
15 May 2021	6% coupon	-	-
15 April 2023	5.5% coupon	-	-
15 April 2025	2.75% coupon	9,981	-
15 April 2027	4.5% coupon	15,701	-
14 April 2033	3.5% coupon	-	-
		<b>25,682</b>	<b>-</b>

**Notes to the financial statements**

10 Reconciliation of net profit / (loss) to net cash flow from operating activities

For the year ended 30 June in \$000s	2017	2016
Net profit/(loss) for the period	11,046	9,545
Cash applied to loans to local government	(1,385,002)	(1,374,440)
<b>Non-cash adjustments</b>		
Amortisation and depreciation	438	(756)
<b>Working capital movements</b>		
Net change in trade debtors and receivables	271	(224)
Net change in prepayments	(9)	(212)
Net change in accruals	(39)	248
<b>Net Cash From operating activities</b>	<b>(1,373,295)</b>	<b>(1,365,838)</b>

Attachment 1

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## Notes to the financial statements

### 11 Share capital

As at 30 June 2017 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.

#### Shareholder information

Registered holders of equity securities as at 30 June	2017		2016	
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 District 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%
	<b>45,000,000</b>	<b>100%</b>	<b>45,000,000</b>	<b>100%</b>

## 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, while remaining a going concern.

### Dividend

LGFA paid a dividend of \$1,392,500 on 14 October 2016, being \$ 0.0557 per paid up share (2015: \$1,607,500, being \$ 0.06826 per paid up share).

## 12 Operating leases

Following the November 2016 Kaikoura earthquake, LGFA registered offices at 142 Featherston Street, Wellington are unable to be occupied. To date, there is no agreed date for re-occupation and contractual lease payments have been suspended by agreement until future notice.

## 13 Other assets

As at 30 June in \$000s	2017	2016
Property, plant and equipment <sup>1</sup>	-	43
Intangible assets <sup>2</sup>	760	912
<b>Total other assets</b>	<b>760</b>	<b>955</b>

1. Property, plant and equipment were fully depreciated during the financial year.

2. Intangible assets comprise acquired and internally developed software costs incurred on the implementation of LGFA's treasury management system.

## 14 Capital commitments

As at 30 June 2017, there are no capital commitments.

## 15 Contingencies

There are no material contingent liabilities at balance date.

## Notes to the financial statements

### 16 Related parties

#### Identity of related parties

The Company is related to the local authorities set out in the Shareholder Information in note 11.

The Company operates under an annual Statement of Intent with the respective local authorities that sets out the intentions and expectations for LGFA's operations and lending to participating local authorities.

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. Refer note 8.

NZDMO provides LGFA with a committed credit facility and is LGFA's derivatives counterparty.

Transactions with key management personnel

Salaries \$802,434 (2016: \$704,084)

Fees paid to directors are disclosed in operating overheads in note 4.

### 17 Subsequent events

Subsequent to balance date, LGFA has issued \$255 million bonds through two tenders.

Subsequent to balance date, on 31 August 2017, the Directors of LGFA declared a dividend of \$1,390,000 (\$ 0.0556) per paid up share.

Right: Christchurch office and Council Chambers opened in April 2015. Environment Canterbury.

**Attachment 1**

**Item 7**



## Independent auditor's report



### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

The Auditor-General is the auditor of New Zealand Local Government Funding Agency Limited (the Company). The Auditor-General has appointed me, Brent Manning, using the staff and resources of KPMG, to carry out the audit of the financial statements and the performance information of the Company on his behalf.

#### Opinion

We have audited:

- the financial statements of the Company on pages 34 to 58, that comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including accounting policies and other explanatory information; and
- the performance information of the Company on pages 20 to 29.

In our opinion:

- the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards (IFRS)
- 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 2017.

#### Basis for opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements and the performance information section of our report. We are independent of the Company in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition to the audit we have carried out an engagement in the area of technical accounting advice, which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the Company.

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

#### Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$56.8 million determined with reference to a benchmark of company Total Assets. We chose the benchmark because, in our view, this is a key measure of the company's performance. In addition, we also assess whether other matters that

**Independent auditor's report**



come to our attention during the audit would in our judgement change or influence the decisions of a reasonably knowledgeable person ('qualitative' materiality).

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter	How the matter was addressed in our audit
<i>Existence and impairment of loans</i>	
<p>Refer to Note 5 to the Financial Statements.</p> <p>The loans LGFA has provided to local government make up over 90% of total assets. The loans are recognised at amortised cost and the nature of the counterparties is such that we do not consider these loans to be at high risk of significant misstatement. However, based on their materiality, and the judgement involved in assessing the credit worthiness of counterparties they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>- understanding the processes in place to assess borrowers and to record loan transactions. This included evaluating the control environment in place at LGFA.</li> <li>- agreeing the 30 June 2017 loan balances to confirmations received from the individual borrowing councils.</li> <li>- assessing the borrowers' compliance with financial covenants.</li> </ul> <p>We did not identify any material differences in relation to the existence or impairment of loans.</p>
<i>Application of hedge accounting</i>	
<p>Refer to Note 2 of the Financial Statements.</p> <p>LGFA enters into derivatives (interest rate swaps) to manage interest rate risk related to issuing fixed rate bonds. Fair value hedge accounting is applied where specific requirements are met around documentation of the hedge relationship and the relationship is demonstrated as being an effective hedge. Hedge accounting is complex, particularly in the area of whether the requirements (both initial and ongoing) for its application are met. Should the requirements for hedge accounting not be met, LGFA could experience significant volatility in the Statement of Comprehensive Income from changes in the fair value of the derivatives.</p> <p>Due to the size of the derivative positions and the complexity of hedge accounting we consider this to be a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>- agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty.</li> <li>- using our treasury valuation specialists we independently recalculated the fair value of all of the derivatives recorded by LGFA.</li> <li>- ensuring the hedge documentation supporting the application of hedge accounting was in accordance with relevant accounting standards.</li> <li>- determining based on sample testing that management's hedge effectiveness calculations were correctly performed using appropriate source information.</li> </ul> <p>We are satisfied that the application of hedge accounting is appropriate.</p>

## Independent auditor's report



### Other information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information included on pages 4 to 17 and 64 to 68, but does not include the financial statements and the performance information and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Directors' responsibilities for the financial statements and the performance information

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for preparing the performance information for the Company.

In preparing the financial statements and the performance information, the directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors' responsibilities arise from the Local Government Act 2002 and the Financial Markets Conduct Act 2013.

### Auditor's responsibilities for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of shareholders taken on the basis of these financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## Independent auditor's report



- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We evaluate the appropriateness of the reported performance information within the Company's framework for reporting its performance.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements and the performance information of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

Brent Manning  
KPMG  
On behalf of the Auditor-General  
Wellington, New Zealand  
31 August 2017

## Other disclosures

### Credit rating

As at 30 June 2017, 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	<p><b>Director</b></p> <p>Precinct Properties New Zealand Limited</p> <p>Elevation Capital Management Limited</p> <p>Saturn Portfolio Management Limited</p> <p>Stobo Group Limited</p> <p>AIG Insurance NZ Limited</p> <p>Fliway Group Limited</p> <p>Bureau Limited</p> <p>SouthWest Trustees Limited</p> <p>Appello Services Limited</p> <p>Biomarine Group Limited</p> <p>Legend Terrace Limited</p> <p><b>General disclosure</b></p> <p>Chair, Establishment Board, Local Government Risk Agency</p>
John Avery	<p><b>Director</b></p> <p>Spider Tracks Limited</p> <p>Fund Managers Auckland Limited</p> <p>Strategic Pay Limited</p> <p>Strategic Pay Trustee Service Limited</p> <p><b>General disclosure</b></p> <p>The New Zealand School of Dance (Trustee)</p> <p>New Zealand Dance Advancement Trust (Trustee)</p> <p>Stinger Trust (Trustee)</p>
Philip Cory-Wright	<p><b>Director</b></p> <p>South Port New Zealand Limited</p> <p>Matariki Forests Limited</p> <p>Papa Rererangi i Puketapu (New Plymouth Airport)</p>
Abby Foote	<p><b>Director</b></p> <p>Z Energy Limited</p> <p>BNZ Life Insurance Limited (ceased 30 June 2017)</p> <p>Livestock Improvement Corporation Limited</p> <p>The Museum of New Zealand Te Papa Tongarewa</p> <p>Television New Zealand Limited</p>

## Other disclosures

Linda Robertson	<b>Director</b> 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	<b>General disclosure</b> 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		<b>General disclosure</b> Officer, Greater Wellington Regional Council Chairman of Finance Committee, Physiotherapy New Zealand

### DIRECTOR REMUNERATION

Director	2017(\$)
Craig Stobo	\$90,000
John Avery	\$51,000
Philip Cory-Wright	\$51,000
Abby Foote	\$54,000
Mike Timmer	\$51,000
Linda Robertson	\$51,000
Total	\$348,000

### STAFF REMUNERATION

Total remuneration	2017
\$110,000 to \$119,999	1
\$200,000 to \$209,999	1
\$260,000 to \$269,999	1
\$540,000 to \$549,999	1
Total staff receiving \$100,000 or more	4

### DONATIONS

No donations were made by LGFA during the year ended 30 June 2017.

### 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.

## Other disclosures

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.

### NET TANGIBLE ASSETS

Net tangible asset per \$1,000 of listed bonds as at 30 June 2017 is \$6.86 (2016: \$7.11).

### EARNINGS PER SECURITY

Earnings per \$1,000 of listed bonds as at 30 June 2017 is \$1.41 (2016: \$1.53).

### AMOUNT PER SECURITY OF FINAL DIVIDENDS

Not applicable.

### SPREAD OF QUOTED SECURITY HOLDERS

Spread of bondholders (LGF010, LGF020, LGF030, LGF040, LGF050, LGF060, LGF070 and LGF080) as at 30 June 2017.

Holding range	Holder count	Holding quantity	Holding quantity %
10,000 to 49,999	451	\$11,663,000	0.15
50,000 to 99,999	158	\$10,944,000	0.14
100,000 to 499,999	201	\$44,060,000	0.56
500,000 to 999,999	35	\$24,921,000	0.32
1,000,000 and above	71	\$7,763,412,000	98.83
Total	916	\$7,855,000,000	100

Attachment 1



Item 7



## Directory

### Postal address

PO Box 5704  
Lambton Quay  
Wellington 6145

### Street address

**WELLINGTON**  
Level 8  
City Chambers  
142 Featherston Street  
Wellington 6011

### AUCKLAND

Level 12  
West Plaza Tower  
Corner Albert and Custom Street  
Auckland 1010

### Office hours

Monday through Friday, 09.00-17.30 hrs  
Except Public Holidays

### Phone

+64 4 974 6530

### Personnel e-mail addresses

firstname.lastname@lgfa.co.nz

### Website

lgfa.co.nz

 **Follow us** [twitter.com/nzlgfa](https://twitter.com/nzlgfa)

Mercury Bay Sports Park. Thames-Coromandel District Council.

Back cover: Lower Hutt's Avalon Park Playground, opened in October 2016. Hutt City Council.

**Attachment 1**

**Item 7**





**LGFA**   
NEW ZEALAND  
LOCAL GOVERNMENT  
FUNDING AGENCY



## Statement of Intent 2016/17

### 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 on a relative basis to other sources of financing;
- 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 analyse finances at the Council group level where appropriate
- 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;
- Issue a new long dated LGFA bond (should one not be issued in the 2015/16 year)
- 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;
- Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015;
- 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 (excluding the impact of AIL) 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 2019 are:

Financial Year (\$m)	2016/17	2017/18	2018/19
<b>Comprehensive income</b>			
Net interest revenue	16.58	17.44	17.75
Issuance and operating expenses (excluding Approved Issuer Levy)	4.80	4.94	5.06
Approved Issuer Levy	1.78	1.69	1.66
Net Profit	10.00	10.80	11.02
<b>Financial position</b>			
Dividend	(1.50)	(1.50)	(1.50)
Retained earnings	29.78	39.10	48.64
Total assets	7,616.93	8,012.79	8,143.75
Total LG loans	7,341.00	7,762.00	7,850.00
Total bonds	7,220.00	7,605.00	7,725.00
Total borrower notes	115.20	121.94	123.34
Total equity	54.78	64.10	73.64
Shareholder Funds/Total Assets	0.72%	0.80%	0.90%

Note that there is some forecast uncertainty around the timing of Net Interest Revenue, Net Profit, Total Assets, LG Loans, Bonds and Borrower Notes depending upon council decisions regarding the amount and timing of refinancing of their December 2017 loans. LGFA will work with council borrowers over the 2016/17 year to reduce this uncertainty.

#### 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 twelve-month period to:
  - 30 June 2017 will be less than 0.50% higher.
  - 30 June 2018 will be less than 0.50% higher.
  - 30 June 2019 will be less than 0.50% higher.

- The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period to:
  - 30 June 2017 will be no more than 0.10%.
  - 30 June 2018 will be no more than 0.10%.
  - 30 June 2019 will be no more than 0.10%.

The above indicators include both LGFA Bills and Bonds and short dated and long dated lending to councils.

- LGFA's annual issuance and operating expenses (excluding AIL) for the period to:
  - 30 June 2017 will be less than \$4.80 million.
  - 30 June 2018 will be less than \$4.94 million.
  - 30 June 2019 will be less than \$5.06 million.
- Total lending to Participating Local Authorities<sup>1</sup> at:
  - 30 June 2017 will be at least \$7,341 million.
  - 30 June 2018 will be at least \$7,762 million.
  - 30 June 2019 will be at least \$7,850 million.
- Savings on borrowing costs for council borrowers:
  - LGFA will demonstrate the savings to council borrowers on a relative basis to other sources of financing 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.

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<sup>1</sup> Subject to the forecasting uncertainty noted previously

## 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<sup>2</sup> 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 .
- 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 Shareholders are informed of all major developments affecting LGFA's state of affairs, while at the same time recognising both LGFA's obligations under NZX Listing Rules and that commercial sensitivity may preclude certain information from being made public.

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<sup>2</sup> Best practice as per NZX and Institute of Directors guidelines

### Annual Report

The LGFA's balance date is 30 June.

By 30 September each year, the Company will produce 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 produce 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 produce 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 SOL.

**The following statement is taken from the Financial Statements presented as part of LGFA's Annual Report 2014-2015 (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.

The financial statements are as at and for the year ended 30 June 2015.

These financial statements were authorised for issue by the Directors on 23 September 2015.

#### 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 Standards, 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**

The following accounting standard has been early adopted by LGFA.

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.

**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 acquired and internally developed computer software 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 when incurred.

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

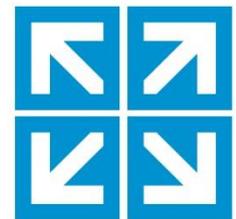
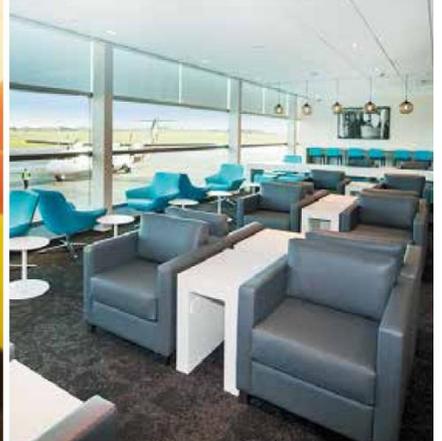
LGFA operates in one segment being funding of participating local authorities in New Zealand.

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.



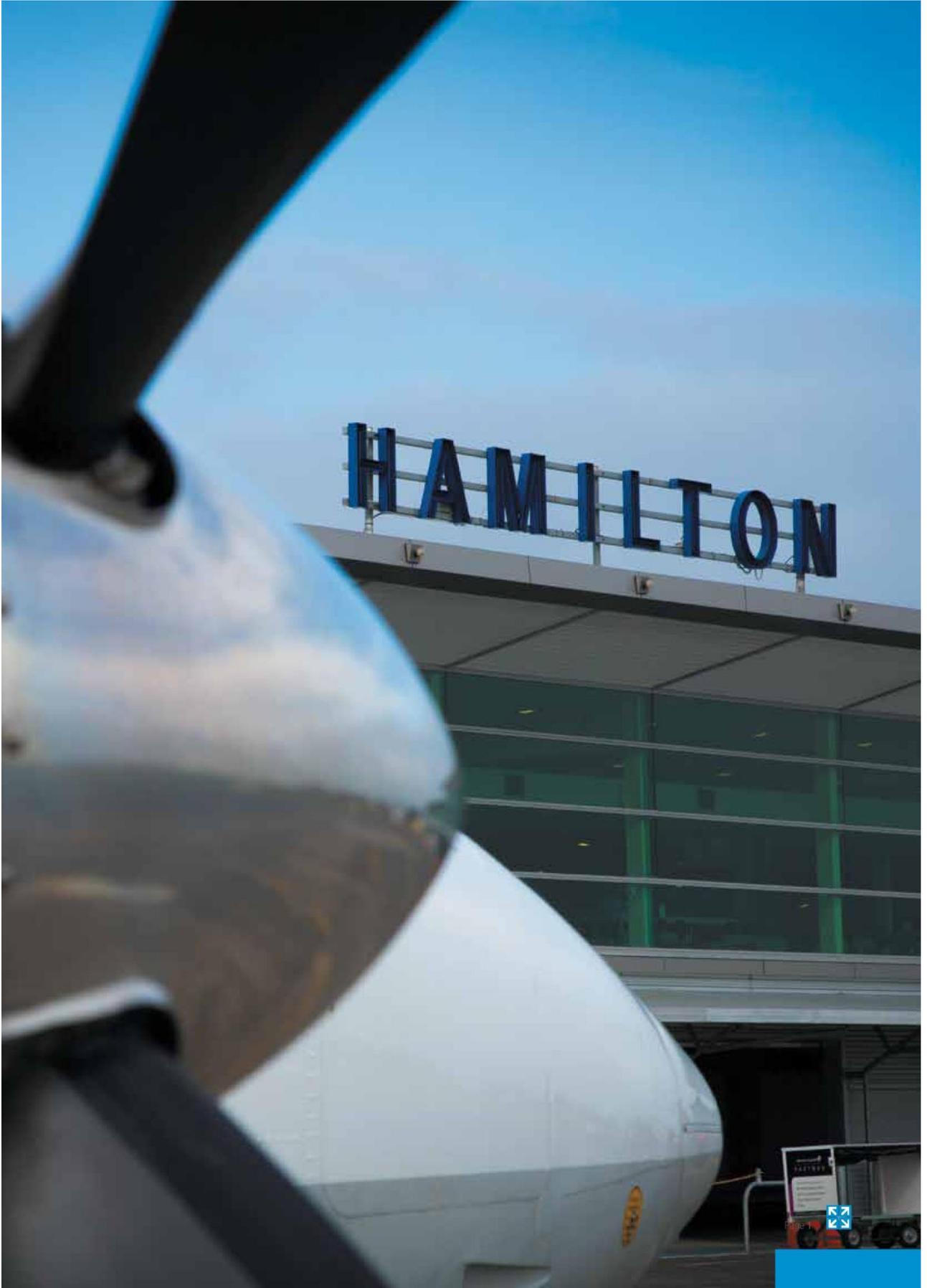
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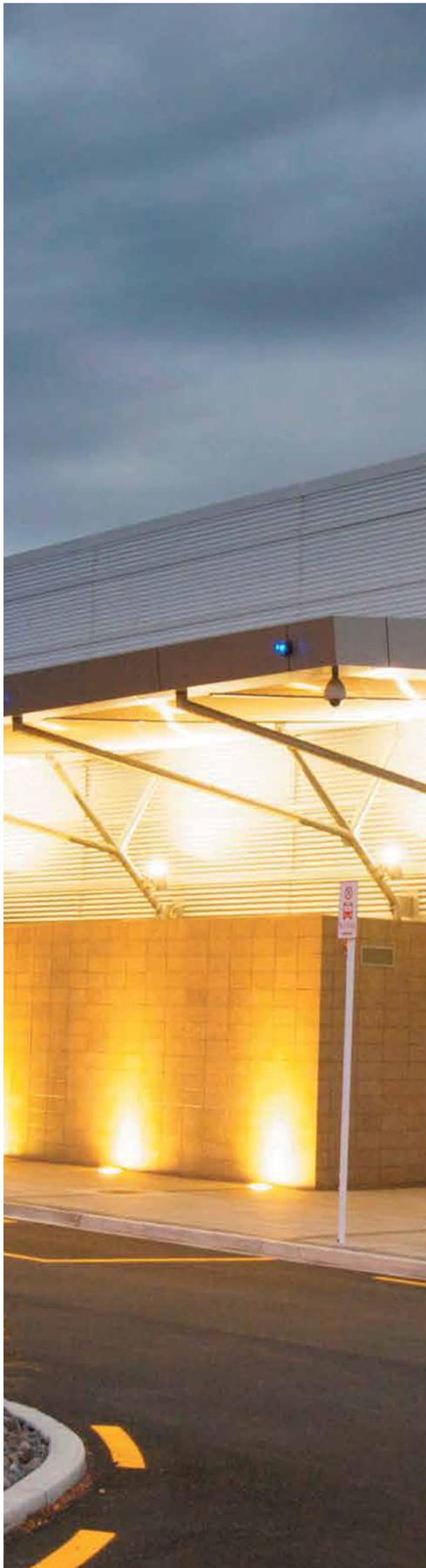
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## CHAIR'S REPORT

The Board of Directors has pleasure in presenting the annual report of Waikato Regional Airport Limited Group and its subsidiaries ('the Group'), incorporating the financial statements and the auditors' report, for the year ended 30 June 2017. Hamilton & Waikato Tourism Limited (HWT) and Titanium Park Limited (TPL) are fully owned subsidiaries.

The Board of Directors of Waikato Regional Airport Limited authorised these financial statements presented on pages 10 to 43 for issue on 7 September 2017.

For and on behalf of the Board.



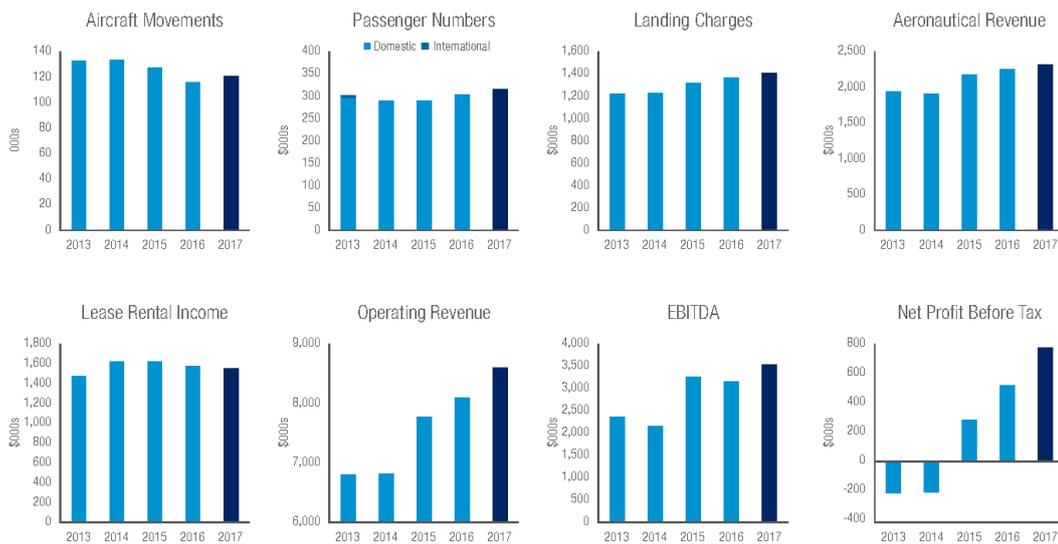
**JOHN SPENCER**  
CNZM, Chair

7 September 2017

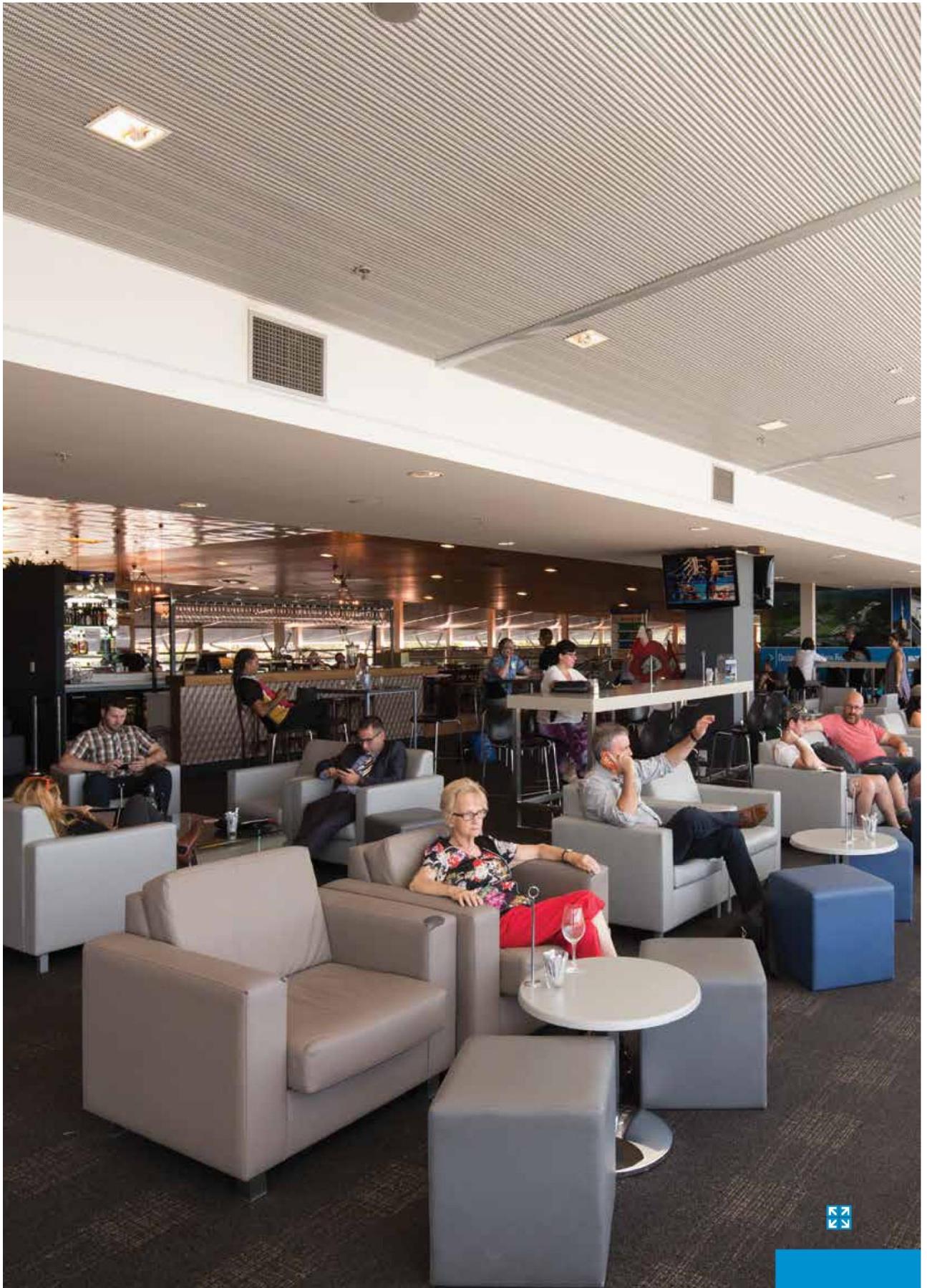
## 2017 RESULTS AT A GLANCE

### KEY FACTS

- Operating Revenue \$8.6m\*; up \$0.6m
- EBITDA \$3.4m\*; up \$0.2m
- Operating Profit before Tax \$0.8m\*; up \$0.3m
- Land Sales Net Income \$1.0m, up \$0.4m
- Investment Property \$15.3m; up \$11.6m (\$8.3m farm purchase, \$3.3m valuations)
- 317,000 passengers; up 14,000
- 124,000 aircraft movements; up 8,000



\* normalised to exclude investment property valuations



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## CHAIR AND CHIEF EXECUTIVES' 2017 ANNUAL REPORT

The Board and Management of Waikato Regional Airport Limited (WRAL) are pleased to report a solid operational performance for the 2016/2017 financial year. The Group's operating surplus before tax was \$4.1m, due mostly to the increased value in Hamilton Airport's property investment portfolio. Assisting the solid performance was the sale of seven hectares of non-aeronautical land that contributed \$1.0m to the Group's operating surplus.

At year end, the Group undertook a comprehensive valuation of land holdings with a resulting uplift of \$13.9m on the aeronautical land, \$3.3m on the investment property and a further \$1.8m on WRAL's 100% wholly owned subsidiary, Titanium Park Limited's (TPL) land resulting in a \$19m uplift for the Group. This significant movement has been in part due to the strength of the regional economy combined with a strong level of land sale activity in the area surrounding the airport.

During the year, strong emphasis was placed on providing an improved passenger experience with the introduction of the highly regarded Mavis Café brand, the expansion of conferencing facilities and general enhancements to the terminal ambience. A comprehensive customer survey was commissioned to understand our customer profile and to gain a greater awareness of the expectations of our customers. Other key areas of focus included operational efficiency and the development of the Group's property strategy.

A comprehensive 10 year property development strategy was undertaken by the TPL Board. The plan seeks to generate \$1m annual earnings before tax from a design and build property portfolio and to maximise the Group's lease and concession income from existing leases and concessions with the continued focus to deliver

maximum benefit from the Group's land holdings. The year has seen a substantial increase in property activity in and around the airport.

Land activity within the Group included WRAL's purchase of an adjoining 98 hectare farm located to the north west of the Airport. As part of the transaction, TPL sold 6.7 hectares of land on the western side of the airport and in doing so discharged their commitments for future western precinct infrastructure costs, estimated to be \$1.2m, as per the Titanium Park Joint Venture Terminal Agreement.

Hamilton & Waikato Tourism Limited (HWT), WRAL's 100% wholly owned subsidiary, 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 \$1.7m for tourism, marketing and development activities. Tourism numbers and resulting economic contribution to the region continues to grow and HWT finished the year in a sound financial position.

The Board and Management continue to maintain a strong focus on health, safety and wellbeing which included an independent audit during the year of the Group's Health and Safety policies and procedures.

## GROUP PERFORMANCE

The Group's operating revenue for the 2016/2017 financial year, excluding investment property valuations, was \$8.6m, up on the prior year by \$0.6m. This was primarily driven by land sales, growth in commercial landing charges from increased flight traffic, increased passenger numbers, car park revenue and tourism funding.

Group operating expenditure (including depreciation but excluding the cost of land sales) of \$7.9m, was \$0.3m higher than the prior year due to increased expenditure relating to overhead costs, increased professional services to support a much stronger focus on lease renewals, and depreciation and amortisation expenses.

Group operating profit before tax of \$0.8m was \$0.3m higher than prior year.

The net cash flow from operating activities is a positive \$5.2m offset by the negative net cash flow from investing activities of \$9.3m mainly due to the 98 hectare farm purchase. The airport's current core debt position of \$11.1m increased from the prior year by \$3.7m due to the farm purchase less land sales transacted throughout the year.

The WRAL Group Balance Sheet remains strong and shows Shareholders' Equity of \$82.0m, up \$17.6m on the prior year, primarily as a result of a valuation-based increase in the value of the Group's land holdings.

WRAL prepares an annual Statement of Intent which is approved by their Shareholders and incorporates financial and performance measures for the year. This year's achievement of financial and non-financial targets is shown in note 30 Performance Targets and Results.

	2017 \$000	2016 \$000	Variance \$000
<b>Operating and Other Revenue*</b>	<b>8,632</b>	<b>8,056</b>	<b>576</b>
Direct Expenses	5,199	4,835	(364)
<b>EBITDA</b>	<b>3,433</b>	<b>3,221</b>	<b>212</b>
Depreciation	2,370	2,278	(93)
Interest Costs	299	455	157
Disposals of Assets	–	2	(2)
<b>Operating Profit before Taxation</b>	<b>764</b>	<b>490</b>	<b>274</b>
Net Cash Flow from Operating Activities	5,247	2,769	2,478
Net Cash Flow from Investment Activities	(9,292)	20	(9,312)
<b>Net Cash Flow from Operating &amp; Investment Activities</b>	<b>(4,045)</b>	<b>2,789</b>	<b>(6,834)</b>

\* excludes investment property valuation increase of \$3.3m

## AIRPORT OPERATIONS

The core purpose and key objective for the 2016/2017 year has been to operate the airport in an efficient and compliant manner whilst maintaining a viable aeronautical business.

Operating revenue of \$6.0m was up on prior year by \$0.3m driven by a growth in commercial landing charges from increased flight traffic, increased passenger numbers and car park revenue.

Operating expenditure (including depreciation) of \$6.1m was up on prior year by \$0.2m due to increased professional services to support a much stronger focus on lease renewals, and depreciation and amortisation expenses.

	2017 \$000	2016 \$000	Variance \$000
<b>Operating and Other Revenue*</b>	<b>6,011</b>	<b>5,695</b>	<b>316</b>
Direct Expenses	3,423	3,178	(245)
<b>EBITDA</b>	<b>2,588</b>	<b>2,517</b>	<b>71</b>
Depreciation	2,336	2,257	(79)
Interest Costs	300	452	152
<b>Operating Profit before Taxation</b>	<b>(47)</b>	<b>(192)</b>	<b>145</b>
Net Cash Flow from Operating Activities	2,077	3,414	(1,337)
Net Cash Flow from Investment Activities	(6,036)	(772)	(5,264)
<b>Net Cash Flow from Operating &amp; Investment Activities</b>	<b>(3,959)</b>	<b>2,642</b>	<b>(6,601)</b>

\*excludes investment property valuation increase of \$3.3m

Hamilton Airport continues to meet Civil Aviation Authority of New Zealand's (CAA) certification obligations regarding safety and security. It also 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 aircraft movements from pilot training school L3 CTS Airline Academy (NZ), formerly CTC Aviation Training. Total aircraft movements for the 2016/2017 financial year were 124,000, up 6.7% on the previous year. The influencing factor in CTS's increased aircraft movements is a strengthening in worldwide demand for commercial pilot training.

A key operational capex project for the 2016/2017 financial year was the upgrade to selected surface areas of the western taxiway

to ensure that the ongoing pavement integrity remains safe and secure. This project had a cost of \$600k and was aligned to WRAL's 10 year airfield asset plan. The works comprised of a terminal apron upgrade with an estimated area of 9,830m<sup>2</sup> that was milled and filled with 50mm of replacement asphalt. These works were undertaken due to forecast aging and surface deterioration as a result of the impacts of weathering and operational use. To avoid disruption and to ensure there was minimal impact to airport operations, these works were undertaken at night. We are pleased to report that the project was completed on time, under budget and there were no health and safety incidents.

## 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, as the primary airline operator, has increased seat capacity on its Hamilton routes with increased demand underpinned by the positive regional and national economic conditions. The up gauging of aircraft resulted in increased seat availability and led to a 4.7% year on year growth in volume to 317,000 passengers, up 14,000 on the prior year. This is primarily due to significant growth on the Christchurch and Palmerston North sectors and solid growth on the Wellington service.

## TITANIUM PARK

Titanium Park Limited's focus is to maximise property income from existing leases and concessions and to deliver maximum benefit from the Group's land holdings.

A key objective during the year was the completion of a comprehensive Property Business Plan that sets out the Group's property strategy for the next 10 years. The strategic objective is the maximisation of non-aeronautical revenue whilst ensuring that the airport is future proofed through the retention of key aeronautical land holdings.

A key attraction for businesses of Titanium Park, is that the area provides a gateway to regional markets via its position adjacent to Hamilton Airport. Within the region, Titanium Park is well positioned to optimise the growth in the surrounding areas of Te Awamutu, Cambridge and Hamilton. At a regional level, Waikato links the key import/export regions of Auckland and the Bay of Plenty. The completion of the Waikato Expressway, five kilometres from the airport, will further enhance the strategic location of Titanium Park.

Following a period of what can only be described as stagnant industrial growth, the last twelve months has seen a surge of property activity. The strength of the regional economy combined

with a clear property focus have been the main contributors to this heightened level of activity.

During the year, TPL sold 6.7 hectares of land on the western precinct and in doing so discharged its commitments for future western precinct infrastructure costs, estimated to be \$1.2m, as per the Titanium Park Joint Venture Termination Agreement. In addition, TPL sold several sections totalling just under 1 hectare of land on the central precinct, with construction underway.

A Property Manager was employed to further enhance the Group's property skills base and maximise the opportunities which are ahead of Titanium Park.

### HAMILTON & WAIKATO TOURISM

Hamilton & Waikato Tourism (HWT) has had another successful year of operation and positioning the Waikato region as a business and leisure visitor destination. In August 2016, Jason Dawson was appointed as the new Chief Executive. Mr Dawson has led the implementation of the region's Tourism Opportunities Plan which provides a clear direction to realise the visitor potential of the region in partnership with key stakeholders and agencies.

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. Commercial guest nights for the region increased 7.8% to more than \$1.4m for the year ending May 2017. This is stronger than the national commercial accommodation growth rate of 4%.

Visitor expenditure for the region is estimated to have climbed to \$1.4b for the 12 months ended May 2017. Domestic visitors were the largest contributor at \$1.1b, with international at \$355m. The Hamilton and Waikato region remains the fifth largest for visitor expenditure behind Auckland, Wellington, Christchurch and Queenstown.

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.

### HEALTH & SAFETY

WRAL places high importance on the proactive focus and management of health and safety across the Group and leasehold interests. This includes increasing the awareness of risk and ensuring the development

of sound policies and procedures. Annually, an independent Health & Safety Audit is undertaken and these audits reinforced that WRAL has a compliant and proactive framework in place. In addition, a Safety Committee comprising WRAL staff and an independent safety consultant meets regularly. WRAL is pleased to note that there have been no notifiable events for the 2016/2017 financial year.

### COMMUNITY ENGAGEMENT

During the year, Hamilton Airport hosted preschool and school groups providing guided tours of the airport and its operations.

As a requirement of the District Plan, the airport maintains a structured Noise Management Plan (NMP) with the Airport Community Liaison Group continuing to meet regularly throughout the year with the objective of addressing any aircraft noise issues raised by the community.

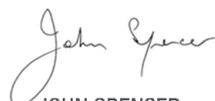
### BOARD

The WRAL and TPL Boards were unchanged during the year however there have been several changes to the HWT's Board. Former Chair, Graeme Osborne, retired in October and Annabel Cotton, a WRAL Director, was appointed as Board Chair. In addition, two Board vacancies were filled in January 2017 by Karleen Turner-Puriri and Malcolm Phillipps.

### CONCLUSION

The WRAL Board would like to thank our five Shareholders and acknowledges the support from the wider councils who participate in the support of the regional tourism organisation. Thanks is also extended to staff across the WRAL Group for their contribution.

The focus for the Group continues to lie in its key objectives of operating an efficient and compliant airport, while maximising revenue diversification through its aeronautical and non-aeronautical property strategy and enhancing tourism growth within the region.

  
**JOHN SPENCER**  
Chair

  
**MARK MORGAN**  
Chief Executive

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the Year Ended 30 June 2017

	Note	ACTUAL 2017 \$000	ACTUAL 2016 \$000
<b>REVENUE</b>			
Operating Revenue	4	7,635	7,428
Land sales	2	4,177	1,071
Finance revenue		–	13
Other gains/(losses)	5	3,306	(3)
<b>Total Revenue</b>		<b>15,118</b>	<b>8,509</b>
<b>EXPENSES</b>			
Cost of land sales	2	3,187	453
Employee benefit expenses		2,135	1,904
Depreciation and amortisation expense	15,28	2,371	2,278
Operating expenses		2,765	2,680
Directors' fees	6	210	170
Bad debts written off		–	2
Audit fees	7	89	98
Finance costs		298	434
<b>Total Expenses</b>		<b>11,055</b>	<b>8,019</b>
<b>SURPLUS BEFORE TAX</b>		<b>4,063</b>	<b>490</b>
Income tax expense	21	293	154
<b>SURPLUS AFTER TAX</b>		<b>3,770</b>	<b>336</b>
<b>OTHER COMPREHENSIVE REVENUE</b>			
Gain on property revaluation	17	13,856	4,400
<b>Total Other Comprehensive Revenue and Expense</b>		<b>13,856</b>	<b>4,400</b>
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENSE</b>		<b>17,626</b>	<b>4,736</b>

The attached Statement of Accounting Policies and Notes forms part of, and is to be read in conjunction with the Financial Statements.

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	ACTUAL 2017 \$000	ACTUAL 2016 \$000		Note	ACTUAL 2017 \$000	ACTUAL 2016 \$000
<b>ASSETS</b>				<b>LIABILITIES</b>			
<b>Current Assets</b>				<b>Current Liabilities</b>			
Cash and cash equivalents	13	58	433	Payables and accruals	9	1,503	1,791
Receivables	10	431	606	Employee benefits liabilities	24	298	252
Inventories		91	83	Current tax liabilities		195	250
Prepayments		75	19	Interest bearing liabilities		91	85
Development property	14	8,494	11,446	Revenue in advance		79	85
<b>Total Current Assets</b>		<b>9,149</b>	<b>12,587</b>	<b>Total Current Liabilities</b>		<b>2,166</b>	<b>2,463</b>
<b>Non current Assets</b>				<b>Non-Current Liabilities</b>			
Property, plant and equipment	15	77,349	64,658	Interest bearing liabilities		10,962	7,298
Intangible assets	28	1,062	1,227	Deferred tax liabilities	22	7,781	8,138
Investment property	27	15,307	3,750	<b>Total Non Current Liabilities</b>		<b>18,743</b>	<b>15,436</b>
Other non current assets	23	74	83				
<b>Total Non Current Assets</b>		<b>93,792</b>	<b>69,718</b>				
<b>TOTAL ASSETS</b>		<b>102,941</b>	<b>82,305</b>	<b>TOTAL LIABILITIES</b>		<b>20,909</b>	<b>17,899</b>
				<b>NET ASSETS</b>		<b>82,032</b>	<b>64,406</b>
<b>EQUITY</b>							
Share capital	17	14,860	14,860				
Retained earnings	17	20,238	16,468				
Other reserves	17	46,934	33,078				
<b>TOTAL EQUITY</b>		<b>82,032</b>	<b>64,406</b>				

The attached Statement of Accounting Policies and Notes forms part of, and is to be read in conjunction with the Financial Statements.

  
**JOHN SPENCER**  
Chair  
7 September 2017

  
**ANNABEL COTTON**  
Director  
7 September 2017

## STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2017

	Note	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Balance at 1 July		64,406	59,669
Total comprehensive revenue and expense for the year		17,626	4,736
<b>Balance at 30 June</b>	17	82,032	64,406
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENSE ATTRIBUTABLE TO</b>			
Equity holders of the parent		17,626	4,736
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENSE</b>		<b>17,626</b>	<b>4,736</b>

The attached Statement of Accounting Policies and Notes form part of, and are to be read in conjunction with the Financial Statements.

## STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2017

	Note	ACTUAL 2017 \$000	ACTUAL 2016 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating Revenue		12,064	7,830
Interest received		–	13
Payments to suppliers and employees		(5,185)	(4,245)
Interest paid		(298)	(434)
Income tax paid		(705)	(504)
GST (net)		(51)	43
Cost of development property		(578)	66
<b>Net cash flow from operating activities</b>		<b>5,247</b>	<b>2,769</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Receipts from sale of property, plant and equipment		24	10
Sale of shares (Paper Plus)		–	25
Purchase of property, plant and equipment		(1,059)	(302)
Funds placed on deposit		–	287
Purchase of investment property		(8,257)	–
<b>Net Cash Flow from Investing Activities</b>		<b>(9,292)</b>	<b>20</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		3,756	–
Repayment of borrowings		(86)	(2,871)
<b>Net Cash Flow from Financing Activities</b>		<b>3,670</b>	<b>(2,871)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(375)</b>	<b>(82)</b>
Cash and cash equivalents at the beginning of the year		433	515
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>13</b>	<b>58</b>	<b>433</b>

The attached Statement of Accounting Policies and Notes forms part of, and is to be read in conjunction with the Financial Statements.

## 1. STATEMENT OF ACCOUNTING POLICIES

### 1.1 Reporting entity

The Waikato Regional Airport Limited Group consists of the Waikato Regional Airport Limited, Titanium Park Limited (100% owned) and Hamilton & Waikato Tourism Limited (100% owned). 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 (the Company) and Group are for the year ended 30 June 2017. The financial statements were authorised for issue by the Board of Directors on 7 September 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The Company and Group have prepared the Consolidated Financial Statements in accordance with the Companies Act 1993, the Local Government Act 2002 and the Airport Authorities Act 1966.

These financial statements have been prepared on the going concern basis and are 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 Company is eligible and has elected to report in accordance with Tier 2 PBE Standards RDR on the basis that the Company has no public accountability and is not large as defined in XRB A1.

#### Presentation currency and rounding

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

### 2.2 Basis of consolidation

The purchase method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, equity, revenue and expenses of entities in the group on a line by line basis. All significant intragroup balances, transactions, revenues and expenses are eliminated on consolidation.

### 2.3 Inventory

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.

### 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 statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

## 2.5 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.

## 2.6 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.

## 2.7 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.

## 2.8 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 assets 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/(deficit).

For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus/(deficit).

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/(deficit).

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the surplus/deficit.

## 2.9 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/(deficit).

## 2.10 Cost of land sales

When development property is sold, the carrying amount of the development property is recognised as an expense in the period in which the related income is recognised. The purchase price of the land is recognised as an expense based on the actual cost of the land and the proportion of the land area sold. This expense also includes a proportion of the capitalised interest which is based on the costs incurred for the development properties. Costs of conversion are recognised as an expense based on the proportion of land area sold. Further work on the property that has already been delivered to the buyer is recognised as a liability and an expense.

## 2.11 Land sales

Income from the sale of property is recognised where the sale contract is unconditional and the significant risks and rewards of ownership have been transferred to the buyer.

## 2.12 Changes in accounting policies

There have been no changes to accounting policies during the year.



### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

#### (a) Critical accounting estimates and assumptions

In preparing these financial statements 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 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 Statement of Financial Position. Directors and Management minimise 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 land, property, plant and equipment (including those assets that were revalued this year) are disclosed in note 15.

The net realisable value of development property is evaluated after forecasting future sales and development expenses. All known factors are included in the evaluation.

#### (b) Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies for the year ended 30 June 2017:

- Classification of investment property, see note 27.

### 4. OPERATING REVENUE

#### Accounting policy

Revenue is measured at fair value.

#### Revenue from exchange transactions

##### Operating revenue

Operating revenue is recognised when earned.

##### Interest revenue

Interest revenue is recognised using the effective interest method.

##### Rental revenue

Rental revenue 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 & 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 revenue received in advance and recognised as revenue when conditions of the funding are satisfied.

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
<b>EXCHANGE</b>		
Car park	1,718	1,591
Landing charges and departure charges	2,367	2,258
Rentals and concessions	1,574	1,566
Shop trading and other	352	363
<b>Total exchange</b>	<b>6,011</b>	<b>5,778</b>
<b>NON EXCHANGE</b>		
Other	1,626	1,650
Service income	(2)	–
<b>Total non exchange</b>	<b>1,624</b>	<b>1,650</b>
<b>TOTAL EXCHANGE AND NON EXCHANGE</b>	<b>7,635</b>	<b>7,428</b>



## 5. OTHER GAINS/(LOSSES)

	Note	ACTUAL 2017 \$000	ACTUAL 2016 \$000
<b>OTHER GAINS</b>			
Gain on revaluation of investment property	27	3,300	20
Gain/(loss) on sale of property, plant and equipment		6	(2)
		3,306	18
<b>OTHER LOSSES</b>			
Loss on fair value adjustment interest rate swaps	25	–	(21)
<b>TOTAL OTHER GAINS (LOSSES)</b>		<b>3,306</b>	<b>(3)</b>

## 6. DIRECTORS' FEES

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Waikato Regional Airport Limited Board of Directors	108	104
Hamilton & Waikato Tourism Limited Board of Directors	48	30
Titanium Park Limited Board of Directors	54	36
<b>TOTAL DIRECTORS' FEES</b>	<b>210</b>	<b>170</b>

## 7. AUDIT FEES

The Company's audit fees per the Audit Proposal Letter is \$62,996 (2016: \$62,126).

Hamilton & Waikato Tourism Limited's audit fees per the Audit Proposal letter is \$11,187 (2016: \$10,710).

Titanium Park Limited's audit fee per the Audit Proposal letter is \$15,235 (2016: \$14,922).

## 8. DONATIONS

During the year the Company made donations to charities totaling \$857 (2016: \$261).

## 9. PAYABLES AND ACCRUALS

### Accounting policy

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.

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

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Payables	659	604
Accrued expenses	844	1,187
<b>TOTAL PAYABLES AND ACCRUALS</b>	<b>1,503</b>	<b>1,791</b>

## 10. RECEIVABLES

### Accounting policy

Receivables are generally short term and non interest bearing. Therefore, the carrying value of the receivables approximates their fair value.

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 sale of the receivable.

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Receivables	431	606
<b>GROSS RECEIVABLES</b>	<b>431</b>	<b>606</b>

The carrying amount of receivables that are past due date, but not impaired, whose terms have been renegotiated is nil (2016: nil).

At balance date, all overdue receivables have been assessed for impairment and no provisions are required. As at 30 June 2017, the Company has identified no debtors that are insolvent.

## 11. COMMITMENTS

### Accounting policy

#### Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

There are no non cancellable operating leases.

#### Capital commitments

The Group had no capital commitments as at 30 June 2017 (2016: \$1.8m).

## 12. CONTINGENT LIABILITIES

The Group has two contingent liabilities at 30 June 2017.

Firstly, in respect of the Water Supply Upgrade Agreement between Waipa District Council, Waikato Regional Airport Limited, Titanium Park Limited and Titanium Park Development Limited that provides for the parties to upgrade the current water supply. The cost of the upgrade is \$845k with 59.4% payable jointly by Waikato Regional Airport Limited and Titanium Park Limited, and 40.6% payable by Titanium Park Development Limited. The Board of Directors cannot reasonably estimate the timing of the water upgrade as this is contingent on future land development.

Secondly, in respect of the Memorandum of Agreement between New Zealand Transport Agency, Waikato Regional Airport Limited, Titanium Park Limited and Titanium Park Development Limited for the construction of a roundabout and an intersection upgrade on the adjacent State Highway 21 that is triggered by traffic volumes. Should the liability be triggered TPL would be liable for a proportionate share of the cost. The Board of Directors cannot reasonably estimate the cost and timing of the liability due to New Zealand Transport Agency's long term planning for developing and managing its State Highway network and the contingent timing and traffic volumes associated with the liability.

## 13. CASH AND CASH EQUIVALENTS

### Accounting policy

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.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Cash on hand	9	8
Cash at bank	49	425
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>58</b>	<b>433</b>

## 14. DEVELOPMENT PROPERTY

### Accounting policy

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. Holding costs (e.g. interest) are capitalised against the carrying value of the development property as incurred or accrued. Marketing and administration expenses related to development property are expensed when incurred.

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Development property	8,494	11,446
<b>TOTAL DEVELOPMENT PROPERTY</b>	<b>8,494</b>	<b>11,446</b>

Waikato Regional Airport Limited's subsidiary Titanium Park Limited has 29.8 hectares of land (2016: 37.2 hectares). This was valued at 30 June 2017 by Telfer Young (Waikato) Limited.



## 15. PROPERTY, PLANT AND EQUIPMENT

### Accounting policy

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.

#### (i) 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 Group and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

#### (ii) 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/(deficit).

When revalued assets are sold, the amounts included in the asset revaluation reserves in respect of those assets are transferred to retained earnings.

#### (iii) 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 Group, and the cost of the item can be measured reliably.

The costs of day to day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

#### (iv) 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 residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

The estimated useful lives of the major classes of assets are:

Class of asset depreciated	Estimated useful life
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

#### (v) Revaluation

Valuations are performed when there has been a material difference in carrying amount in fair value, which is assessed and determined on an annual basis. Valuations take account of observable prices in active markets. Where estimates are made, they are made on the basis of appropriate valuation techniques.

#### (vi) Operational Land and Buildings

The valuation is fair value determined from market based evidence. All valuations are undertaken or reviewed by an independent registered valuer and are performed when there is a material difference in carrying amount.

Land was revalued at 30 June 2017.

#### (vii) Infrastructure Assets

At fair value determined on a depreciated replacement cost basis by an independent registered valuer and performed when there is a material difference in carrying amount.

ASSET CLASS	VALUATION APPROACH	VALUER	FAIR VALUE
Land	Fair market, highest and best use basis determined from prevailing market based evidence and conditions	Telfer Young Ltd	36,670
Buildings 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
Plant and equipment	Cost less depreciation		
Furniture and fittings	Cost less depreciation		
Motor vehicles	Cost less depreciation	Not applicable these assets are not valued	
Computer equipment	Cost less depreciation		

The effective date of buildings 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 2017 (\$36,670,000).

Neither valuer has an interest or relationship with any party that would impair its objectivity or independence.

**Attachment 1**

**Item 8**

2017	LAND \$'000	BUILDINGS \$'000	RUNWAYS, APRONS & TAXIWAYS \$'000	PLANT & EQUIPMENT \$'000	FURNITURE & FITTINGS \$'000	MOTOR VEHICLES \$'000	OTHER PAVED AREAS \$'000	FENCING \$'000	RETICULATED SYSTEMS \$'000	COMPUTER EQUIPMENT \$'000	WIP \$'000	TOTAL \$'000
<b>COST / VALUATION</b>												
Balance as at 1 July 2016	22,814	18,751	18,566	1,566	1,261	1,190	1,826	198	1,217	249	67	67,745
<b>Year ended 30 June 2017</b>												
Additions	-	35	648	199	32	107	4	-	-	64	(30)	1,059
Disposals	-	-	-	-	-	(55)	-	-	-	(67)	(1)	(123)
Revaluation	13,856	-	-	-	-	-	-	-	-	-	-	13,856
Transfers	-	-	(97)	-	-	-	97	-	-	-	-	-
<b>Balance as at 30 June 2017</b>	<b>36,670</b>	<b>18,786</b>	<b>19,137</b>	<b>1,785</b>	<b>1,293</b>	<b>1,242</b>	<b>1,927</b>	<b>198</b>	<b>1,217</b>	<b>246</b>	<b>36</b>	<b>82,537</b>
<b>2016</b>												
<b>COST / VALUATION</b>												
Balance as at 1 July 2015	22,817	19,886	18,734	1,586	1,218	1,215	2,307	566	1,229	235	1,529	71,322
<b>Year ended 30 June 2016</b>												
Revaluation surplus	-	(1,118)	(360)	-	-	-	(504)	(367)	(56)	-	-	(2,405)
Additions	-	5	212	-	43	-	23	-	21	70	(183)	191
Disposals	(3)	-	-	-	-	(25)	-	-	-	(57)	-	(65)
Transfers	-	(22)	-	-	-	-	-	(1)	23	1	-	1
Transfers to intangibles	-	-	-	-	-	-	-	-	-	-	(1,279)	(1,279)
<b>Balance as at 30 June 2016</b>	<b>22,814</b>	<b>18,751</b>	<b>18,586</b>	<b>1,586</b>	<b>1,261</b>	<b>1,190</b>	<b>1,826</b>	<b>198</b>	<b>1,217</b>	<b>249</b>	<b>67</b>	<b>67,745</b>

2017	LAND \$000	BUILDINGS \$000	RUNWAYS, APRONS & TAXIWAYS \$000	PLANT & EQUIPMENT \$000	FURNITURE & FITTINGS \$000	MOTOR VEHICLES \$000	OTHER PAVED AREAS \$000	FENCING \$000	RETICULATED SYSTEMS \$000	COMPUTER EQUIPMENT \$000	WIP \$000	TOTAL \$000
<b>ACCUMULATED DEPRECIATION</b>												
Balance as at 1 July 2016	-	-	-	(1,272)	(1,014)	(624)	-	-	-	(177)	-	(3,087)
<b>Year ended 30 June 2017</b>												
Disposals	-	-	-	-	-	42	-	-	-	63	-	105
Depreciation charge	-	(393)	(1,132)	(95)	(100)	(86)	(280)	(34)	(45)	(39)	-	(2,204)
<b>Balance as at 30 June 2017</b>	-	(393)	(1,132)	(1,367)	(1,114)	(668)	(280)	(34)	(45)	(153)	-	(5,186)
<b>2016</b>												
<b>ACCUMULATED DEPRECIATION</b>												
Balance as at 1 July 2015	-	(2,221)	(3,458)	(1,198)	(951)	(549)	(748)	(169)	(126)	(197)	-	(9,617)
<b>Year ended 30 June 2016</b>												
Revaluation surplus	-	2,793	4,421	-	-	-	937	201	163	-	-	8,515
Disposals	-	-	-	27	27	14	-	1	-	58	-	127
Depreciation charge	-	(572)	(963)	(101)	(90)	(89)	(189)	(33)	(37)	(36)	-	(2,112)
<b>Balance as at 30 June 2016</b>	-	-	-	(1,272)	(1,014)	(624)	-	-	-	(177)	-	(3,087)
<b>NET BOOK VALUE</b>												
Balance as at 30 June 2017	36,670	18,393	18,003	419	179	573	1,647	164	1,172	93	36	77,349
Balance as at 30 June 2016	22,814	18,751	18,586	314	247	566	1,826	198	1,217	72	67	64,658

\*In the Buildings asset class, \$1.7m for buildings on Boyd Road are pledged as security for liabilities (refer note 16).





## 16. INTEREST BEARING TERM LIABILITIES

### Accounting policy

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 balance date.

### BNZ bank loan Facilities

At 30 June 2017, the Company had the following facilities with the BNZ Bank:

(i) An overdraft facility of \$1,000,000 repayable on demand (2016: \$500,000). 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 \$10,000,000 that matures on 30 November 2020. The amount outstanding on this facility at 30 June 2017 was \$8,060,000 (2016: \$6,043,000).

(iii) A second Customised Average Rate Loan (CARL) of \$1,253,425 that matures on 30 November 2020. The amount outstanding on this facility at 30 June 2017 was \$1,253,425 (2016: \$1,339,840).

(iv) A third Customised Average Rate Loan (CARL) of up to \$1,739,100 matures on 17 May 2022. The amount outstanding on this facility at 30 June 2017 was \$1,739,100 (2016: \$0).

The \$1.3m CARL facility is secured over buildings at Boyd Road, Hamilton.

## 17. EQUITY

### Accounting policy

#### 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.

	ACTUAL 2017 No. 000's	ACTUAL 2016 No. 000's	ACTUAL 2017 \$000	ACTUAL 2016 \$000
<b>ORDINARY SHARES ISSUED</b>				
Balance of shares as at 1 July	4,974	4,035	14,860	14,860
Repurchase uncalled capital	—	939	—	—
<b>Issued paid shares at 30 June</b>	<b>4,974</b>	<b>4,974</b>	<b>14,860</b>	<b>14,860</b>

During the prior year, the Company 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 shares have no par value.

The shareholding of the Company as at 30 June 2017 is as follows:

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE
Hamilton City Council	2,486,752	50.0%
Waipa District Council	777,110	15.6%
Matamata Piako District Council	777,110	15.6%
Waikato District Council	777,110	15.6%
Otorohanga District Council	155,422	3.2%
	<b>4,973,504</b>	<b>100.0%</b>

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
<b>RETAINED EARNINGS</b>		
Balance at 1 July	16,468	16,132
Surplus for the year	3,770	336
<b>Balance 30 June</b>	<b>20,238</b>	<b>16,468</b>
<b>ASSET REVALUATION RESERVE</b>		
Balance at 1 July	33,078	28,677
Revaluation gains	13,856	6,112
Deferred tax on movement	—	(1,711)
<b>Balance 30 June</b>	<b>46,934</b>	<b>33,078</b>
<b>ASSET REVALUATION RESERVES FOR EACH ASSET CLASS CONSIST OF:</b>		
Land	28,284	14,428
Buildings	4,092	4,092
Fencing	232	232
Reticulated systems	777	777
Runways, aprons and taxiways	12,388	12,388
Other paved areas	1,161	1,161
<b>Total</b>	<b>46,934</b>	<b>33,078</b>

## 18. 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 are reasonable to expect that the Company and Group would have adopted in dealing with the party at arm's length in the same circumstances. Related party disclosures have also not been made for transactions with entities within the Group (such as funding financial flows) where the transactions are consistent with normal operating relationships between the entities and are on normal terms and conditions for such group transactions.

### The following transactions carried out with related parties were not on normal commercial terms:

- Titanium Park Limited was not charged interest during the year on the \$2.953m advance provided to it by the Company.
- Titanium Park Limited was not charged rent on four property lots that it leased from the Company during the year.

Due to the difficulty in determining the full time equivalent for Directors, the full time equivalent figure is taken as the number of Directors.

Key management personnel comprises Directors and the Group's management team.

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
<b>KEY MANAGEMENT PERSONNEL REMUNERATION</b>		
<b>Directors</b>		
Remuneration	210	170
Full time equivalent members	13	12
<b>Senior management</b>		
Remuneration	766	628
Full time equivalent members	4	3
<b>TOTAL KEY MANAGEMENT PERSONNEL REMUNERATION</b>	<b>976</b>	<b>798</b>
<b>TOTAL FULL TIME EQUIVALENT PERSONNEL</b>	<b>17</b>	<b>15</b>

## 19. EVENTS AFTER THE BALANCE DATE

There were no events after the balance date that would require disclosure in, or adjustment to, the financial statements.

## 20. 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: receivables, cash and cash equivalents, 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.

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
<b>LOANS AND RECEIVABLES</b>		
Cash and cash equivalents	58	433
Receivables	431	606
	<b>489</b>	<b>1,039</b>
<b>FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b>		
Payables	1,503	1,791
Interest bearing liabilities	11,053	7,363
	<b>12,556</b>	<b>9,174</b>

## 21. INCOME TAX

### Accounting policy

Income tax expense in relation to the surplus or deficit 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 transactions recognised in other comprehensive revenue and expense or directly in equity.

		ACTUAL 2017 \$000		ACTUAL 2016 \$000
<b>COMPONENTS OF TAX EXPENSE</b>				
Current year		650		398
Movement in temporary differences		(357)		(244)
<b>Total Tax Expense</b>		<b>293</b>		<b>154</b>
<b>RECONCILIATION OF EFFECTIVE TAX RATE</b>				
	%	2017 \$000	%	2016 \$000
Surplus for the period excluding income tax		4,062		490
Prima facie income tax based on domestic tax rate	28.00%	1,138	28.00%	137
Effect of non deductible expenses	1.99%	79	3.42%	17
Effect of tax exempt income	(22.74)%	(924)	—%	—
	<b>7.25%</b>	<b>293</b>	<b>31.42%</b>	<b>154</b>



## 22. 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 1 July 2015	6,959	(171)	(23)	(94)	6,671
Charged to surplus and deficit	(496)	171	(2)	77	(250)
Tax loss recognised	-	-	-	6	6
Charged to equity	1,711	-	-	-	1,711
<b>Balance as at 30 June 2016</b>	<b>8,174</b>	<b>-</b>	<b>(25)</b>	<b>(11)</b>	<b>8,138</b>
Balance as at 1 July 2016	8,174	-	(25)	(11)	8,138
Charged to surplus and deficit	(360)	-	(1)	4	(357)
Tax loss recognised	-	-	-	-	-
Charged to equity	-	-	-	-	-
<b>Balance as at 30 June 2017</b>	<b>7,814</b>	<b>-</b>	<b>(26)</b>	<b>(7)</b>	<b>7,781</b>



## 23. OTHER ASSETS

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
L3 CTS apron costs (amortise over lease period)	74	83
<b>TOTAL OTHER ASSETS</b>	<b>74</b>	<b>83</b>

### 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.

During the year, CTC Aviation Training (NZ) Limited changed its name to L3 CTS Airline Academy (NZ) Limited.

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.

## 24. EMPLOYEE BENEFITS LIABILITIES

### Accounting policy

#### Short term employee entitlements

Employee benefits expected to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date and annual leave earned to, but not yet taken at balance date.

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.

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Annual leave	105	102
Accrued salary and wages	193	150
<b>TOTAL EMPLOYEE BENEFITS LIABILITIES</b>	<b>298</b>	<b>252</b>



## 25. DERIVATIVE FINANCIAL INSTRUMENTS

### Accounting policy

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/deficit.

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/deficit and are shown in the Statement of Financial Position at their estimated fair value.

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Fair value interest rate swaps – 1 July	–	(611)
Loss during the year	–	(21)
Swap closed out during the year	–	632
<b>FAIR VALUE OF INTEREST RATE SWAP</b>	<b>–</b>	<b>–</b>

There were no derivative financial instruments in place during the year.

## 26. OTHER FINANCIAL ASSETS

### Accounting policy

The Company classifies its financial assets into the following four categories:

- fair value through surplus or deficit;
- loans and receivables;
- held to maturity investments; and
- 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 surplus or deficit in which case the transaction costs are recognised in the surplus/deficit.

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.

### Financial assets at fair value through surplus or deficit

This category has two sub categories: financial assets held for trading and those designated at fair value through surplus or deficit 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/deficit.

### 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/deficit. Loans and receivables are classified as "Receivables" in the Statement of Financial Position.

### Held to maturity

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the intention and ability to hold to maturity. After initial recognition they are measured at amortised cost, using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

### Fair value through other comprehensive revenue and expense

These investments are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit. On derecognition, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

#### (i) 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/deficit.

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Shares - Paper Plus 1 July	–	25
Shares - Paper Plus sold	–	(25)
<b>TOTAL OTHER FINANCIAL ASSETS</b>	<b>–</b>	<b>–</b>

There were no impairment provisions for other financial assets.



## 27. INVESTMENT PROPERTY

### Accounting policy

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, all investment property is measured at fair value at each reporting date.

Gains or losses arising from a change in the fair value of investment property are recognised in the surplus/(deficit).

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 2017. The valuation was performed by Doug Saunders, Registered Valuer, BCom (VPM), FNZIV, FPINZ, an independent valuer from Telfer Young Limited. Telfer Young Limited is an experienced valuer with extensive market knowledge in the types of investment properties owned by the Company.

There were no contractual obligations for capital and operating expenditure on the investment property.

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Opening balance	3,750	3,730
Fair value gain on valuation	3,300	20
Additions during the year	8,257	–
<b>TOTAL INVESTMENT PROPERTY</b>	<b>15,307</b>	<b>3,750</b>

## 28. INTANGIBLE ASSETS

### Accounting policy

#### Computer acquisition

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

Costs associated with maintaining computer software programmes 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.

#### Other Intangible Assets

Other Intangible Assets include Designation Assets.

The Light Designation asset has a carrying value of \$201k at 30 June 2017 (2016: \$268k) with a remaining amortisation period of three years (2016: four years). The Runway Designation asset has a carrying value of \$857k at 30 June 2017 (2016: \$952k) with a remaining amortisation period of nine years (2016: ten years).

#### Amortisation

Computer software licences are amortised on a straight line basis over their estimated useful life of three years. The Light Designation asset is amortised on a straight line basis over its estimated useful life of five years. The Runway Designation asset is amortised on a straight line basis over its estimated useful life of 15 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/(deficit).

	ACQUIRED ASSETS \$000	TOTAL \$000
<b>YEAR ENDED 30 JUNE 2016</b>		
Opening net book value	107	107
Additions	111	111
Disposals	(107)	(107)
Amortisation charge	(170)	(170)
Transfers from property, plant and equipment	1,286	1,286
<b>Closing net book value</b>	<b>1,227</b>	<b>1,227</b>
<b>AT 30 JUNE 2016</b>		
Cost	1,394	1,394
Accumulated amortisation and impairment	(167)	(167)
<b>Net book value</b>	<b>1,227</b>	<b>1,227</b>
<b>YEAR ENDED 30 JUNE 2017</b>		
Opening net book value	1,227	1,227
Additions	–	–
Disposals	–	–
Amortisation charge	(165)	(165)
<b>Closing net book value</b>	<b>1,062</b>	<b>1,062</b>
<b>AT 30 JUNE 2017</b>		
Cost	1,394	1,394
Accumulated amortisation and impairment	(332)	(332)
<b>Net book value</b>	<b>1,062</b>	<b>1,062</b>

## 29. ASSET IMPAIRMENT

There has been no impairment of assets recognised in 2017 (2016: nil).

## 30. PERFORMANCE TARGETS AND RESULTS

The Company, TPL and HWT each prepare an annual Statement of Intent, which is approved by Shareholders and incorporates financial and performance measures for the ensuing year.

A comparison of the Group's actual results for the year are shown below against forecast. These results exclude gains on investment property valuations and also excludes TPL land sales and tax associated with those land sales.

The Group has achieved most of the financial performance targets for 2017 and all of the non-financial performance targets (2016: achieved all of the financial performance targets and most of the non financial performance targets).



FINANCIAL PERFORMANCE TARGETS AND RESULTS FOR GROUP	ACTUAL	TARGET	MET	COMMENT	ACTUAL	TARGET
	2017 \$000	STATEMENT OF INTENT \$000			2016 \$000	STATEMENT OF INTENT \$000
Net surplus / (deficit) after tax	(\$305)	(\$366)	Y	Result is better than planned due to higher than forecast passenger activity.	(\$282)	(\$421)
Net surplus/(deficit) after tax to average shareholder funds	(0.42%)	(1.00%)	Y	Result is better than planned due to higher than forecast passenger activity.	0.54%	(1.00%)
Net surplus/(deficit) after tax to total assets	(0.30%)	0.00%	N	Slightly worse than planned.	0.41%	(1.00%)
Earnings before interest, taxation and depreciation and amortisation (EBITDA)	\$2,443	\$2,279	Y	Result is better than planned due to higher than forecast passenger activity.	\$2,585	\$2,061
Net Operating cash flow	\$5,247	\$1,594	Y	Result is better than planned due to higher than forecast passenger activity.	New target in 2017	
Net Investing cash flow	(\$9,292)	(\$1,540)	N	The result reflects the 98 hectare farm purchase.	New target in 2017	
Funding Titanium Park Limited	\$3,161	(\$505)	Y	Result is better than expected due to TPL reducing their loan advance to WRAL.	New target in 2017	
Net cash flow (operating & investing)	(\$884)	(\$451)	N	The result reflects the 98 hectare farm purchase.	\$2,789	(\$632)
Net Debt	\$10,994	\$8,287	N	The result reflects the 98 hectare farm purchase.	New target in 2017	
Total liabilities/shareholders' funds (debt/equity ratio)	20:80	26:74	Y	The ratio is better than planned due to increased land valuations.	21:79	25:75
<b>PARENT COMPANY OPERATIONS ONLY</b>						
Percentage of non landing charges revenue	81%	76%	Y	Result is better than planned due to higher than forecast passenger activity.	81%	64%
Interest cover	8.63	6.56	Y	Result is better than planned due to higher than forecast passenger activity.	5.81	2.86
Net profit before tax, interest, re-valuations to total assets	0.25%	NEW				
Net profit before tax, interest, re-valuations to shareholder funds	0.30%	NEW				
Net profit after tax and re-valuations to total assets	3.15%	NEW				
Net profit after tax and re-valuations to shareholder funds	3.79%	NEW				

Non Financial Performance targets and results (Group)

2017 TARGET	COMMENT	MET	2016 TARGET	COMMENT	MET
Facilitate Health & Safety meetings every 2 months with representatives from each company department.	Health and Safety meetings are undertaken on monthly basis.	Y	Facilitate Health & Safety meetings every 2 months with representatives from each company department.	Health and Safety meetings are undertaken on monthly basis.	Y
Zero Work Safe notifiable accidents/injuries.	There were no notifiable incidents.	Y	Zero Work Safe notifiable accidents/injuries	There was one notifiable incident.	N
Independently review and implement the company's Health & Safety framework to align with the requirements of the Health and Safety at Work Act 2015.	An independent audit was undertaken in September 2016. Enhancements to the existing procedures in relation to notifiable incidents and company responsibility were implemented. All existing H&S frameworks have been undertaken to include the provisions of the Health and Safety at Work Act 2015 requirements.	Y	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
To achieve the Airport Certification Standards as required by the Civil Aviation Authority and as evidenced by Civil Aviation Authority audit reports	The airport continues to meet the Airport Certification Standards.	Y	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
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	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
Facilitate noise management meetings each 4 months in accordance with the Noise Management Plan	Meetings have been facilitated every 4 months.	Y	Facilitate noise management meetings each 4 months in accordance with the Noise Management Plan	Meetings have been facilitated every 4 months.	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.	There were 43 customer feedback cards collected during the period 1 July 2016 to 30 June 2017. 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.	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

### TPL's financial and non financial targets

TPL's performance measures were mostly met against their Statement of Intent targets for the year ended 30 June 2017. TPL had three objectives for the 2016/2017 year, with the first objective being to conclude all outstanding conditions relating to the Joint Venture Termination Agreement (JVTA). This objective was met with some of the major work being a new water supply agreement, discharging the payment liability to New Zealand Transport Authority for contribution to the intersection roundabout of State Highway 3 and State Highway 21, and a technical review of the waste water infrastructure and treatment plant for the eastern side of the Airport. During the year, TPL sold 7.3479 hectares of land comprising of two land sales on the Central Precinct totaling 0.6621 hectares and a further 6.6858 hectares on the Western Precinct. The sale of the Western Precinct land discharged the remaining infrastructure commitment costs from the JVTA that had an estimated liability of \$1.2m.

The second key objective was to complete a comprehensive business plan. This was achieved with the key intent of the business plan providing a 10 year Group property strategy. The plan seeks over the ten year period to generate \$1m annual earnings before tax from a design and build property portfolio and maximising group lease and concession income. This plan initially sees TPL selling land to enable the further development of land and infrastructure which will generate equity to fund the property portfolio. This strategy will in the longer term support the aeronautical group income. The execution of the Business Plan is on track as demonstrated by \$4.2m of land sales in the current financial year.

The remaining key objective for the 2016/2017 financial year was to maximise revenue from the current lease portfolio. When comparing the current lease income to the prior year, TPL did not increase their lease income primarily as a result of the reduced lease income from the land settled under the JVTA.

TPL's Shareholders' Funds to Total Assets is 47% (2016: 34%).

### HWT's financial and non financial targets

HWT's performance measures were mostly met against their Statement of Intent targets for the year ended 30 June 2017.

HWT had three objectives for the 2016/2017 year which included growing website traffic by 20%, receiving Industry Partnership contributions of \$400k and maintaining a positive cashflow.

The website traffic increased by 8.3% (2016: 26.9%) on last financial year with 600,161 visits this year compared to 554,250 in 2016, resulting in an increase of 45,911 visits. The contributions received from Industry Partnerships totalled \$453,338 (2016: 455,299) and exceeded the target of \$400,000 with the year being on par with 2016. The cash flow target surplus was achieved with a final bank and cash in hand value of \$183,785 (2016: \$298,037).

HWT's Shareholders' Funds to Total Assets is 35% (2016: 31%).

PERFORMANCE TARGETS TO 30 JUNE 2017	TARGET STATEMENT OF INTENT	ACTUAL 2017	ACHIEVED 2017	ACHIEVED 2016
Growth in website traffic (total visits)	20%	8.3%	Not achieved	Not achieved
Industry partnership contributions	\$400,000	\$453,338	Achieved	Achieved
Cash flow	To ensure the company has sufficient cash to fund activity for the year without recourse to the shareholder	Surplus	Achieved	Achieved



## 31. OTHER INFORMATION

### 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 that person being a director, shareholder, partner, trustee or officer of those entities.

DIRECTOR	ENTITY	INTEREST
J Spencer CNZM	Advisory Board for Iron Duke Limited	Chair
	Derby Street Limited	Director
	Mitre 10 (New Zealand) Limited	Director
	Mitre 10 Holdings Limited	Director
	Mitre 10 Imports Limited	Director
	Mitre 10 Retail Limited	Director
	Raukawa Iwi Development Limited	Chair
	Taupo Mega Limited	Director
	Te Awamutu Mega Limited	Director
	Tertiary Education Commission	Chair
	Waikato Regional Airport Limited	Director
	Wellington Mega Limited	Director
	A Cotton	Access IR Group Limited
Anamallai Tea Estates & Ropeway Company Limited		Shareholder
Anamallai Tea Kettle Limited		Director, Shareholder
Donny Trust		Trustee
Enigma Nominees Limited		Shareholder
Farmy McFarm Limited		Director, Shareholder
Hamilton and Waikato Tourism Limited		Chair
Merlin Consulting Limited		Director, Shareholder
Merlin Group Limited		Director, Shareholder
RAW 2014 Limited		Director
Trust Investments Management Limited		Director
Waikato Regional Airport Limited	Director	
C da Silva	Andrew Johnson Business Trust	Trustee
	Certus Group Limited	Director, Shareholder
	Columbus Financial Services Limited	Director
	Consumer Finance Limited	Director
	Consumer Insurance Services Limited	Director
	Coromandel Trust	Trustee
	Da Silva Advisory Limited	Director, Shareholder
	Da Silva Children's Trust	Trustee

DIRECTOR	ENTITY	INTEREST
	Fisher & Paykel Finance Limited	Chair
	Flexi Cards Limited	Director
	Flexi Financial Services Limited	Director
	Gardon Limited	Director
	Guarda Trust	Trustee
	Homeopathic Trust	Trustee
	IT Partners Group Limited	Director, Shareholder
	IT Partners Limited	Director
	Jarvis Trading Limited	Director
	Larsen Family Trust	Trustee
	Lightwire Limited	Director
	Ocean Sands Trust	Trustee
	Retail Financial Services Limited	Director
	Seguro Trust	Trustee
	Te Maunga Trust	Trustee
	Titanium Park Limited	Director
	Trelise Cooper Group Limited	Director
	Trelise Cooper Properties Limited	Director
	Waikato Regional Airport Limited	Director
	Waikato Rental Trust	Trustee
<b>M Devlin</b>	Auckland City Water	Director
	City Care Limited	Director
	Harrison Grierson Consultants Limited	Chair
	Harrison Grierson Holdings Limited	Director, Shareholder
	Indepen NZ Limited	Director, Shareholder
	Institute of Directors New Zealand Incorporated	Chartered Fellow
	Institute of Directors Waikato Branch	Committee Member
	IT Partners Group Limited	Director
	Meteorological Services of New Zealand Limited	Director
	National Infrastructure Advisory Board	Member
	Titanium Park Limited	Chair
	Waikato District Council Audit & Risk Committee	Chair
	Waikato Electricity Limited	Director

**Attachment 1**

**Item 8**

DIRECTOR	ENTITY	INTEREST
	Waikato Networks Limited	Director
	Waikato Plan Joint Committee	Chair
	Waikato Regional Airport Limited	Director
	Waikato University Risk Management Committee	Member
	Watercare Services Limited	Chair
	WEL Electricity Limited	Director
	WEL Energy Group	Director
	WEL Generation Limited	Director
	WEL Networks Limited	Chair
	WEL Power Limited	Director
	WEL Services Limited	Chair
	WINTEC	Councillor
	Women in Infrastructure Network	Chair
G Dwyer	427 Port Road Limited	Director
	789 Heaphy Limited	Director
	ACE Training Limited	Director
	Acorn Holdings Limited	Director
	Acorn Trust	Trustee
	Agenda Waikato	Member
	Conor Jaspers Trust	Trustee
	Hughes Jaspers Trust	Trustee
	Joel Limited	Director
	LCP Alpha Limited	Director
	Realty Plus Waikato Limited	Director
	Titanium Park Limited	Director
	Waikato Federated Farmers Charitable Society	Trustee
D Scarlet	Hamilton and Waikato Tourism Limited	Director
	Lower Waikato River Enhancement Society	Advisory Trustee
	Maungatautari Ecological Island Trust	Trustee
	Mercury NZ Limited	Key Relationships Manager
	National Wetland Trust	Secretary
	PD & DW Scarlet Family Trust	Trustee
	PD Scarlet Medical Services Limited	Director, Shareholder
	Waikato Catchment Ecological Enhancement Trust	Trustee
	Waikato Means Business Steering Group	Member

DIRECTOR	ENTITY	INTEREST
G Osborne (retired Oct 2016)	Destination Coromandel	Director
	Hamilton and Waikato Tourism Limited	Director
	The New Zealand Company Limited	Director
	Manukau Institute of Technology Facility of Business	Associate Dean
	Museum of Transport and Technology	Director
	Mangere Mountain Education Trust	Chair
	Osborne Family Trust	Trustee
	Te Pere Limited	Director
K Turner Puriri (appointed Jan 2017)	Envision Projects Limited	Director, Shareholder
	Hamilton and Waikato Tourism Limited	Director
	Tainui Honey Limited	Director, Shareholder
M Phillipps (appointed Jan 2017)	Hamilton and Waikato Tourism Limited	Director
	Phillipps Consulting 2015 Limited	Director, Shareholder
	Pure Vinyl Limited	Director, Shareholder
	Electric Kiwi Limited	Director
M Morgan	Hamilton and Waikato Tourism Limited	Director
	KASM Property Limited	Director, Shareholder
	Morgan Inheritance Trust	Trustee
	Patuone Property Limited	Director, Shareholder
S Douglas	Hamilton and Waikato Tourism Limited	Director
	The New Zealand Automobile Association Limited	Policy Manager
	SADD Aotearoa Students Against Driving Drunk Charitable Trust	Secretary

### 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:

		2017 \$000
J Spencer	WRAL Chair	35
M Devlin	WRAL Director, TPL Chair	41
A Cotton	WRAL Director and Audit and Risk Chair, HWT Chair	40
C da Silva	WRAL Director, TPL Director	41
G Dwyer	TPL Director	18
D Scarlet	HWT Director	10
K Turner Puriri (appointed Jan 2017)	HWT Director	6
M Phillipps (appointed Jan 2017)	HWT Director	6
S Douglas	HWT Director	10
G Osborne (retired Oct 2016)	HWT Director	3
		<b>210</b>

An additional remuneration payment of \$2,000 was made to G Dwyer for chairing the Property Subcommittee of Titanium Park Limited in June 2017 whilst he was a Director of Titanium Park Limited.

### Insurance

Directors' and Officers' liability insurance is with Vero Liability Insurance Ltd, with the policy for the parent Company extending to the Group.

### Remuneration of Employees

		EMPLOYEES
\$280,000	\$289,999	1
\$190,000	\$199,999	1
\$160,000	\$169,999	1
\$110,000	\$119,999	1

Remuneration includes salary, performance bonuses and motor vehicle allowances received in their capacity as employees.

## 32. FIVE YEAR REVIEW

	2017 \$000	2016 \$000	2015 \$000	2014 \$000	2013 \$000
Revenue*	8,632	8,056	7,765	7,022	7,225
Increase/(Decrease)	7%	4%	11%	(3)%	(10)%
Expenditure	7,868	7,565	7,476	7,274	7,475
Increase/(Decrease)	4%	1%	3%	(3)%	-%
Operating Surplus before Taxation*	764	494	273	(245)	(245)
Increase/(Decrease)	55%	81%	(211)%	-%	(171)%
<b>PERFORMANCE INDICATORS</b>					
Net Surplus (after abnormal item & taxation) to Average Shareholder's Equity	0%	1%	0%	0%	0%
Percentage of Non Landing Charges Revenue to Total Revenue	81%	85%	81%	82%	81%
Total Equity	82,032	64,405	59,669	59,500	59,732
Total Liabilities	20,909	17,899	18,874	20,937	19,967
Total Assets	102,941	82,304	78,543	80,437	79,699
Net Asset Backing per Share (\$)	16.49	15.96	14.79	14.75	14.80
Shareholders' Equity Ratio	80%	78%	76%	74%	75%
<b>PASSENGERS</b>					
Domestic	317	303	291	294	295
International	-	-	-	-	11
	<b>317</b>	<b>303</b>	<b>291</b>	<b>294</b>	<b>306</b>

\*Includes TPL land sales (incorporating the cost of land sales) but excludes investment property revaluation movements

## AUDIT REPORT

For the Year Ended 30 June 2017

**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 2017

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, on his behalf.

#### Opinion

We have audited:

- the financial statements of the Group on pages 10 to 34 and 38 to 42, that comprise the statement of financial position as at 30 June 2017, 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 34 to 37.

In our opinion:

- the financial statements of the Group on pages 10 to 34 and 38 to 42:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; 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 Financial Reporting Act 2013, Local Government Act 2002 and Companies Act 1993.
- the performance information of the Group on pages 34 to 37 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 2017.

Our audit was completed on 7 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

#### Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

#### Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the Group.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the

## AUDIT REPORT

For the Year Ended 30 June 2017

Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

### **Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and the performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible solely for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.



## AUDIT REPORT

For the Year Ended 30 June 2017

### Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 9, 43 and 47, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

### Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards 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

## CORPORATE DIRECTORY

Directors	John Spencer CNZM (Chair) Annabel Cotton Carlos da Silva Margaret Devlin
Chief Executive	Mark Morgan
General Manager Operations	Simon Hollinger
Finance Manager	Nikki Orange
Registered office	Hamilton Airport Terminal Building, Hamilton Airport, Airport Road, RD 2, Hamilton 3282
Telephone	07 848 9027
E mail	wral@hamiltonairport.co.nz
Auditor	Audit New Zealand, Tauranga on behalf of the Controller and Auditor-General
Solicitors	Ellice Tanner Hart, Hamilton
Bankers	Bank of New Zealand
Website address	www.hamiltonairport.co.nz

**Attachment 1**

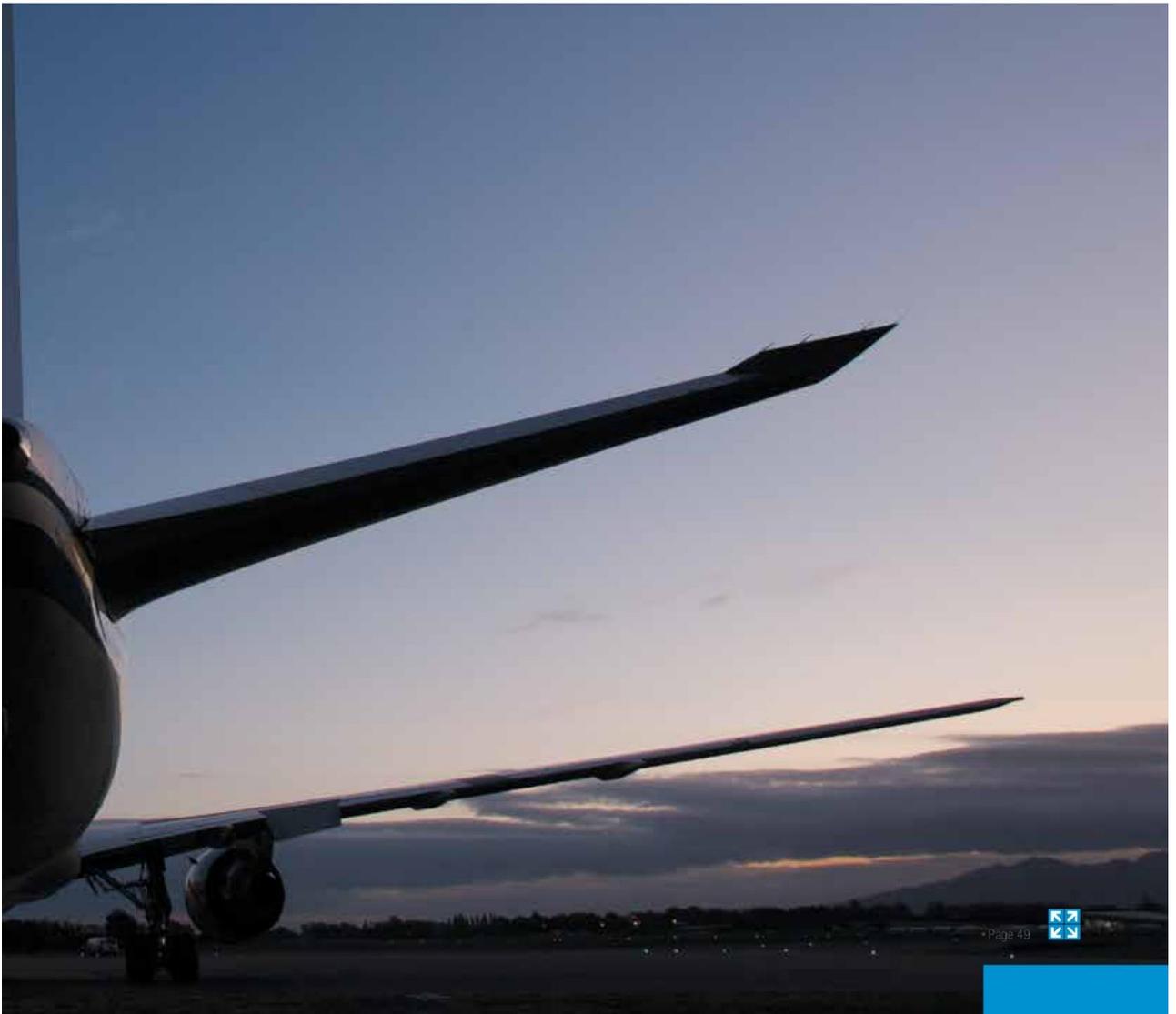


**Item 8**





**Item 8**

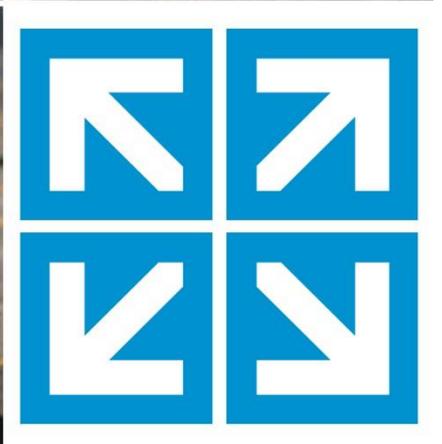
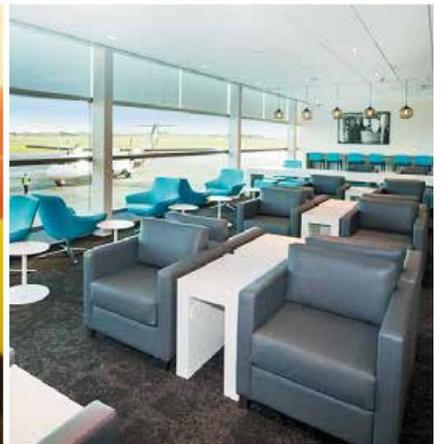
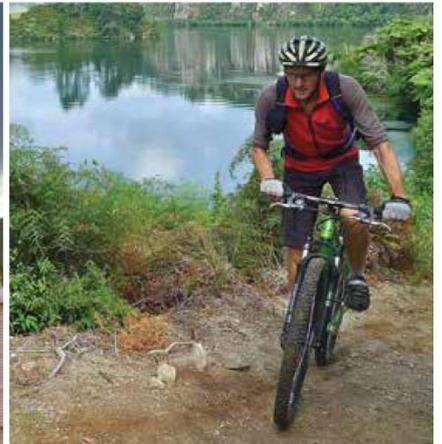


**Attachment 1**

Attachment 1



Item 8





2016/2017

# Waikato Regional Airport Limited Statement of Intent

June 2016



Statement of Intent – 2016/2017  
Waikato Regional Airport Limited



## 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 ending 30 June 2017 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
- Ensure a safe and healthy work place environment that complies with government legislation
- 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

To allow the main runway to be extended when supported by an appropriate business case

Position and protect the airport as an efficient, cost-effective international port of arrival for private, corporate and medical aircraft

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Statement of Intent – 2016/2017  
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 sale and or 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:

2017 \$1,493k;

2018 \$1,155k

2019 \$670k

**(4.7) Strategic Activities**

Key activities for the 2016/17 year are:

- Optimise domestic passenger services
- Maximise property lease income
- Develop a comprehensive business plan for the future direction of land development.
- Debt repayment

**5.0 Shareholders' Funds to Total Assets**

Years ending 30 June	2017	2018	2019
Shareholders' funds to total assets	76%	76%	77%

**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 2017 and succeeding 2 years are those as adopted in the 2015 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		
<i>Based on consolidated company forecasts</i>		2017	2018	2019
7.1	Earnings before interest, taxation & depreciation (EBITDA)	\$2,279,000	\$2,374,000	\$2,413,000

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Statement of Intent – 2016/2017  
Waikato Regional Airport Limited



7.2	Net deficit after tax	(\$366,000)	(\$350,000)	(\$336,000)
7.3	Net profit after tax to average shareholders' funds	-1%	-1%	-1%
7.4	Net profit after tax to total assets	0%	0%	0%
7.5	Net cash flow (operating & investing)			
	Net operating cash flow	\$1,594,000	\$1,725,000	\$1,768,000
	Net investing cash flow	(\$1,540,000)	(\$1,202,000)	(\$717,000)
	Funding Titanium Park Limited	(\$505,000)	(\$513,000)	(\$613,000)
	Total net cash flow (operating & investing)	(\$451,000)	\$10,000	\$438,000
	Net debt	\$8,287,000	\$8,179,000	\$7,643,000
7.6	Total liabilities/shareholders' funds (debt/equity ratio)	26:74	26:74	25:75
<b>Applicable to parent company operations only</b>		<b>2017</b>	<b>2018</b>	<b>2019</b>
7.7	Percentage of non-landing charges Revenue	76%	76%	74%
7.8	Interest cover	6.56x	6.65x	6.92x
<i>The interest cover measures the number of times the net profit before interest, tax and depreciation (EBITDA) covers interest paid on debt</i>				
<b>Non-financial performance targets</b>				
<b>7.9</b>	<b>Health &amp; Safety</b>			
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	Independently review and implement the company's Health & Safety framework to align with the requirements of the Health and Safety at Work Act 2016.			
<b>7.10</b>	<b>Operational Compliance</b>			
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			
<b>7.11</b>	<b>Customer Satisfaction</b>			
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 two years and that the

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Statement of Intent – 2016/2017  
Waikato Regional Airport Limited



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:
- 9.2 An Interim Report circulated to Shareholders each half-year will include:

#### **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 2015 shows shareholder equity of \$59.7m. 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.

A revaluation of Property Plant & Equipment will be completed for year ending 30 June 2016

#### **12.0 Compensation from Local Authorities**

There are no activities of the Company for which the Directorate would seek compensation from any local authority.

#### **13.0 Major Transactions**

Shareholders approve major transactions via a special resolution. A major transaction is defined as:

- (a) the acquisition of, or an agreement to acquire (whether contingent or not), assets the value of which is more than 25 % of the value of the company's assets before the acquisition; or
- (b) the disposition of, or an agreement to dispose of (whether contingent or not), assets the value of which is more than 25 % of the value of the company's assets before the disposition; or
- (c) a transaction which has or is likely to have the effect of the company acquiring rights or interests or incurring obligations or liabilities, the value of which is more than 25 % of the value of the company's assets before the transaction; but does not include:
- (d) any transaction entered into by a receiver appointed pursuant to a security over all or substantially all of the property of the company.

Nothing in paragraph (c) of this definition applies by reason only of the company giving, or entering into an agreement to give, a floating charge secured over assets of the company the value of which is more than half the value of the company's assets for the purpose of securing the repayment of money or the performance of an obligation.

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There are no major transactions planned during the period.

#### **14.0 Health and Safety**

The Board and Management will systematically implement any requirements to existing frameworks as a result of the Health and Safety at Work Act 2015. In accomplishing this during the past 12 months an independent consultant has been working to ensure the organisation and its subsidiary companies are aligning processes and frameworks with any applicable regulatory changes. These works will continue for a further six months post April 2016 to ensure full system integration. At all times the company will continue to monitor and review Health and Safety requirements via monthly reporting.



# ANNUAL REPORT 2016

**Item 13**

**Attachment 1**

Attachment 1

Item 13



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Civic Financial Services Limited

## DIRECTORS' REPORT

### ANNUAL REPORT AND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016

Your Directors have pleasure in submitting the 56th Annual Report of the affairs of the Company (formerly New Zealand Local Government Insurance Corporation Ltd trading as Civic Assurance) for the year ended 31 December 2016, which is to be presented at the Annual General Meeting of Members in June 2017.

#### 1. PERFORMANCE

During the year, Civic settled in full its remaining insurance claims. In total, LAPP and Civic between them paid \$1.03 billion (including GST) for their 2010 and 2011 Canterbury earthquakes claims.

Civic's before-tax profit in 2016 was \$1,333,868 (2015: \$2,824,715). The net asset value per share increased from \$1.46 at the end of 2015 to \$1.53 as at 31 December 2016.

#### 2. OPERATIONS 2016

##### Insurance Business

Your Board decided in December 2016 to withdraw Civic's application for a full insurance licence and not offer property insurance. This decision was not taken lightly, but in the current market Civic cannot write insurance profitably. Subsequent to this decision the Reserve Bank of New Zealand cancelled Civic's provisional licence on 17 January 2017.

Civic will be able to provide property covers through CPP (Civic Property Pool) in the future if this is what the sector wants and market conditions favour doing so.

##### Administration Services

Fees in 2016 from providing services to LAPP, Riskpool and the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes were \$2,358,859 (2015: \$2,756,915). The reduction occurred because of a lower fee from Riskpool.

##### Investment Revenue

Income from investments was \$283,739 (2015: \$67,969). Income from Civic Assurance House was \$762,633 (2015: \$718,356).

##### Sponsorship and Support for the Sector

The Company continued as a sponsor of SOLGM (Society of Local Government Managers) and various SOLGM branch events.

##### Name Change

A company without an insurance licence is not allowed to have the word insurance in its name. Recognising this and its changed focus, Civic changed its formal name from *New Zealand Local Government Insurance Corporation Ltd* to *Civic Financial Services Ltd* on 1 March 2017.

Civic's website is [www.civicfs.co.nz](http://www.civicfs.co.nz).

#### 3. ASSOCIATED ENTITIES

##### Local Government Superannuation Trustee Limited

Local Government Superannuation Trustee Limited (LGST) is a 100% subsidiary of Civic and is the trustee to the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes. Both are administered by Civic and both from 1 April 2016 are registered with the FMA (Financial Markets Authority). Director appointments to LGST are made by LGNZ (two), Civic (one), CTU (one), SOLGM (one) and one, who must be a Licensed Independent Trustee, by the LGST Board.

The SuperEasy schemes feature low member charges and simple administration for councils. Both make use of passive fund managers, which as well as allowing lower member fees removes the possibility of a fund manager making a bad call, which is something that can happen at any time.

The SuperEasy schemes also offer an 'Automatic Fund', in which each member's risk exposure is gradually and automatically switched from growth assets to income assets as the member gets older.

Superannuation funds under management as at March 2017 were \$280 million (May 2016: \$251 million) and the combined membership 10,055. SuperEasy's fund managers are AMP Capital Investors (New Zealand) Ltd and ANZ New Zealand Investments Ltd. 69 councils from a possible 78 have chosen SuperEasy KiwiSaver as their preferred provider for KiwiSaver.

The SuperEasy website is [www.supereasy.co.nz](http://www.supereasy.co.nz).

## DIRECTORS' REPORT

### LAPP Disaster Fund

LAPP is a charitable trust that was set up by LGNZ and Civic in 1993. LAPP's membership is 30. It could be said that LAPP is New Zealand's original LASS (Local Authority Shared Services). The cost of mutual self-insurance averages out at less than half the cost of insurance.

LAPP was designed to cover back-to-back major disasters and this is what happened of course with the Canterbury earthquakes in 2010 and 2011. LAPP settled the claims from Waimakariri District Council and Christchurch City Council for damage to their underground assets with a total payout of \$217 million (excluding GST). LAPP's highest claim before this was just over \$5 million for claims arising from the 2004 Manawatu floods.

At the time of writing it is unknown how much the Kaikoura-Hurunui earthquake claims will be, but it will be well within LAPP's ability to pay. The affected councils, Kaikoura, Hurunui and Marlborough, will have the benefit of full cover for all of their earthquake damaged assets registered with LAPP.

Civic is the administration and fund manager for LAPP. LAPP's website is: [www.lappfund.co.nz](http://www.lappfund.co.nz).

### Riskpool/ Civic Liability Pool (CLP)

Riskpool provides public liability and professional indemnity cover for councils and has done so since 1997. It is not a company, but a mutual liability fund governed by a trust deed. CLP is similar to Riskpool, but has no facility for calls. For the current fund year Riskpool/CLP has 31 members.

Local Government Mutual Funds Trustee Limited (LGMFT) is the trustee of Riskpool and CLP. The shares of LGMFT are held in trust by Civic for Riskpool's members. Civic is also the Fund Manager and Scheme Manager for Riskpool and Administration Manager for CLP.

We estimate that over the last 20 years Riskpool has saved the sector around \$250 million in insurance premiums. In addition, Riskpool has provided risk management services to members, established a considerable body of new case law, and helped to clarify local authorities' duties of care.

## 4. DIRECTORS

As at 31 December 2016 there were six directors: M.A. Butcher, A.T. Gray, M.C. Hannan, A.J. Marryatt, J.B. Melville and B.J. Morrison. The Company's constitution allows for up to six directors of which at least two are to be appointed from outside the local authority sector.

### Director attendances at Board meetings held in 2016:

Mark Butcher	7 / 8
Tony Gray	8 / 8
Mike Hannan	7 / 8
Tony Marryatt	7 / 8
John Melville	8 / 8
Basil Morrison	7 / 8

The Chairmen of each of the Board and the Risk and Audit Committee are elected at the first meeting held after each year's AGM.

### Section 139 of the Companies Act 1993

During the year John Melville received \$6,700 for Risk Management services. There are no other notices required under section 139 of the Companies Act 1993 except for Directors' remuneration. Changes to the Directors' fee pool are approved by shareholders at an AGM. The Board determines the allocation per Director based on the duties of the individual Director. The Director fees for subsidiary companies are set by the Parent Company Board.

**Civic made a before-tax profit in 2016 of \$1,333,868. The net asset value per share has increased from \$1.46 at the end of 2015 to \$1.53 as at 31 December 2016.**

Civic Financial Services Limited

## DIRECTORS' REPORT

For the year ended 31 December 2016, Directors' remuneration was:

	\$
Mark Butcher	20,625
Tony Gray	20,625
Mike Hannan	20,625
Tony Marryatt	41,250
John Melville	23,203
Basil Morrison	20,625
	146,953

In addition, the following Directors received director fees in relation to their directorships of Riskpool or LGST:

	\$
Mark Butcher (Riskpool)	1,468
Tony Gray (Riskpool)	1,468
Mike Hannan (Riskpool)	8,310
Tony Marryatt (Riskpool)	9,778
John Melville (Riskpool)	2,078
Basil Morrison (Riskpool & LGST)	10,208
	33,310

The Company provides Directors and officers with, and pays the premiums for, Directors' and Officers' liability insurance to the full extent allowed for, and in accordance with the requirements of the Companies Act 1993. The renewal of the Company's Directors' and Officers' liability insurance was entered in the Interests Register pursuant to sections 162 and 163 of the Companies Act 1993. This insurance does not cover liabilities arising from criminal actions or deliberate and reckless acts or omissions by the Directors. The cover includes indemnity of costs and expenses incurred in defending an action that falls within the scope of the indemnity.

### Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship and other disclosures as at 31 December 2016 were:

M. Butcher	Chief Executive of Local Government Funding Agency Ltd; Chair of New Plymouth District Perpetual Investment Fund Guardians Ltd; Director of Local Government Mutual Funds Trustee Ltd; Member of SuperEasy KiwiSaver Superannuation Scheme; Trustee of Civic Property Pool; Board Member of INFINZ.
T. Gray	Director of Ngati Apa Developments Ltd; Gisborne Airport Ltd; Eastland Group Ltd including Eastland Port; Eastland Network Ltd; Chair of Ngati Pukenga Investments Ltd; Director of Maungaharuru - Tangitu Ltd; Executive Project Advisor to Hastings District Council; Artemis Nominees Ltd; Local Government Mutual Funds Trustee Ltd; Consultant to THT Properties Ltd; Trustee of Civic Property Pool.
M. Hannan	Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd.
T. Marryatt	Chair of Local Government Mutual Funds Trustee Ltd; AJM Holdings Ltd; Trustee of Civic Property Pool; Member of SuperEasy KiwiSaver Superannuation Scheme.
J. Melville	Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd.
B. Morrison	Chairman of Local Government Superannuation Trustee Ltd; Basil J Morrison & Associates Ltd; Member of SuperEasy KiwiSaver Superannuation Scheme; Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd; Waitangi Tribunal Member; Independent Hearings Commissioner for Auckland Council; Thames-Coromandel District Council Hearings Panel; Waikato Regional Council Hearings Commissioner; Accredited Commissioner – RMA.

## DIRECTORS' REPORT

### Conduct of the Board and Board Committee

The Board has put in place and regularly reviews a number of good governance policies including Charters for the Board and the Risk and Audit Committee, Fit and Proper Policy, Code of Conduct, and a Risk Management Plan.

### Use of Information

Directors, individually or collectively, may obtain independent professional advice relating to any matters concerning the Company's business or in relation to the discharge of the Director's responsibilities. Subject to approval of the Chairman the Company will reimburse the Director(s) some or all of the reasonable costs of the advice. During the reporting period, no Director has sought leave to obtain such advice.

### Loans to Directors

No loans or advances have been made to Directors, their spouses or dependants, or to related parties during the year.

## 5. EMPLOYEE REMUNERATION

Detailed below is the number of employees who received remuneration in their capacity as employees of \$100,000 or more during the year ended 31 December 2016.

Remuneration \$	Number of Employees
100,000 – 110,000	2
110,000 – 120,000	1
130,000 – 140,000	1
190,000 – 200,000	1
430,000 – 440,000	1

The above remunerations include Company contributions to employees' superannuation (KiwiSaver and other), medical insurances and discretionary bonus payments.

## 6. AUDIT AND RISK MANAGEMENT

Pursuant to Section 15 of the Public Audit Act 2001 the Company's auditor is the Auditor General who has appointed Michael Wilkes using the staff and resources of Deloitte Limited to carry out the audit on his behalf.

The Risk and Audit Committee (RAC) comprises the full Board and, until 30 September 2016 Bryan Taylor, who was a consultant to the Board. John Melville is the Chairman of this committee. RAC met four times in 2016: the Auditor attended two of those meetings and a part of one of those meetings was held without management present.

During the year the RAC had the additional responsibility of oversight of compliance with the insurance company licencing requirements under the Insurance (Prudential Supervision) Act 2010 and the Company's risk management program.

## 7. DONATIONS

No donations have been made during the year by any Company in the Group (2015: \$0).

## 8. STAFF

We sincerely thank the staff for their work during the year. They are: Caroline Bedford, Ian Brown, Jane Brown, Oliver Gilmore, Roger Gyles, Sylvia Jackson, Amber Lundt, Wendy Johnson, Tim Sole, Grace van Dyk and Glenn Watkin.



Tony Marryatt **Chairman**  
March 2017

Civic Financial Services Limited

## DIRECTORY

### DIRECTORS

Anthony (Tony) J. Marryatt (Chairman)  
Mark A. Butcher  
Anthony (Tony) T. Gray  
Michael C. Hannan  
John B. Melville  
Basil J. Morrison CNZM JP

### CONSULTANT TO THE BOARD

Bryan G. Taylor JP (to 30 June 2016)

### EXECUTIVE OFFICERS

**Chief Executive:** Tim Sole BSc MBA ANZIIF (Fellow) CIP FIAA FNZSA  
**Chief Financial Officer:** Caroline Bedford CPA (Aust), BCA, NZCS

### AUDITORS

The Auditor General, who has appointed Michael Wilkes, Deloitte Limited to carry out the audit on his behalf

### BANKERS

ANZ Banking Group (New Zealand) Limited  
Bank of New Zealand

### LEGAL ADVISERS

Brandons  
Heaney & Partners  
Kensington Swan  
Young Hunter

COMPANY REGISTRATION NO: 13271

### REGISTERED OFFICE

Level 9, Civic Assurance House, 116 Lambton Quay, Wellington 6011

### POSTAL ADDRESS

Civic Financial Services Ltd, PO Box 5521, Wellington 6140

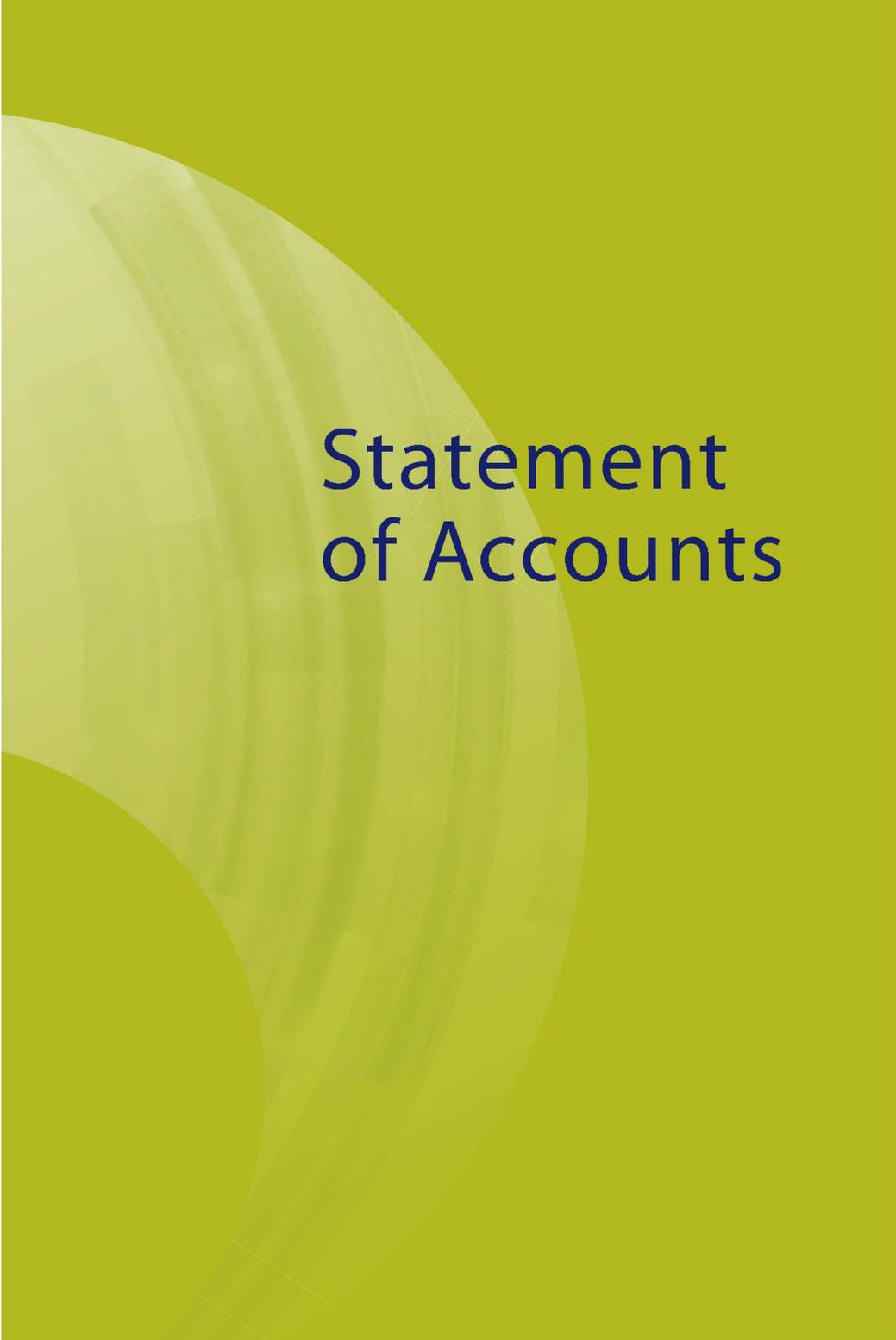
### OTHER CONTACT DETAILS

Telephone (04) 978 1250  
Facsimile (04) 978 1260  
Email admin@civicfs.co.nz  
Website www.civicfs.co.nz

The Company is a participant in the Insurance & Financial Services Ombudsman Scheme (Inc)  
Participant Number 2000427

**Attachment 1**

**Item 13**



The cover page features a solid lime green background. On the left side, there is a large, semi-transparent graphic of a globe with latitude and longitude lines. The text 'Statement of Accounts' is centered in a dark blue, sans-serif font.

# Statement of Accounts

Civic Financial Services Limited

**STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>REVENUE</b>					
Income Attributable to Insurance Business					
Net Claims Income/(Expense)	3	1,998,024	2,612,715	1,998,024	2,612,715
Underwriting Surplus		1,998,024	2,612,715	1,998,024	2,612,715
Administration Fees		2,358,859	2,756,915	2,358,859	2,756,915
Income from Investments	11	283,739	67,969	283,750	67,969
Property Income		762,633	718,356	762,633	718,356
Interest Income		-	4,403	-	4,403
Other Income		542	376	542	376
<b>Net Operating Revenue</b>		<b>5,403,797</b>	<b>6,160,734</b>	<b>5,403,808</b>	<b>6,160,734</b>
<b>EXPENDITURE</b>					
Audit Fee					
Statutory Audit of the Financial Statements		94,560	71,987	94,560	71,987
Other Fees Paid to Auditors re Taxation Compliance		67,710	66,966	67,710	66,966
Claims Paying Ability Rating		34,093	27,752	34,093	27,752
Compliance Costs		334,048	236,062	334,048	236,062
Consultants		102,457	149,831	102,457	149,831
Depreciation	10	38,761	35,797	38,761	35,797
Amortisation	10	3,238	18,392	3,238	18,392
Directors' Remuneration	16	146,953	144,375	146,953	144,375
Insurance Council of New Zealand		15,525	15,525	15,525	15,525
Legal Fees		53,996	178,566	53,996	178,566
Property Operating Expenses		510,118	415,525	510,118	415,525
Bad Debts		-	1,070	-	1,070
Other Expenses		1,139,602	785,993	1,071,993	785,969
Employee Remuneration	19	1,429,684	1,190,774	1,429,684	1,190,774
Superannuation Subsidies		192,603	130,585	192,603	130,585
<b>Total Expenditure</b>		<b>4,163,348</b>	<b>3,469,200</b>	<b>4,163,324</b>	<b>3,469,176</b>
<b>Surplus Before Share of Profit from Associate, Revaluation of Investment Property and Taxation</b>		<b>1,240,449</b>	<b>2,691,534</b>	<b>1,240,484</b>	<b>2,691,558</b>
Subvention Payment		-	-	(7)	(7)
Revaluation of Investment Property	9	96,571	133,331	96,571	133,331
Share of Profit of Associate		(3,152)	(150)	-	-
<b>Surplus Before Taxation</b>		<b>1,333,868</b>	<b>2,824,715</b>	<b>1,337,048</b>	<b>2,824,882</b>
Taxation Expense	8	359,556	43,663	359,563	43,670
<b>TOTAL COMPREHENSIVE SURPLUS NET OF TAX</b>	<b>19</b>	<b>974,312</b>	<b>2,781,052</b>	<b>977,485</b>	<b>2,781,212</b>

The Notes to the Financial Statements form part of, and should be read in conjunction with, these Statements.

Civic Financial Services Limited

**STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2016

	Notes	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>SHAREHOLDERS' EQUITY</b>					
<b>Issued and Paid-Up Ordinary Shares</b>					
Ordinary Shares fully paid-up	19	10,763,506	10,566,406	10,763,506	10,566,406
Retained Earnings	19	6,440,214	5,465,902	6,509,858	5,532,373
<b>TOTAL EQUITY</b>		<b>17,203,720</b>	<b>16,032,308</b>	<b>17,273,364</b>	<b>16,098,779</b>
Represented By:					
<b>CURRENT ASSETS</b>					
Bank & Cash Equivalents		6,111,694	454,415	6,061,168	403,870
Sundry Debtors and Prepayments	7a)	556,715	49,345,499	556,709	49,345,491
Reinsurance Recoveries	6	-	519,558,958	-	519,558,958
Income Tax Receivable	8	990	2,971	990	2,971
<b>Total Current Assets</b>		<b>6,669,399</b>	<b>569,361,843</b>	<b>6,618,867</b>	<b>569,311,290</b>
<b>NON CURRENT ASSETS</b>					
Shares in Local Government Online		-	3,152	-	-
Property, Plant and Equipment	10	189,155	193,147	189,155	193,147
Intangible Assets (Software)	10	89,652	72,276	89,652	72,276
Deferred Tax Asset	8	3,272,784	3,632,346	3,272,784	3,632,346
Investment Property	9	7,925,000	7,425,000	7,925,000	7,425,000
<b>Total Non Current Assets</b>		<b>11,476,591</b>	<b>11,325,921</b>	<b>11,476,591</b>	<b>11,322,769</b>
<b>TOTAL ASSETS</b>		<b>18,145,990</b>	<b>580,687,764</b>	<b>18,095,458</b>	<b>580,634,059</b>

The Notes to the Financial Statements form part of, and should be read in conjunction with, these Statements.

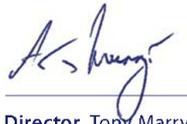
Civic Financial Services Limited

**STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2016

	Notes	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>CURRENT LIABILITIES</b>					
Sundry Creditors & Accrued Charges	7b)	385,923	553,796,248	385,923	553,796,248
Accrued Holiday Pay		49,766	130,832	49,766	130,832
CLP / Riskpool Admin Fee Reserve (Current)		112,969	-	112,969	-
Subordinated Debt	15	120,176	120,176	-	-
		668,834	554,047,256	548,658	553,927,080
<b>Insurance Provisions</b>					
Outstanding Claims Liability	3b)	-	10,608,200	-	10,608,200
<b>Total Insurance Provisions</b>		-	10,608,200	-	10,608,200
<b>Total Current Liabilities</b>		668,834	564,655,456	548,658	564,535,280
<b>NON-CURRENT LIABILITIES</b>					
CLP / Riskpool Admin Fee Reserve	7b)	273,436	-	273,436	-
<b>Total Non-Current Liabilities</b>		273,436	-	273,436	-
<b>TOTAL LIABILITIES</b>		942,270	564,655,456	822,094	564,535,280
<b>EXCESS OF ASSETS OVER LIABILITIES</b>		17,203,720	16,032,308	17,273,364	16,098,779

For and on behalf of the Directors



Director Tony Marryatt

17 March 2017



Director John Melville

17 March 2017

The Notes to the Financial Statements form part of, and should be read in conjunction with, these Statements.

Civic Financial Services Limited

**STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>OPENING EQUITY</b>		16,032,308	13,251,256	16,098,779	13,317,567
Total Comprehensive Surplus Net of Tax		974,312	2,781,052	977,485	2,781,212
Ordinary Shares issued during the year	19	197,100	-	197,100	-
<b>CLOSING EQUITY</b>		<b>17,203,720</b>	<b>16,032,308</b>	<b>17,273,364</b>	<b>16,098,779</b>

The Notes to the Financial Statements form part of, and should be read in conjunction with, these Statements.

Civic Financial Services Limited

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Cash was provided from:</b>					
Rent Received		778,617	707,979	778,617	707,979
Administration Fees Received		2,348,707	2,969,715	2,348,707	2,969,715
Interest Received and Investment Income		277,415	168,667	277,415	168,667
Other Income		542	376	542	376
Reinsurance Recoveries*		496,346,310	2,876,573	496,346,310	2,876,573
Taxation Refunded		2,843	45,698	2,843	45,698
		499,754,434	6,769,008	499,754,434	6,769,008
<b>Cash was applied to:</b>					
Claims Expenses*		488,705,997	7,551,635	488,705,997	7,551,635
Interest Expense		-	4,403	-	4,403
Payments to Suppliers and Employees		5,135,207	2,317,497	5,135,181	2,317,473
Reinsurance Received in Advance		-	326,264	-	326,264
		493,841,204	10,199,799	493,841,178	10,199,775
<b>Net Cash Flow from Operating Activities</b>	12	5,913,230	(3,430,791)	5,913,256	(3,430,767)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<b>Cash was provided from:</b>					
Dividend – LGOL		6,335	-	6,335	-
Sale of Property, Plant and Equipment		1,252	-	1,252	-
		7,587	-	7,587	-
<b>Cash was applied to:</b>					
Purchase of Property, Plant and Equipment		57,210	-	57,210	-
Purchase of Investment Property		403,428	339,072	403,428	339,072
		460,638	339,072	460,638	339,072
<b>Net Cash Flow from Investing Activities</b>		(453,051)	(339,072)	(453,051)	(339,072)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<b>Cash was provided from:</b>					
Ordinary Shares issued during the year		197,100	-	197,100	-
		197,100	-	197,100	-
<b>Cash was applied to:</b>					
Payment of Subvention Payment		-	-	7	7
		-	-	7	7
<b>Net Cash Flow from Financing Activities</b>		197,100	-	197,093	(7)
Net Decrease in Cash Held		5,657,279	(3,769,863)	5,657,298	(3,769,846)
Opening Cash Balance as at 1 January		454,415	4,224,278	403,870	4,173,716
<b>Closing Cash Balance as at 31 December</b>		<b>6,111,694</b>	<b>454,415</b>	<b>6,061,168</b>	<b>403,870</b>
<b>Being: Bank &amp; Cash Equivalents</b>		<b>6,111,694</b>	<b>454,415</b>	<b>6,061,168</b>	<b>403,870</b>

\* The Canterbury Earthquake Claims Global settlement agreement required that certain reinsurance monies totalling \$363m was transacted through a third party Trust account. This amount is included in Cash provided from Reinsurance Recoveries and Cash applied to Claims Expenses.

The Notes to the Financial Statements form part of, and should be read in conjunction with, these Statements.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### NOTE 1. REPORTING ENTITY

The reporting entity is Civic Financial Services Ltd (the "Company"), formerly known as New Zealand Local Government Insurance Corporation Ltd (trading as Civic Assurance). The Group comprises the Company and its subsidiaries listed in note 2 (d). The Group provides financial services principally for New Zealand local government and also provides property services. The Group has continued to provide insurance products to New Zealand local authorities until 31 December 2016. Subsequent to year end the Group opted to cancel its provisional insurance licence with the Reserve Bank of New Zealand (refer to Note 22).

The Company is an FMC reporting entity under the Financial Markets Conduct Act (FMCA) 2013 and the group financial statements have been prepared in accordance with the FMCA 2013. The financial statements of the Company are also included for the readers' information but are not required under legislation.

#### Statement of Compliance

The Group is a Tier 1 Public Sector Public Benefit Entity and the financial statements have been prepared in accordance with and comply with Tier 1 Public Sector Public Benefit Entity (PBE) Standards.

### NOTE 2. STATEMENT OF ACCOUNTING POLICIES

#### General Accounting Policies

The measurement and reporting of profits on an historical cost basis have been followed by the Company and Group, except for specific policies as described below. The reporting currency is New Zealand dollars. The Group is no longer subject to the requirements under the Insurance (Prudential Supervision) Act 2010 as a provisional licence holder (refer to Note 22).

#### Critical Judgements and Estimates in Applying the Accounting Policies

In the application of the PBE Standards the Directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. These are based on historical experience and other various factors and are reviewed on an ongoing basis.

The Directors believe that, as at the date of these financial statements, there are no significant sources of estimation uncertainty that have not been disclosed in these notes. The most significant judgements, estimates and assumptions made in the preparation of these financial statements are in respect of the valuation of insurance claim liability (Note 3), the recognition of the deferred tax asset (Note 8) and the valuation of investment property (Note 9).

#### Particular Accounting Policies

The following particular accounting policies which materially affect the measurement of surplus and financial position have been applied. Further particular accounting policies are contained in the relevant notes to the financial statements.

##### (a) Consolidation of Subsidiaries

The Group financial statements incorporate the financial statements of the Company and its subsidiaries, which have been consolidated using the acquisition method. The results of any subsidiaries acquired or disposed of during the year are consolidated from the effective dates of acquisition or until the effective dates of disposal. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

##### (b) Assets which back Insurance Liabilities

Ultimately all assets of the Company are available to back insurance liabilities.

Civic Financial Services Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

#### (c) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

#### (d) Investment in Subsidiaries

The Company has six wholly owned subsidiaries which are all incorporated in New Zealand. Four of these, Local Government Superannuation Trustee Limited, SuperEasy Limited, Local Government Finance Corporation Limited and Civic Assurance Limited with balance dates of 31 December and Local Government Mutual Funds Trustee Limited with its balance date of 30 June did not have any significant assets, liabilities, revenue or expenses during the years ended 31 December 2015 and 31 December 2016. New Zealand Local Government Finance Corporation Limited (NZLGFC) commenced business on the 29 November 1999 and had total assets of \$50,533 at 31 December 2016 (2015: \$50,550) and ceased active operations in February 2010. The four companies have been recognised in the Parent financial statements at cost less impairment and consolidated in the Group financial statements. The operating companies are subject to ongoing review of their operations to ensure they are meeting their agreed strategic objectives.

#### (e) Investment in Associate Company

The Company held a 25% share of Local Government Online Limited (LGOL). In 2014 LGOL returned the shareholders capital, ceased operations on 31 March 2014 and was wound up on 12 October 2016. The share of the income of LGOL has been included in the consolidated Statement of Comprehensive Income and added to the cost of the investment in the Consolidated Statement of Financial Position.

#### (f) Administration Fees

Administration fees are recognised at the agreed amounts based on time and expenses incurred. Administration fees collected during the year that will be utilised in future periods are held within the administration fee reserve on the Statement of Financial Position, until the point in time where administration services have been provided.

#### (g) Property Income

Property rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

#### (h) Basis of Measuring Other Income and Expenses

Income and expenses are accounted for on an accruals basis.

#### (i) Changes in Accounting Policies

There have been no material changes in the accounting policies during the year. All policies have been applied on bases consistent with those used in the prior year.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 3. CLAIMS**

**Accounting Policy:**

All of the general insurance products and reinsurance products offered or utilised met the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder) and none of the contracts contain embedded derivatives or are required to be unbundled.

The outstanding claims liability is measured as the central estimate of expected future payments relating to unsettled claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid in full, claims incurred but not reported ("IBNR"), and claims incurred but not enough reported ("IBNER"). Due to the short-term nature of the Company's claims these are not discounted in the financial statements.

Claims expense represents claim payments adjusted for movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is a critical accounting estimate. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and employs external actuarial advice. Changes in claims estimates are recognised in profit and loss in the year in which the estimates are changed.

**(a) Claims**

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<i>Claims Incurred and Provision for Outstanding Claims</i>				
Revaluation of claims liability during the year	2,166,774	10,524,304	2,166,774	10,524,304
Less: Revised estimate of reinsurance recoveries during the year	(168,750)	(7,911,589)	(168,750)	(7,911,589)
<b>Net Claims Income</b>	<b>1,998,024</b>	<b>2,612,715</b>	<b>1,998,024</b>	<b>2,612,715</b>

Claims costs are usually settled within one year therefore there is no claims development from prior years' claims.

**(b) Reconciliation of Movements in Gross Outstanding Claims Liability**

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
Outstanding Claims liability at the beginning of the financial year	10,608,200	508,569,900	10,608,200	508,569,900
Revaluation of claims liability during the year	(2,166,774)	(10,524,304)	(2,166,774)	(10,524,304)
Claims Paid / Payable	(8,441,426)	(487,437,396)	(8,441,426)	(487,437,396)
<b>Outstanding Claims Liability at the End of the Financial Year</b>	<b>-</b>	<b>10,608,200</b>	<b>-</b>	<b>10,608,200</b>

All outstanding claims were settled during the year.

Civic Financial Services Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### NOTE 3. CLAIMS CONTINUED

#### (c) Actuarial Methodology and Assumptions

The estimation process involved using the Company's specific data, relevant industry data and more general economic data. Each class of business was usually examined separately and the process involved consideration of a large number of factors including the risks to which the business was exposed at a point in time, claim frequencies and average claim sizes, historical trends in the incidence and development of claims reported and finalised, legal, social and economic factors that may impact upon each class of business as well as the key actuarial assumptions set out below, and the impact of reinsurance and other recoveries.

Different actuarial valuation models are used for different claims types with the results then being aggregated. This aggregation of results enhances the valuation process by allowing the use of the model best suited to particular claims types. The selection of the appropriate model takes into account the characteristics of a class of business and the extent of development of past claims periods.

The different components of the outstanding claims liability are subject to different levels of uncertainty. The estimation of the cost of claims reported but not yet settled or paid in full is made on a case by case basis by claims personnel having regard to the facts and circumstances of the claim as reported, any information available from assessors and information on the cost of settling claims with similar characteristics in previous periods. A further amount, which may be a reduction, is included for IBNER on the basis of past experience with the accuracy of initial claims estimates. With IBNR, the estimation is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, as no information is currently available about the claim. In calculating the estimated cost of settled or unpaid claims a variety of estimating techniques are used generally based on statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made however for changes or uncertainties which may create distortions in the underlying statistics which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Reserves are not established for catastrophes in advance of such events and so these events will cause volatility in the results for a period and in the levels of the outstanding claims liability.

The central estimate of the outstanding claims liability is an estimate which is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution. It is considered appropriate for the measurement of the claims liability to represent a higher degree of certainty regarding the sufficiency of the liability over time, and so a risk margin is added to the central estimate. The risk margin refers to the amount by which the liability recognised in the financial statements is greater than the actuarial central estimate of the liability. The risk margin added to the central estimate increases the probability that the net outstanding claims liability will ultimately prove to be adequate.

The actuarial valuation net of reinsurance assumes that all reinsurance recoveries will be collected. The Company's policy is to use only reinsurers with rating "A-" or better from AM Best (or equivalent).

#### (d) Canterbury Earthquakes Claims

The Canterbury earthquakes have had a significant impact on the operational and financial results of the Company over the last 6 years with over 3,000 claims being received. On 11th December 2015 a global settlement was signed between the Company, its reinsurers and the insured parties in relation to a significant portion of Canterbury earthquakes claims which were subsequently settled with the insured in February 2016. The settlement included a commutation of the remaining open claims, totalling 83 at 31 December 2015, that were settled with the insured in April 2016.

As at 31 December 2016 the Outstanding Claims Liability in relation to the remaining Canterbury earthquake claims was \$nil (2015: \$9.6m).

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 3. CLAIMS CONTINUED**

**(d) Canterbury Earthquakes Claims continued**

In prior years the principal concern in determining the outstanding claims liabilities for Canterbury earthquake claims was the unique nature of the event. Despite the material nature of the outstanding claims liability, it was decided that no actuarial adjustment should be applied to the case estimates recorded for these claims. The reasons for this were:

- The unique and continuing nature of the Canterbury earthquake events means that at this stage there was very limited data upon which to base a meaningful actuarial analysis.
- All claims have been assessed by loss adjusters who have expertise in this area. We understand that there is no reason to believe that there is any systemic under or over estimation of reported claims. The estimates of outstanding claims incorporates an allowance for both the future direct and indirect costs associated with those claims.
- To date, given the global settlement referred to above, it is highly unlikely that any of the claims would be reopened.

The outstanding claims liabilities for the current year have been determined using both the loss adjusters assessment of the claims and the global settlement agreement.

The overall risk margin for outstanding claims has been determined using a combination of historical results and professional judgement.

No discounting of the outstanding claims liabilities or associated reinsurance recoveries receivable has been made on the basis that the Company's net insured claims are expected to be settled in the year.

**(e) Other Claims**

As at 31 December 2016 there are no outstanding claims liability in relation to Business as Usual and Riskpool claims (2015: \$1.0m).

Civic Financial Services Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. The risk is that the actual claims to be paid in relation to contracts will be different to that estimated at the time a product was designed and priced. The Company is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The Company also faces other risks relating to the conduct of the general insurance business including financial risks and capital risks.

A fundamental part of the overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts.

#### (a) Risk Management Objectives and Policies for Mitigating Insurance Risk

The risk management activities can be broadly separated into underwriting (acceptance and pricing of risk), claims management, reserving, and investment management. The objective of these risk management functions is to enhance the longer term financial performance of the overall insurance operations.

The key policies in place to mitigate risks arising from underwriting insurance contracts include the following:

- **Acceptance of risk** – The Company was primarily an insurer only of risks owned or managed by local authorities. Records of results and trends exclusively in this market sector that have been built up over a number of years were available as tools for the Company's underwriter. The portfolio was essentially property risks.
- **Reinsurance** – Through reinsurance the Company, up until 30 June 2011, was able to cap its maximum liability in the event of a catastrophe to \$3.6m. This amount was well within the Company's reserves.
- **Claims management** – Claims are handled in house by experienced claims handling staff. Staff were allocated settling limits and authorities. These authority levels were reviewed regularly. Senior claims staff were very experienced, particularly in local government claims. Overall authority and claims management was provided by the Company's Insurance Manager.
- **Investment management** – All premium income is held in NZ Registered Bank accounts and short-term deposits. All investments are regularly reviewed by the Board.
- **Risk reduction** – Due to the Company being unable to reinsure risks after 1 July 2011 the risk was managed by not writing material damage cover policies.

#### (b) Terms and Conditions of Insurance Contracts

Almost all the Company's insurance contracts written were entered into on a standard form and on an annual basis. There are no special terms and conditions in any non-standard contracts that would have had a material impact on the financial statements.

#### (c) Concentration of Insurance Risk

Concentration risk is particularly relevant in the case of natural disasters and other catastrophes. The Company dealt with this by having uncapped reinsurance cover for the period of the insurance contract. All geographical risk was in New Zealand.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT** CONTINUED

(d) **Credit Risk**

Financial assets or liabilities arising from insurance contracts are presented in the Statement of Financial Position. These amounts best represent the maximum credit risk exposure at reporting date. The credit risk relating to insurance contracts related primarily to reinsurance recoveries receivable, which are discussed further in Note 6.

(e) **Interest Rate Risk**

The underwriting of general insurance contracts created no exposure to the risk that interest rate movements may impact the value of the outstanding claims liability because the outstanding claims liability was not discounted due to the short tail nature of claims.

(f) **Reinsurance Risk**

Risks underwritten were reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten.

(g) **Operational Risk**

Operational risk is the risk of financial loss (including lost opportunities) resulting from external events and/or inadequate or failed internal processes, people and systems. Operational risk is identified and assessed on an ongoing basis and the capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.

(h) **Liquidity Risk**

All assets and liabilities used in relation to the liquidity of the insurance business were addressed through maintaining sufficient highly liquid assets.

(i) **Sensitivity Analysis**

Sensitivity of risks relates primarily to the risk margin assessments which are set out in Note 3. These were reviewed annually and change in accordance with current best estimates using advice from an actuary. There was no insurance risk sensitivity as full exposure has been taken.

**NOTE 5. INSURANCE PROVISIONS**

The Company had a claims payable credit rating of "B+" (Good) issued by AM Best at 1 May 2016. The Company's reinsurance programme was structured to adequately protect the Company's solvency and capital position. It covered per risk and event losses in New Zealand. Counterparty reinsurers with credit ratings no less than "A-" (AM Best scale) participated in the reinsurance catastrophe programme.

Civic Financial Services Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### NOTE 6. REINSURANCE RECEIVABLE ON OUTSTANDING CLAIMS

#### Accounting Policy:

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims liabilities notified and not yet notified are recognised as income. Reinsurance does not relieve the originating insurer of its liabilities to policyholders.

#### (a) Reconciliation of Movements for the Financial Year

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
Reinsurance recoveries receivable on outstanding claims at the beginning of the year	519,558,958	506,976,959	519,558,958	506,976,959
Reinsurance recoveries received	(496,346,310)	(2,550,310)	(496,346,310)	(2,550,310)
Reinsurance recoveries receivable on claims incurred during the year	(168,750)	(7,911,589)	(168,750)	(7,911,589)
GST payable / receivable on Reinsurance recoveries incurred during the year	(23,043,898)	23,043,898	(23,043,898)	23,043,898
<b>Reinsurance recoveries receivable on outstanding claims at the end of the year</b>	<b>-</b>	<b>519,558,958</b>	<b>-</b>	<b>519,558,958</b>

#### (b) Actuarial Assumptions

Due to the settlement of the Canterbury claims no actuarial assumptions were made on the reinsurance recoveries. In 2015, GST totalling \$23m was included in the \$519m reinsurance receivable. Reinsurance was paid out to the insured in February and April 2016 in full and final settlement of the Canterbury Earthquake claims.

#### (c) The Effect Of Changes In Assumption

There have been no changes in the actuarial assumptions for the period under review.

#### (d) Risk Management

The Board and senior management assessed the Company's reinsurance programme as existing and for the following year based on identification of the Company's exposure and its ability to meet claims from its capital base.

#### (e) Reinsurance Risk Management

As a consequence of the Canterbury earthquakes the Company had been unable to obtain property reinsurance from 1 July 2011 on suitable terms and therefore ceased providing material damage cover from that date.

All reinsurance monies were received in February 2016 and the final payment to the insured made in April 2016.

Civic Financial Services Limited

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 7. SUNDRY DEBTORS AND CREDITORS**

(a) Sundry Debtors and Prepayments

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
Sundry Debtors	421,098	144,432	421,091	144,424
Prepayments	86,396	123,411	86,396	123,411
GST Receivable	49,222	49,077,656	49,222	49,077,656
<b>Sundry Debtors and Prepayments</b>	<b>556,716</b>	<b>49,345,499</b>	<b>556,709</b>	<b>49,345,491</b>

GST Receivable has decreased significantly due to the Claims Payable and Reinsurance Receivable resulting from the Global settlement referred to in Note 3.

(b) Sundry Creditors and Accrued Charges

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
Sundry Creditors & Accrued Charges	385,923	9,390,823	385,923	9,390,823
Claims Payable	-	544,405,425	-	544,405,425
<b>Sundry Creditors &amp; Accrued Charges</b>	<b>385,923</b>	<b>553,796,248</b>	<b>385,923</b>	<b>553,796,248</b>

Civic Financial Services Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### NOTE 8. TAXATION

#### Accounting Policies:

#### i) Current Tax

The income tax expense charged against the profit for the year is the estimated liability in respect of that profit. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Tax assets are offset only when there is a legally enforceable right to set off the recognised amounts, and an intention to settle on a net basis.

#### ii) Deferred Tax

The liability method of accounting for deferred taxation is applied on a comprehensive balance sheet basis in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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. Deferred tax is charged or credited in the Statement of Comprehensive Income.

#### iii) Goods and Services Tax (GST)

Revenue, expenses, assets and liabilities are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority in which case the GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 8. TAXATION CONTINUED**

(a) **Income tax recognised in the Statement of Comprehensive Income**

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>Tax expense comprises:</b>				
Current tax expense	(7)	699,734	-	699,741
Adjustments recognised in the current year in relation to the current tax of prior years	-	(712,668)	-	(712,668)
Deferred tax relating to the origination and reversal of temporary differences	359,563	56,597	359,563	56,597
<b>Total Tax Expense</b>	<b>359,556</b>	<b>43,663</b>	<b>359,563</b>	<b>43,670</b>
<b>Attributable to:</b>				
Continuing operations	359,556	43,663	359,563	43,670
	<b>359,556</b>	<b>43,663</b>	<b>359,563</b>	<b>43,670</b>

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
Profit from continuing operations	1,240,449	2,691,534	1,240,484	2,691,558
Subvention payable	-	-	(7)	(7)
Revaluation of Investment Property	96,571	133,331	96,571	133,331
Share of Profit of Associate	(3,152)	(150)	-	-
	<b>1,333,868</b>	<b>2,824,715</b>	<b>1,337,048</b>	<b>2,824,882</b>
Income tax calculated at 28%	373,483	790,920	374,372	790,967
Tax effect of permanent differences	(13,927)	(34,589)	(14,809)	(34,629)
	<b>359,556</b>	<b>756,331</b>	<b>359,563</b>	<b>756,338</b>
Under/Over provision of income tax in previous year	-	(712,668)	-	(712,668)
<b>Income Tax Expense</b>	<b>359,556</b>	<b>43,663</b>	<b>359,563</b>	<b>43,670</b>

Civic Financial Services Limited

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 8. TAXATION CONTINUED**

**(b) Current tax assets and liabilities**

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
Tax refund receivable	990	2,971	990	2,971
Tax payable	-	-	-	-
	990	2,971	990	2,971

**(c) Deferred tax balances**

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>Deferred tax assets comprise:</b>				
Temporary differences	3,759,692	4,138,854	3,759,692	4,138,854
	3,759,692	4,138,854	3,759,692	4,138,854
<b>Deferred tax liabilities comprise:</b>				
Temporary differences	(486,908)	(506,508)	(486,908)	(506,508)
	(486,908)	(506,508)	(486,908)	(506,508)
<b>Net Deferred Tax balance</b>	<b>3,272,784</b>	<b>3,632,346</b>	<b>3,272,784</b>	<b>3,632,346</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 8. TAXATION CONTINUED**

(c) Deferred tax balances continued

Gross taxable and deductible temporary differences for both the Company and Group arise from the following:

	Opening Balance	Charged to Income	Charged to Equity	Prior Period Adjustment	Closing Balance	
	\$	\$	\$	\$	\$	
2016	Investment gains	(40,315)	-	-	(40,315)	
	Building, property and equipment	(1,768,639)	(98,085)	-	168,085	(1,698,639)
		<b>(1,808,954)</b>	<b>(98,085)</b>	-	<b>168,085</b>	<b>(1,738,954)</b>
	Employee entitlements	130,833	(80,703)	-	4,784	54,914
	Losses carried forward	14,650,787	(1,105,362)	-	(172,869)	13,372,556
		<b>14,781,620</b>	<b>(1,186,065)</b>	-	<b>(168,085)</b>	<b>13,427,470</b>
	<b>Attributable to:</b>					
	Continuing operations	12,972,665	(1,284,151)	-	-	11,688,514
	<b>Total</b>	<b>12,972,665</b>	<b>(1,284,151)</b>	-	-	<b>11,688,514</b>
	Tax effect at 28%	3,632,344	(359,560)	-	-	3,272,784
2015	Investment gains	(40,315)	-	-	-	(40,315)
	Building, property and equipment	(1,558,547)	(210,092)	-	-	(1,768,639)
		<b>(1,598,862)</b>	<b>(210,092)</b>	-	-	<b>(1,808,954)</b>
	Employee entitlements	122,875	7,958	-	-	130,833
	Losses carried forward	14,604,623	(2,499,080)	-	2,545,244	14,650,787
		<b>14,727,498</b>	<b>(2,491,122)</b>	-	<b>2,545,244</b>	<b>14,781,620</b>
	<b>Attributable to:</b>					
	Continuing operations	13,128,636	(2,701,214)	-	2,545,244	12,972,666
	<b>Total</b>	<b>13,128,636</b>	<b>(2,701,214)</b>	-	<b>2,545,244</b>	<b>12,972,666</b>
	Tax effect at 28%	3,676,016	(756,338)	-	712,668	3,632,346

No liability has been recognised in respect of the undistributed earnings of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The deferred tax asset relating to tax losses carried forward has been recognised as the financial forecasts anticipate the Company maintaining sufficient profitability in future financial years (refer Note 22).

Civic Financial Services Limited

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 8. TAXATION CONTINUED**

**(d) Imputation Credit Account**

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
Opening Balance	5,256,739	5,521,678	5,256,739	5,521,678
Plus Credits				
Income Tax Paid	-	-	-	-
Resident Withholding Tax	-	990	-	990
Imputation Credits Received	2,463	-	2,463	-
	2,463	990	2,463	990
Less Debits				
Tax Refund	1,980	40,147	1,980	40,147
Imputation Credits Attached to Dividends Paid	-	-	-	-
Other Debits	-	225,782	-	225,782
	1,980	265,929	1,980	265,929
<b>Closing Balance</b>	<b>5,257,222</b>	<b>5,256,739</b>	<b>5,257,222</b>	<b>5,256,739</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 9. INVESTMENT PROPERTY**

**Accounting Policy:**

Investment property is measured at fair value, by reference to an external market valuation (performed annually), with any resulting unrealised gain or loss recognised in the Statement of Comprehensive Income.

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>Civic Assurance House, Lambton Quay, Wellington</b>				
(a) Land valuation (Original Cost \$289,253)	2,900,000	2,900,000	2,900,000	2,900,000
Less decrease in value	-	-	-	-
Level 3 Fair Value	2,900,000	2,900,000	2,900,000	2,900,000
(b) Building valuation (Original Cost \$860,571)	4,500,000	4,130,000	4,500,000	4,130,000
Refurbishment	403,429	236,669	403,429	236,669
Increase/(Decrease) in value	96,571	133,331	96,571	133,331
Level 3 Fair Value	5,000,000	4,500,000	5,000,000	4,500,000
(c) Artwork valuation (Original Cost \$8,844)	25,000	25,000	25,000	25,000
Plus increase in value	-	-	-	-
Fair Value	25,000	25,000	25,000	25,000
	<b>7,925,000</b>	<b>7,425,000</b>	<b>7,925,000</b>	<b>7,425,000</b>

The investment property is revalued every year. The investment property valuation for the year ended 31 December 2016 was completed on 3 November 2016 by independent registered valuer Martin Veale (ANZIV, SPINZ) of the firm Telfer Young (Wgtn) Ltd. The property is valued in accordance with International Valuation Standards 2013. The Investment property is Level 3 fair value.

The valuation has been established by the Income Capitalisation and Discounted Cashflow approaches and consideration of market rental and sales evidence and property specific attributes. The major inputs and assumptions used in the valuation technique are current and expected market rentals, potential vacancies, capital outlay, terminal and investment yields and the discount rate.

**Investment Property Metrics**

		2016	2015
<b>Contract Yield</b>	Average	6.02%	6.83%
	Maximum	6.50%	7.00%
	Minimum	5.50%	6.50%
<b>Market Yield</b>	Average	8.31%	9.02%
	Maximum	8.50%	9.25%
	Minimum	8.00%	8.75%
<b>Occupancy</b>	Occupancy (net lettable area)	83.66%	83.20%
	Weighted average lease term	2.30	1.80

Civic Financial Services Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### NOTE 10. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

#### Accounting Policy:

Assets are depreciated on a straight line basis at rates calculated to allocate the assets' cost, in equal instalments over their estimated useful lives which are assessed and regularly reviewed.

Office Furniture and Equipment	up to 5 years
Intangibles – Software	5 years

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>Property, Plant and Equipment</b>				
(a) Office Furniture and Equipment – cost	595,688	531,440	595,688	531,440
Plus Additions	36,596	64,247	36,596	64,247
Less Disposals	(2,295)	-	(2,295)	-
Closing Value – cost	629,989	595,687	629,989	595,687
Office Furniture and Equipment – Accumulated Depreciation	(402,540)	(366,743)	(402,540)	(366,743)
Less Depreciation Charge	(38,761)	(35,797)	(38,761)	(35,797)
Less Disposals	467	-	467	-
Closing Accumulated Depreciation	(440,834)	(402,540)	(440,834)	(402,540)
<b>Net Book Value</b>	<b>189,155</b>	<b>193,147</b>	<b>189,155</b>	<b>193,147</b>

The Total Comprehensive Surplus Net of Tax in the Statement of Comprehensive Income includes a \$nil loss on disposal of fixed assets (2015: nil).

#### Intangible Assets

(b) Software – cost	498,839	460,682	498,839	460,682
Plus Additions	20,614	38,157	20,614	38,157
Less Disposals	-	-	-	-
Closing Value – cost	519,453	498,839	519,453	498,839
Software – Accumulated Amortisation	(426,563)	(408,171)	(426,563)	(408,171)
Less Amortisation Charge	(3,238)	(18,392)	(3,238)	(18,392)
Less Disposals	-	-	-	-
Closing Accumulated Amortisation	(429,802)	(426,563)	(429,801)	(426,563)
<b>Net Book Value</b>	<b>89,652</b>	<b>72,276</b>	<b>89,652</b>	<b>72,276</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 11. FINANCIAL INSTRUMENTS**

**Accounting Policies:**

**i) Classification and Measurement**

Financial instruments are transacted on a commercial basis to derive an interest yield / cost with the terms and conditions having due regard to the nature of the transaction and the risks involved. Financial instruments are recognised and accounted for on a settlement date basis.

**Held To Maturity Investments**

NZ Government Stock is classified as Held To Maturity and is measured at amortised cost using the effective interest method.

**Loans and Receivables**

Other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate.

**Bank and Cash Equivalents**

Bank and cash equivalents are measured at amortised cost using the effective interest rate.

**Financial Liabilities**

Financial liabilities include Sundry Creditors and Accrued Charges, Subordinated Debt. Financial liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost.

The Outstanding Claims Liability is an actuarial estimate recorded at Fair Value.

**ii) Offsetting Financial Instruments**

Financial assets and liabilities are not offset as there is no legally enforceable right to set-off.

**iii) Asset Quality**

**Impairment of Financial Assets**

Financial assets measured at amortised cost are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such condition exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount.

As at the date of these Financial Statements, no such evidence of impairment exists.

**iv) Fair Value of Financial Instruments**

Fair value measurements recognised in the Statement of Financial Position

Financial instruments are categorised into 3 levels:

- **Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**v) Derivatives**

The Company and Group do not use any derivative financial instruments.

Civic Financial Services Limited

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 11. FINANCIAL INSTRUMENTS CONTINUED**

**(1) Income Relating to Financial Assets**

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>Held to Maturity</b>				
Interest Received – NZ Government Stock	-	2,320	-	2,320
	-	2,320	-	2,320
<b>Cash &amp; Cash Equivalents</b>				
Interest Received – Short Term Deposits at Bank	283,739	65,649	283,750	65,649
	283,739	67,969	283,750	67,969

**(2) Financial Assets and Liabilities**

The carrying amounts of all financial assets and liabilities are considered to be equivalent to their market value, which for these assets and liabilities is also considered to be fair value. The Subordinated Debt is measured at amortised cost which is considered to be fair value.

All fixed interest investments were managed around a 90 day duration and carry a minimum Standard and Poors credit rating of "A1" or equivalent.

*Carrying value of Financial Assets and Financial Liabilities*

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>Financial Asset: Loans and Receivables</b>				
Sundry Debtors	421,098	49,131,257	421,090	49,131,249
Reinsurance Receivable on agreed settlement	-	519,558,958	-	519,558,958
<b>Total Loans and Receivables</b>	<b>421,098</b>	<b>568,690,215</b>	<b>421,090</b>	<b>568,690,207</b>
<b>Financial Asset: Carried at Amortised Cost</b>				
Bank & Cash Equivalents	6,111,694	454,415	6,061,168	403,870
<b>Financial Liability: Amortised Cost</b>				
Subordinated Debt	120,176	120,176	-	-
Sundry Creditors & Accrued Charges	385,923	553,796,248	385,923	553,796,248
<b>Total Amortised Cost</b>	<b>506,099</b>	<b>553,916,424</b>	<b>385,923</b>	<b>553,796,248</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 11. FINANCIAL INSTRUMENTS CONTINUED**

**(3) Financial Risk - Structure and Management**

The Company & Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern. The Group's overall strategy is reviewed annually and remains unchanged.

Financial instruments which potentially subject the Company & Group to a concentration of credit risk consist principally of cash and interest bearing deposits and reinsurance receivable. The Company and Group has no debt instruments.

The Company does not require collateral or other security to support financial instruments with credit risk and as such, no collateral exists for any of the investments held by the Company. The maximum credit risk exposure is the carrying amount of the individual investment balances.

The Company & Group has placed interest bearing deposits and funds to be managed with financial institutions and limits its amount of credit exposure to any one such institution.

**(a) Market Risk**

All financial assets and liabilities are New Zealand Dollar based and are recorded at amortised cost, therefore changes in interest rates and foreign currency values do not impact on their carrying value.

**(i) Interest Rate Repricing Schedule**

The following tables include the Company's and Group's financial assets and liabilities at their carrying amounts, categorised by the maturity dates.

Civic Financial Services Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### NOTE 11. FINANCIAL INSTRUMENTS CONTINUED

#### (3) Financial Risk – Structure and Management continued

##### (a) Market Risk continued

##### (i) Interest Rate Repricing Schedule continued

	Interest Rate Spread	Within 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Non Interest Bearing	Total
	%	\$	\$	\$	\$	\$	\$
<b>As at 31 December 2016 (Group)</b>							
<b>Assets</b>							
Cash at Bank	0% to 3.76%	6,021,221	-	-	-	90,473	6,111,694
Other Receivable	n/a	-	-	-	-	421,098	421,098
<b>Total Financial Assets</b>		<b>6,021,221</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>511,571</b>	<b>6,532,792</b>
<b>Liabilities</b>							
Sundry Creditors & Accrued Charges	n/a	-	-	-	-	385,923	385,923
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
<b>Total Financial Liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>506,099</b>	<b>506,099</b>
<b>As at 31 December 2015 (Group)</b>							
<b>Assets</b>							
Cash at Bank	0% to 3.76%	367,618	-	-	-	86,797	454,415
Other Receivable	n/a	-	-	-	-	49,131,257	49,131,257
Reinsurance Recoveries	2.5%	519,558,958	-	-	-	-	519,558,958
<b>Total Financial Assets</b>		<b>519,926,576</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49,218,054</b>	<b>569,144,630</b>
The Reinsurance Recovery was interest bearing from 24 December 2015 to 19 February 2016.							
<b>Liabilities</b>							
Sundry Creditors & Accrued Charges	n/a	-	-	-	-	553,796,248	553,796,248
Outstanding Claims	n/a	-	-	-	-	10,608,200	10,608,200
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
<b>Total Financial Liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>564,524,624</b>	<b>564,524,624</b>

Civic Financial Services Limited  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 11. FINANCIAL INSTRUMENTS CONTINUED**

(3) Financial Risk – Structure and Management continued

(a) Market Risk continued

(i) Interest Rate Repricing Schedule continued

	Interest Rate Spread	Within 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Non Interest Bearing	Total
	%	\$	\$	\$	\$	\$	\$
<b>As at 31 December 2016 (Parent)</b>							
<b>Assets</b>							
Cash at Bank	0% to 3.76%	6,028,815	-	-	-	32,353	6,061,168
Other Receivable	n/a	-	-	-	-	421,090	421,090
<b>Total Financial Assets</b>		<b>6,028,815</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>453,443</b>	<b>6,482,258</b>
<b>Liabilities</b>							
Sundry Creditors & Accrued Charges	n/a	-	-	-	-	385,923	385,923
<b>Total Financial Liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>385,923</b>	<b>385,923</b>
<b>As at 31 December 2015 (Parent)</b>							
<b>Assets</b>							
Cash at Bank	0% to 3.76%	367,635	-	-	-	36,235	403,870
Other Receivable	n/a	-	-	-	-	49,131,249	49,131,249
Reinsurance Recoveries	n/a	519,558,958	-	-	-	-	519,558,958
<b>Total Financial Assets</b>		<b>519,926,593</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49,167,484</b>	<b>569,094,077</b>
<b>Liabilities</b>							
Sundry Creditors & Accrued Charges	n/a	-	-	-	-	553,796,248	553,796,248
Outstanding Claims	n/a	-	-	-	-	10,608,200	10,608,200
<b>Total Financial Liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>564,404,448</b>	<b>564,404,448</b>

(ii) Carrying Amount and Fair Value

The carrying amounts of all financial assets and liabilities are considered to be equivalent to their fair value.

Civic Financial Services Limited

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 11. FINANCIAL INSTRUMENTS CONTINUED**

**(3) Financial Risk – Structure and Management continued**

*(b) Liquidity Risk*

Liquidity Risk is the risk that the Company & Group will encounter difficulties in raising funds at short notice to meet commitments associated with financial instruments. Management of liquidity risk is designed to ensure that the Company & Group has the ability to meet financial obligations as they fall due.

The following tables include an analysis of the contractual undiscounted cash flows relating to the Company's & Group's financial assets and liabilities at their face value, categorised by the maturity dates.

	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
<b>Maturity Analysis (Group) As at 31 December 2016</b>					
<b>Assets</b>					
Cash at Bank	6,111,694	-	-	-	6,111,694
Other Receivable	421,098	-	-	-	421,098
<b>Total Financial Assets</b>	<b>6,532,792</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,532,792</b>
<b>Liabilities</b>					
Sundry Creditors & Accrued Charges	385,923	-	-	-	385,923
Subordinated Debt	-	-	120,176	-	120,176
<b>Total Financial Liabilities</b>	<b>385,923</b>	<b>-</b>	<b>120,176</b>	<b>-</b>	<b>506,099</b>
<b>Maturity Analysis (Group) As at 31 December 2015</b>					
<b>Assets</b>					
Cash at Bank	454,415	-	-	-	454,415
Other Receivable	49,131,257	-	-	-	49,131,257
Reinsurance Recoveries	519,558,958	-	-	-	519,558,958
<b>Total Financial Assets</b>	<b>569,144,630</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>569,144,630</b>
<b>Liabilities</b>					
Sundry Creditors & Accrued Charges	553,796,248	-	-	-	553,796,248
Outstanding Claims	10,608,200	-	-	-	10,608,200
Subordinated Debt	-	-	120,176	-	120,176
<b>Total Financial Liabilities</b>	<b>564,404,448</b>	<b>-</b>	<b>120,176</b>	<b>-</b>	<b>564,524,624</b>

Civic Financial Services Limited  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 11. FINANCIAL INSTRUMENTS CONTINUED**

(3) Financial Risk – Structure and Management continued

(b) Liquidity Risk continued

	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
<b>Maturity Analysis (Parent) As at 31 December 2016</b>					
<b>Assets</b>					
Cash at Bank	6,061,168	-	-	-	6,061,168
Other Receivable	421,090	-	-	-	421,090
<b>Total Financial Assets</b>	<b>6,482,258</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,482,258</b>
<b>Liabilities</b>					
Sundry Creditors and Accrued Charges	385,923	-	-	-	385,923
<b>Total Financial Liabilities</b>	<b>385,923</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>385,923</b>
<b>Maturity Analysis (Parent) As at 31 December 2015</b>					
<b>Assets</b>					
Cash at Bank	403,870	-	-	-	403,870
Other Receivable	49,131,249	-	-	-	49,131,249
Reinsurance Recoveries	519,558,958	-	-	-	519,558,958
<b>Total Financial Assets</b>	<b>569,094,077</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>569,094,077</b>
<b>Liabilities</b>					
Sundry Creditors and Accrued Charges	553,796,248	-	-	-	553,796,248
Outstanding Claims	10,608,200	-	-	-	10,608,200
<b>Total Financial Liabilities</b>	<b>564,404,448</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>564,404,448</b>

Civic Financial Services Limited

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 11. FINANCIAL INSTRUMENTS CONTINUED**

**(3) Financial Risk – Structure and Management continued**

**(c) Credit Risk**

All investments are in cash at registered banks. The registered banks have a credit rating of “A+” or better. All reinsurance was held with reinsurers with credit ratings no less than “A-” (AM Best scale).

**(i) Concentration of Credit Risk**

The following table includes the Company’s & Group’s assets at their carrying amounts at balance date. This equates to the Company’s and Group’s maximum exposure to credit risk.

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
Cash at Registered Banks	6,111,694	454,415	6,061,168	403,870
Other Receivable	421,098	49,131,257	421,090	49,131,249
Reinsurance Recoveries	-	519,558,958	-	519,558,958
<b>Total</b>	<b>6,532,792</b>	<b>569,144,630</b>	<b>6,482,258</b>	<b>569,094,077</b>

**(ii) Concentration of Credit Exposure**

The major credit exposure greater than 10% of total assets is with registered banks. All reinsurers, except Local Authority Protection Programme (“LAPP”), have claims paying ratings greater than “A”. All reinsurers have settled their liabilities in full.

**NOTE 12. RECONCILIATION OF COMPREHENSIVE INCOME AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITIES**

**Accounting Policy:**

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Comprehensive Income. The GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to, the taxation authority is classified as operating cash flow.

**The following are definitions of the terms used in the Statement of Cash Flows:**

- Bank comprises cash on hand and demand deposits.
- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.
- Cash flows are inflows and outflows of cash and cash equivalents.
- Operating activities are the principal revenue producing activities of the entity and other activities that are not investing or financing activities.
- Investing activities are the acquisition and disposal of long-term assets.
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Civic Financial Services Limited

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 12. RECONCILIATION OF COMPREHENSIVE INCOME AFTER TAX WITH CASH FLOW  
FROM OPERATING ACTIVITIES CONTINUED**

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>Total Comprehensive Surplus</b>	974,312	2,781,052	977,485	2,781,212
<b>Add/(less) non cash items</b>				
Depreciation	38,761	35,797	38,761	35,797
Amortisation	3,238	18,392	3,238	18,392
Movement in CLP / Riskpool Admin Fee Reserve	386,405	-	386,405	-
Movement in Deferred Tax Asset	359,562	43,672	359,562	43,672
Net change in fair value of investment property	(96,571)	(133,331)	(96,571)	(133,331)
Share of Loss of Associate	3,152	136	-	-
Unrealised net change in value of investments	-	100,697	-	100,697
	694,547	65,363	691,395	65,227
<b>Add/(less) movements in other working capital items</b>				
Sundry Debtors and Prepayments and Reinsurance Recoveries	568,347,733	(60,809,643)	568,347,738	(60,809,643)
Sundry Creditors and Accrued Charges	(553,491,392)	552,781,237	(553,491,392)	552,781,237
Movement in Insurance Provisions	(10,608,200)	(497,961,700)	(10,608,200)	(497,961,700)
Reinsurance Received in Advance	-	(326,264)	-	(326,264)
Tax Refund Due	1,981	39,157	1,981	39,157
	4,250,122	(6,277,213)	4,250,127	(6,277,213)
Add/(Less) Items Classified as investing activity	(5,758)	-	(5,758)	-
Add/(Less) Items Classified as financing activity	7	7	7	7
<b>Net Cash Flow from Operating Activities</b>	<b>5,913,230</b>	<b>(3,430,791)</b>	<b>5,913,256</b>	<b>(3,430,767)</b>

Attachment 1

Item 13

Civic Financial Services Limited

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 13. OPERATING LEASE COMMITMENTS**

There are the following operating lease **expense** commitments:

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
not later than one year	12,444	16,709	12,444	16,709
later than one year but not later than five years	-	15,843	-	15,843
	12,444	32,552	12,444	32,552

There are the following operating lease **income** commitments:

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
not later than one year	760,980	738,946	760,980	738,946
later than one year but not later than five years	2,421,422	1,043,984	2,421,422	1,043,984
later than five years	525,063	160,000	525,063	160,000
	3,707,465	1,942,930	3,707,465	1,942,930

Operating lease income relates to a combination of office and retail tenancies to the Investment Property referred to in Note 9. The property is subject to a combination of multiple office and retail tenancies over varying lease periods.

**NOTE 14. CONTINGENT LIABILITIES**

There are no contingent liabilities (2015: \$nil).

**NOTE 15. SUBORDINATED DEBT**

NZ Local Government Finance Corporation Ltd's (NZLGFC) Investment Manager's brokerage was subordinated. The subordinated loan ranks behind all other NZLGFC creditors. Under the terms of the subordination, amounts payable including interest shall only be payable at such time, or times, as the Directors determine that the Company has available funds to make such payments. NZLGFC ceased active operations in February 2010.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2016

**NOTE 16. KEY MANAGEMENT PERSONNEL**

The compensation of the Directors and executives, being the 10 key management personnel of the Company and Group is set out below:

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>Short-term employee benefits</b>				
Four Executive Management Personnel	865,135	781,369	865,135	781,369
Six Directors	146,953	144,375	146,953	144,375
	<b>1,012,088</b>	<b>925,744</b>	<b>1,012,088</b>	<b>925,744</b>

Restructuring costs totalling \$235,609 have been included in Employee Remuneration.

All related party transactions that the Company and Group entered into during the year occurred within a normal client / supplier relationship and under terms equivalent to those that prevail in arm's length transactions in similar circumstances.

**NOTE 17. ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED**

There are no financial assets that are impaired or past due at balance date (2015: nil)

**NOTE 18. STANDARDS APPROVED BUT NOT YET EFFECTIVE**

**Standards and Interpretations in issue not yet adopted**

At the date of authorisation of the financial report, there were no Standards and Interpretations on issue that were relevant to the Group, but not yet effective.

Civic Financial Services Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### NOTE 19. SHAREHOLDERS' EQUITY

The Share Capital of the Company and Group comprises solely authorised and issued ordinary shares with each share ranking equally in votes, dividends and surpluses. During the year 219,000 shares were issued at \$0.90 per share to existing shareholders. There were no other shares issued during the year.

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>Retained Earnings</b>				
Opening Balance	5,465,902	2,684,850	5,532,373	2,751,161
Net Surplus After Taxation	974,312	2,781,052	977,485	2,781,212
<b>Closing balance</b>	<b>6,440,213</b>	<b>5,465,902</b>	<b>6,509,858</b>	<b>5,532,373</b>

	2016 Group \$	2015 Group \$	2016 Parent \$	2015 Parent \$
<b>Ordinary Share Capital</b>				
Opening Balance	10,566,406	10,566,406	10,566,406	10,566,406
Shares Issued During The Year	197,100	-	197,100	-
<b>Closing balance</b>	<b>10,763,506</b>	<b>10,566,406</b>	<b>10,763,506</b>	<b>10,566,406</b>
<b>Number of Ordinary Shares Fully Paid</b>	<b>11,249,364</b>	<b>11,030,364</b>	<b>11,249,364</b>	<b>11,030,364</b>

### NOTE 20. EQUITY RETAINED FOR FINANCIAL SOUNDNESS

All shareholder equity is retained to ensure the financial soundness of the Company and Group. The cash is retained for cash flow purposes and also to balance the funds allocated in the building investment.

### NOTE 21. COMPARISON WITH STATEMENT OF INTENT

The following is a comparison of the actual performance against the Statement of Intent for the year ended 31 December 2016.

	SI Target	Actual
• Annual claims paying ability rating by AM Best	"A-" (Excellent)	"B+" (Good)

The primary reason for the Company not meeting performance targets is due to the flow on effects of the Canterbury Earthquakes on 22 February 2011 and 13 June 2011.

Civic Financial Services Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### NOTE 22. GOING CONCERN

The financial statements have been prepared on a going concern basis.

In December 2015 the Company reached a global settlement of the majority of the Canterbury earthquake claims and a commutation agreement of the remaining open Canterbury earthquake claims with the reinsurers. Based on the actuaries' valuations and expertise of the loss adjusters, the Company met its insurance liabilities in full in 2016.

The Company is no longer carrying on an insurance business and the provisional license held under the Insurance (Prudential Supervision) Act 2010 issued by the RBNZ was cancelled on 17 January 2017. Consequently the Company is not required to hold a credit rating or maintain a solvency margin.

The profitability of financial and property services supports the going concern assumption for Civic Financial Services Ltd as a whole.

The deferred tax asset has been reviewed at balance date. The Directors believe that it is probable that sufficient taxable profits will be available to allow all of the asset to be recovered.

### NOTE 23. SUBSEQUENT EVENTS

In February 2017 a secured loan facility agreement between the Company and LGMFT was entered into whereby the Company loans LGMFT up to \$3,000,000 at commercial interest rates.

There have been no other material events subsequent to 31 December 2016 that requires adjustment to or disclosure in the financial statements.



## INDEPENDENT AUDITOR'S REPORT

To the readers of Civic Financial Services Limited (previously known as New Zealand Local Government Insurance Corporation Limited) and Group's Financial Statements for the year ended 31 December 2016

The Auditor-General is the auditor of Civic Financial Services Limited (previously known as New Zealand Local Government Insurance Corporation Limited) (the company) and group. The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte Limited, to carry out the audit of the consolidated and separate financial statements of the company and group on his behalf.

### OPINION

We have audited the consolidated and separate financial statements of the company and group on pages 8 to 41, that comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date and the notes to the consolidated and separate financial statements that include accounting policies and other explanatory information.

In our opinion, the consolidated and separate financial statements of the company and group:

- present fairly, in all material respects:
  - the financial position of the company and group as at 31 December 2016; and
  - the financial performance and cash flows of the company and group for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Sector Public Benefit Entity Standards.

Our audit was completed on 17 March 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the audit of the consolidated and separate financial statements, we comment on other information, and we explain our independence.

### BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand) (ISA (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditors responsibilities for the audit of the consolidated and separate financial statements* section of our report.

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

We are independent of the company and group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our ethical responsibilities in accordance with these requirements.

In addition to the audit we have carried out assignments in the area of tax compliance. Other than the audit and these assignments, we have no relationship with or interests in the company and group. These services have not impaired our independence as auditor of the company and group.



#### **OTHER INFORMATION**

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 6 that accompany the consolidated and separate financial statements and our audit report.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

#### **RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

The Board of Directors is responsible on behalf of the company and group for the preparation and fair presentation of consolidated and separate financial statements in accordance with Public Sector Public Benefit Entity Standards.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare consolidated and separate financial statements 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, whether in printed or electronic form.

In preparing the consolidated and separate financial statements, the Board of Directors is responsible on behalf of the company and group for assessing the company and group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company and group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

#### **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these consolidated and separate financial statements.

We did not evaluate the security and controls over the electronic publication of the consolidated and separate financial statements.

**Deloitte.**

**INDEPENDENT AUDITOR'S REPORT** CONTINUED

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 and group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company and group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company and group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.



Michael Wilkes  
**DELOITTE LIMITED**  
ON BEHALF OF THE AUDITOR-GENERAL  
CHRISTCHURCH, NEW ZEALAND

## CIVIC FINANCIAL SERVICES SHAREHOLDERS AS AT 31 DECEMBER 2016

SHAREHOLDER MEMBER	NO. OF SHARES		SHAREHOLDER MEMBER	NO. OF SHARES	
<b>CITY COUNCILS</b>			<b>DISTRICT COUNCILS (Cont'd)</b>		
Auckland	2,195,042	19.51%	Rangitikei	35,338	0.31%
Christchurch	1,417,704	12.60%	Rotorua	175,906	1.56%
Dunedin	470,966	4.19%	Ruapehu	56,666	0.50%
Hamilton	202,729	1.80%	South Taranaki	135,496	1.20%
Hutt	479,822	4.27%	South Waikato	42,374	0.38%
Invercargill	407,927	3.63%	South Wairarapa	53,930	0.48%
Napier	283,842	2.52%	Southland	13,715	0.12%
Nelson	95,543	0.85%	Stratford	65,608	0.58%
Palmerston North	411,737	3.66%	Tararua	99,972	0.89%
Porirua	140,146	1.25%	Tasman	65,584	0.58%
Tauranga	124,242	1.10%	Taupo	83,971	0.75%
Upper Hutt	51,209	0.46%	Thames-Coromandel	27,120	0.24%
Wellington	526,821	4.68%	Timaru	230,118	2.05%
<b>DISTRICT COUNCILS</b>			Waikato	41,070	0.37%
Ashburton	56,016	0.50%	Waimakariri	88,172	0.78%
Buller	27,698	0.25%	Waimate	30,458	0.27%
Carterton	23,642	0.21%	Waipa	149,082	1.33%
Central Hawke's Bay	28,580	0.25%	Wairoa	22,992	0.20%
Central Otago	91,238	0.81%	Waitaki	120,000	1.07%
Clutha	33,711	0.30%	Waitomo	16,940	0.15%
Far North	85,440	0.76%	Wanganui	289,660	2.57%
Gisborne	99,404	0.88%	Western Bay of Plenty	28,142	0.25%
Gore	54,589	0.49%	Westland	28,356	0.25%
Grey	33,742	0.30%	Whakatane	38,788	0.34%
Hastings	129,170	1.15%	Whangarei	63,524	0.56%
Hauraki	63,434	0.56%	<b>REGIONAL COUNCILS</b>		
Horowhenua	110,689	0.98%	Bay of Plenty	55,000	0.49%
Hurunui	14,000	0.12%	Canterbury	152,696	1.36%
Kaikoura	10,000	0.09%	Hawke's Bay	20,000	0.18%
Kaipara	13,629	0.12%	Horizons	2,000	0.02%
Kapiti Coast	15,060	0.13%	Southland	10,000	0.09%
Kawerau	31,161	0.28%	Taranaki	1,000	0.01%
Manawatu	203,964	1.81%	Waikato	22,000	0.20%
Marlborough	86,022	0.76%	Wellington	80,127	0.71%
Masterton	127,230	1.13%	<b>OTHER</b>		
Matamata-Piako	122,554	1.09%	TrustPower	137,251	1.22%
New Plymouth	441,456	3.92%	<b>Total Shares</b>		
Opotiki	20,000	0.18%	<b>11,249,364</b>		
Otorohanga	5,000	0.04%			
Queenstown-Lakes	31,149	0.28%			

**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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**Attachment 2**

**Item 13**

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**Civic Assurance**

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## **1.0 Mission Statement**

<b>Mission Statement of Civic Assurance</b>
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.

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**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.

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**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.

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**Civic Assurance**

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**Financial statements  
for the year ended 30 June 2017**

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**Attachment 1**

**Item 15**

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**Waikato Local Authority Shared Services Limited  
Annual Directors' Report to Shareholders  
30 June 2017**

**Annual Directors' Report to Shareholders**

Local Authority Shared Services Limited (LASS) 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 (WLASS), to distinguish it from other local authority shared services companies around New Zealand.

This is the 12th WLASS annual report, and covers the period 1 July 2016 to 30 June 2017.

**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, as well as initiating new projects and work streams, and facilitating the Waikato Mayoral Forum work streams. The Company continues to work collaboratively with other local authority shared service companies, most particularly with our neighbour, BOPLASS.

The Company continues to operate cost effectively with the services of a part-time contracted CEO, a 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 is currently undertaking a review to investigate options for the future provision of the SVDS service. A recommendation and business case are scheduled for presentation to the WLASS Board by the end of the 2017 calendar year, to ensure that there is no disruption to services when the current Interger contract expires in February 2018.

The WRTM project has been challenging this year, due to delays in reaching agreement on land use and population data from the shareholding councils. As a result, no modelling work was undertaken during the latter 6 months of the year. However it is anticipated that the revision of the model will be completed (along with a peer review) in the first quarter of 2017/18, and the model will again be available for use.

Three new activities joined WLASS on 1 July 2016 – RATA, the Waikato Building Consent Group and Future Proof. The integration has gone successfully, and consolidated reporting on these activities is now available to all shareholders.

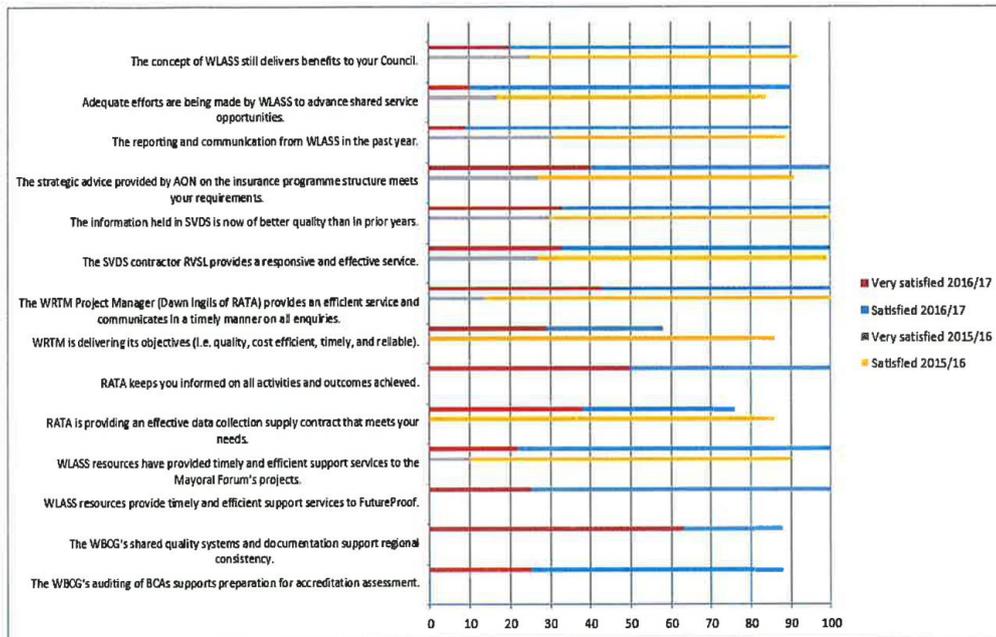
The Company continues to act as the legal entity to manage contracts arising from the work of the Waikato Mayoral Forum, as well as making all contract payments. However, WLASS no longer provides administrative support to the Forum.

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 latest results is shown below.



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**Annual Shareholder Survey Results, 2016/17**  
(2016/17 = 11 Councils responded).



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.

**Governance**

WLASS has twelve Directors with each Director representing a shareholder Council. 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.

A new Chief Executive was appointed to Taupo District Council during 2016, and on 5 August 2016, the Board welcomed Gareth Green as a new Director. During the year, Richard Briggs resigned as a Director, and the Board thanks him for his contribution. Hamilton City Council subsequently appointed Blair Bowcott as his replacement, and Blair was appointed to the Board on 24 March 2017.

The Board looks forward to continuing to build on the WLASS platform that has been established over the past 12 years, and will continue to consider new shared service opportunities that will help to achieve further benefits for shareholders.



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**WCLASS Objective**

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. WCLASS 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, WCLASS 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 WCLASS 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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**Performance Measures**

The following performance measures were incorporated into the Statement of Intent for the 2016/17 financial year.

TARGET	METHOD	MEASURE	OUTCOME
<p><b>PROCUREMENT:</b></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 through a competitive tender process.</p>	<p>Achieved.</p> <p>A joint RFP with BOPLASS for the supply of Multi-function Devices was completed and Konica Minolta were accepted as the preferred supplier.</p> <p>Shared procurement of Thomson Reuters services, EMA membership, and participation in the BOPLASS EFTPOS contract have been investigated, but no financial benefits were identified.</p> <p>A WLASS Master Agreement with Vertical Horizonz for the provision of health &amp; safety training was completed in February 2017 and 11 councils have signed Joining Agreements.</p> <p>Achieved.</p> <p>A syndicated clause in three tendered Hamilton City Council contracts enables all shareholders to access:</p> <ul style="list-style-type: none"> <li>(i) a library book buying contract at 37% discount on the RRP;</li> <li>(ii) a contract for the supply of pipes and fittings for water, wastewater and stormwater pipes, which provides discounts of between 30% and 80% off the list price;</li> <li>(iii) an HR Panel of eight suppliers for the recruitment of permanent and temporary staff.</li> </ul> <p>Information on how to participate in syndicated contracts for Office Furniture, Media Monitoring and Employee Assistance Programmes was circulated to all shareholding councils.</p> <p>Following an RFP process, a WLASS Master Agreement for Fleet Management has been entered into with FleetPartners /FleetSmart for a term of 1+2.</p>



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<p><b>COLLABORATIVE PROJECTS:</b></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. Six projects (GIS, Procurement, Aligned Planning, Digital Strategy, Learning and Development, and Building Services) have been investigated.</p> <p>Achieved. Business cases for all six projects were approved by the Board. A GIS team is working on identifying why spatial data should be used to support the Waikato region within the framework of the Waikato Digital Strategy, including identifying the benefits and measures of success A Procurement review is in progress, and is scheduled for completion in August 2017. An RFP to select a Project Manager to lead the Aligned Planning project is in progress. A Digital Strategy is under development. A Learning &amp; Development Working Party has been established, and projects are in progress. A strategic review of Building has been completed and a number of new initiatives have been identified, which will commence in 2017/18.</p>
<p><b>EXISTING WLASS CONTRACTS:</b></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. Contracts Register is up-to-date.</p> <p>Achieved. Four current contracts have been extended, following a performance review: (i) Dataprint (computer-generated print, mailhouse and e-services) (ii) Professional Services Panel (building services, planning 3-waters, urban design, flood hazards consultancy services) (iii) Aon (insurance brokerage) (iv) Infometrics (economic data).</p>
<p><b>CASHFLOW:</b></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>Achieved. Cash flow for the year shows a positive total cash balance of \$352,274.</p> <p>Reports on the financial position were considered at WLASS Board meetings on 5 August, 14 October, and 2 December 2016, and on 3 February, 24 March and 26 May 2017.</p>



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<p><b>COST CONTROL:</b> Administration expenditure shall be managed and monitored.</p>	<p>The Financial Accountant and Chief Executive review expenditure monthly.</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><b>REPORTING:</b> Six monthly reports provided to Shareholders.</p>	<p>The Chief Executive prepares a written report for the WLASS Board every meeting.  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 WLASS to the Shareholders every six months.  Every second report shall be the Annual Report, which includes a report that all of the statutory requirements of WLASS are being adhered to.</p>	<p>Achieved. The 6-monthly report was distributed to shareholders on 9 February 2017.  Achieved. This is the Annual Report.</p>
<p><b>WAIKATO MAYORAL FORUM:</b> The company shall provide administrative support and updates on Mayoral Forum workstreams to the Mayoral Forum.</p>	<p>Updates on Mayoral Forum projects shall be co-ordinated by the WLASS Chief Executive.  Mayoral Forum projects shall be managed financially through WLASS.  Note: The current approved work streams are: •Regulatory Bylaws and Policies •Waikato Plan</p>	<p>The Mayoral Forum is regularly updated on the progress of each approved work stream.  Approved invoices for Mayoral Forum projects are paid by the 20th of the month following their receipt.</p>	<p>Not Applicable. The WLASS CEO is no longer responsible for updating the Mayoral Forum on progress with projects. Project sponsors are responsible for updates.  Partly Achieved. All approved invoices, except for one, were paid by the 20th of the month following their receipt.</p>
<p><b>SHARED VALUATION DATA SERVICES (SVDS):</b> The SVDS is reliable, well maintained and available to all users.</p>	<p>A Contract Manager is appointed for SVDS.  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.  All capital enhancement work is supported by a business case and approved by the SVDS Advisory Group.  The SVDS Advisory Group meets at least 6-monthly.</p>	<p>Achieved. SVDS was available to users for 99.16% of normal working hours.  N/A. There has been no capital enhancement work over the last 12 months.  Achieved. The Group met on 1 September and 17 November 2016, and on 9 March and 1 June 2017</p>



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<p>INSURANCE Achieve the relevant KPIs in Appendix 4 of the Insurance Brokerage contract with Aon.</p>	<p>The Insurance Broker delivers on the terms of their contract and provides value to the participating councils.</p>	<p>Strategic advice provided by Aon on the insurance programme structure is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating councils.</p> <p>The day-to-day service provided by Aon is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating councils.</p>	<p>N/A. Shareholders' survey is scheduled to be reported to the Board on 26 August 2017.</p> <p>N/A. Shareholders' survey is scheduled to be reported to the Board on 26 August 2017.</p>
<p>RATA All stakeholders are kept informed about RATA's projects and achievements.</p> <p>Sub-regional data collection contracts deliver good quality data on roading assets.</p>	<p>Six monthly and annual reports are provided to all stakeholders.</p> <p>Annual Forward Works Programme tours are completed, to provide opportunities for councils' roading staff to share their knowledge and experience</p> <p>Data collection contracts (minimum of two across the region) are managed in accordance with best practice.</p> <p>Data supplied by contractors is of good quality and meets all councils' requirements.</p>	<p>Reports presented to WLASS Board as at 30 December and 30 June, and circulated to stakeholders.</p> <p>Reports include a summary of savings achieved.</p> <p>All RATA councils participate in the tour.</p> <p>Report on tour outcomes prepared by 31 December each year, and circulated to stakeholders.</p> <p>Contracts which are due for renewal are tested for competitiveness and either renegotiated or tendered through a competitive process.</p> <p>Any data issues are identified and resolved, with any incidents reported to stakeholders.</p>	<p>Achieved. 6-monthly reports presented to Board meetings on 2 December 2016 (circulated to stakeholders on 19 December) and on 7 July 2017.</p> <p>Achieved. A summary of savings was included. In the July report to the Board.</p> <p>Achieved. All councils participated in the tour in October 2016. Not</p> <p>Achieved. Report delayed until February 2017 (individual councils received their reports in January).</p> <p>N/A. No contracts due for renewal. Data collection contracts were extended for one year on 14 October 2016.</p> <p>Achieved. Asset Information Engineer identifies and resolves all issues.</p>



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<p>WAIKATO REGIONAL TRANSPORT MODEL (WRTM):</p> <p>The WRTM is reliable, well maintained and available to all users.</p>	<p>RATA manages the WRTM on behalf of LASS, and monitors the performance of the model supplier (currently Traffic Design Group).</p> <p>RATA 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 from RATA on any new developments and on the status of the model is provided to the WCLASS 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. Reports were provided on 15 August and 18 November 2016. No quarterly reports were requested in 2017 as the model was unused during this period.</p> <p>Achieved. Reports presented to the Board in December 2016 and July 2017.</p> <p>Achieved. Peer review of base model was completed in April 2017. Consultant has been engaged to complete future years' model in 2017/18.</p>
<p>WAIKATO BUILDING CONSENT GROUP</p> <p>Provide strategic direction and actively pursue improvements in Building Control across the Waikato region.</p>	<p>Develop and maintain a quality assurance system for building consents, that meets statutory compliance and supports excellence and consistency in customer service and business practice.</p>	<p>Internal audits completed annually for each Group member.</p> <p>Provide Group members with a joint quality assurance system that meets statutory compliance.</p> <p>Report at least six monthly to the WCLASS Board on the Group's activities.</p>	<p>Partially Achieved. Only seven of the eight audits scheduled for the year were completed due to a lack of staff resources to assist.</p> <p>Not Achieved. The quality assurance system consists of over 466 separate documents. Regulation 17 requires that all BCAs on an annual or more frequent basis; audit and review all of their quality assurance systems to ensure that the systems meet the requirements of the BCA regulations and the Building Act 2004, and remain appropriate for purpose. Even though the audit and review of the QA systems was achieved within the calendar year, it was not achieved within 12 months from the last completion date.</p> <p>Achieved. Reports presented to the 3 February and 7 July 2017 Board meetings.</p>
<p>FUTURE PROOF</p> <p>All stakeholders are kept informed about Future Proof's projects and achievements.</p>	<p>Six monthly and annual reports are provided to all stakeholders.</p>	<p>Reports presented to WCLASS Board as at 30 December and 30 June, and circulated to stakeholders.</p>	<p>Achieved. 6-monthly reports presented to the Board on 2 December 2016 and 7 July 2017.</p>



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<p>SHAREHOLDER SURVEY:  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>In Progress. Shareholders' survey has been completed and is scheduled to be reported to the Board on 26 August 2017.</p>
<p>REVIEW OF BENEFITS:  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 is included in this report.</p>

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**WCLASS Achievements**

This overview outlines new projects and provides an update on WCLASS's achievements during 2016/17.

**PROCUREMENT**

**Procurement Review**

A "health check/maturity assessment" of procurement activities and processes across the WCLASS councils was initiated in March, to identify opportunities and/or alternative approaches that could be taken to provide more value to shareholders. The results are due to be reported by the end of July 2017.

**Multi-Function Devices**

A joint RFP with BOPLASS for the supply of Multi-function Devices was completed in late 2016, and Konica Minolta were accepted as the preferred supplier. BOPLASS have put the contract in place, and WCLASS councils can participate through a Joining Agreement.

**Health & Safety Training**

A WCLASS Master Agreement with Vertical Horizonz for the provision of health & safety training was completed in February 2017 and 11 councils have signed Joining Agreements. The contract has also been made available to BOPLASS

**Fleet Management**

Following an RFP process, a WCLASS Master Agreement for Fleet Management has been entered into with FleetPartners /FleetSmart for a term of 1+2 years. A Joining Agreement is available to all shareholding councils. One council had signed up by the end of the financial year.

**Extension of Existing Contracts**

Four current WCLASS contracts were extended during the past year, following a performance review:

- Dataprint (computer-generated print, mailhouse and e-services), extended for 3 years and now includes provision for additional services (Joining Agreements are available, but only four councils have signed up)
- Professional Services Panel (building services, planning 3-waters, urban design, flood hazards consultancy services), extended for 2 years (Joining Agreements are available, but only four councils have signed up)
- Aon (insurance brokerage), extended for 2 years (all councils have signed up)
- Infometrics (economic data), extended for 1 year (available to all councils, but only six have signed up).

**Hamilton City Council Syndicated Contracts**

A syndicated clause in three tendered Hamilton City Council contracts enables all shareholding councils to join and access:

- a library book buying contract at 37% discount on the RRP (at the end of the financial year, only Otorohanga and Waikato Districts had signed up)
- a contract for the supply of pipes and fittings for water, wastewater and stormwater pipes, which provides discounts of between 30% and 80% off the list price (at the end of the financial year, no other councils had signed up)

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- an HR Panel of eight suppliers for the recruitment of permanent and temporary staff (at the end of the financial year, no other councils had signed up).

**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.) Data for 2016/17 are not yet available from N3. 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**

Since their appointment in 2012, Aon has saved the WLASS shareholding councils over 30% of their total premium spend, compared with expenditure prior to the WLASS programme being established. Additional savings of over \$500,000 have also been achieved, while at the same time, the scope of cover has increased, excesses have been reduced, and the value of the assets insured has increased by over 20% - to approximately \$200,000,000. These figures do not include the development of a sustainable underground infrastructural flood protection and natural disaster catastrophe programme.

Aon has an in-depth knowledge of all of the shareholding councils' risks, both insurable and uninsurable. Detailed catastrophe loss modelling has been completed for Natural Disaster catastrophe losses, and insurance solutions that directly reflect the exposures faced by all of the Waikato Councils have been developed.

Exclusive solutions developed by Aon include:

- London-based panel of insurers to protect against natural disaster catastrophe losses, e.g. earthquake, volcanic, tsunami and windstorm/cyclone
- Cyber liability and environmental liability specifically designed for local government risks.

Other services provided by Aon to the shareholding councils and staff include:

- Skills transfer and in-council training for key council staff in both risk and risk mitigating areas
- Claims management above and below deductible
- Presentations to Audit and Risk committee's and to WLASS Board meetings, as required
- Contract reviews, as required
- Development of an employee benefit programme, specifically designed for local government.

**Shared Valuation Data Service (SVDS)**

During the year, a review of the SVDS service was undertaken to assess its suitability as a platform for the next ten years. It is believed that the business functions that SVDS currently supports will be required until at least 2025.

It was determined that the combination of the current software platform and service providers was unlikely to supply reliable and robust services to 2025 and beyond. Whilst some operational support problems occurred (and were resolved) during the year, there is no immediate risk of service failure or significant disruption to services (within the next 1 to 3 years). However the risk of disruption and or failure with the current service delivery model is likely to increase over time, due to a combination of software platform and availability of technical expertise.

Given the lead time to rewrite SVDS (and the capital cost of a rewrite) and the time required to replace it with a commercial product, three future options are currently being assessed: changing the provider of support services, and two "Software as a Service" options. The investigation is scheduled to be completed during the first half of the 2017/18 financial year, and (subject to Board approval of the Business case), implemented in the 2018 calendar year.

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**Future Proof**

Over the past year, Future Proof has focused on a number of on-going projects, including an update of the Future Proof Strategy, collaboration on the National Policy Statement (NPS) on Urban Development Capacity, submissions to various agencies advocating Future Proof's position, raising cross-boundary issues with Auckland as part of the Auckland Plan refresh, and supporting key waters and transport projects. Completion of the draft Future Proof Strategy and summary document were significant milestones, with the consultation period opening on 12 June, and scheduled to close on 21 July 2017.

**RATA**

In the first half of the financial year, RATA completed recruitment and is now fully staffed with three FTEs and a part-time administrator. The work programme for the year has focused on:

- monitoring the regional data collection contracts
- tendering for a regional pavement deterioration model, which was used to develop the 2017/18 forward works programmes in most of the participating councils
- preparing a new contract to administer bridge and structures inspections
- supporting councils to implement the One Network Road Classification
- project managing the Waikato Regional Transport Model
- completing a regional road user satisfaction survey
- developing an Economic Evaluation Guideline to evaluate sites for forward works programmes.

**Waikato Regional Transport Model (WRTM)**

WRTM has been in operation since 2010 as a shared service for seven local authorities and NZTA. Over the last five years it has supported:

- land transport investment in excess of \$2.5b, including the Waikato Expressway, HCC's Wairere Drive project, and planning for Southern Links
- a range of strategic and statutory planning processes, including Future Proof, the Waikato Regional Policy Statement, the Ruakura Inland Port Board of Enquiry process, as well as District plans and plan changes.

During 2014 – 2017, the WRTM was repositioned (through the WRTM Census Update project), to enable a greater focus in 2017/18 on network optimisation and corridor improvements, alongside testing of future capital improvements and strategic planning processes.

The WRTM project has been challenging this year due to delays in reaching agreement on land use and population data from shareholding councils. As a result, no modelling has been undertaken since the end of 2016. However it is anticipated that the updated model will be completed (along with a peer review) in the first quarter of 2017/18.

**Waikato Building Consent Group**

Building Control Authorities in the region are under a lot of pressure, with regional growth reflected in high building consent numbers. In addition, legislative changes have increased the already busy workload, with changes to the Building Consent Authority minimum accreditation criteria, the introduction of mandatory inspections of residential pool fences every 3 years, and preparation for implementing the Building (Earthquake-prone Buildings) Amendment Act, which comes into effect on 1 July 2017.

A workshop to plan the future strategic direction of this Group was held in May 2017, and a number of new initiatives will be progressed over the coming year.



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**Energy Management**

The EECA Collaboration project has now been running for just over a year, and savings of 267,000 kWh of electricity and 710,000 kWh of gas have been achieved so far, with more projects under investigation. Subsidies of just over \$60,000 had been received from EECA by the end of the financial year.

**Waikato Regional Aerial Photography Syndicate (WRAPS)**

Unfortunately, aerial photography was not completed during the 2016/17 flying season, due to poor weather conditions over much of the area. Approximately 65% of rural imagery and 94% of the urban imagery has been flown, and flights will recommence in September. The contract is in the process of being extended to 30 June 2018, at no additional cost to the participating councils.

**Historic Aerial Photos**

This project continues to run ahead of schedule, and is expected to be completed in 2018. Scanned photos are uploaded onto the public Retrolens website (<http://retrolens.nz/>) every quarter, which allows the public and all councils to easily search and use the images as they become available. Being able to access the images 24x7 means an increase in effectiveness and a reduction in council staffs' time to find and provide the images.

**Regional Infrastructure Technical Specifications (RITS)**

This Mayoral Forum project is nearing completion and will be managed by WLASS once consultation has been completed and the final document has been adopted. The RITS document sets out how to design and construct transportation, water supply, wastewater, stormwater and landscaping infrastructure in the participating councils' areas. Prior to developing RITS, each council had its own Infrastructure Technical Specifications, which resulted in different standards having to be met across the Waikato region. The purpose of RITS is to provide a single regional guide and specifications for building public infrastructure. Consultation on the draft document is expected to commence in August 2017.

**Local Government Contractor Health & Safety Pre-qualification Scheme**

This service is now being offered nationally as part of a drive to better manage councils' contractors in the new health and safety environment. It not only saves councils considerable time and money, as the scheme is fully managed by the software provider, but it also removes the need for contractors to supply separate details to each council or for each contract sought, which also reduces their costs.

WLASS was a finalist in the 2017 NZ Workplace Health & Safety Awards in the "ACC Best Leadership of an Industry Sector or Region" category for this project. At the end of the financial year, all of the shareholding councils were participating, and a total of 19 local authorities and one CCO were actively using the scheme, with more expressing interest in joining.

**EFFICIENCY AND EFFECTIVENESS GAINS**

**Shared Health & Safety Training**

In February 2017, the WLASS Health & Safety Working Party organised shared training in the new Health & Safety legislation for newly elected members, following the 2016 local body elections. This was a joint initiative with BOPLASS. Simpson Grierson were engaged to run two training courses on the same day, one in Tauranga and one in Hamilton, to reduce costs to the participating councils. At \$182 per head, this proved to be very cost effective.

**Insights Panel**

As part of the WLASS contract for Internal Audit services, KPMG hosts an annual panel session with the leaders of their advisory team, at no cost to councils. This year's session was held in March, and focused on health and safety, procurement and risk management. Senior staff and Chairs of Audit and Risk Committees were invited to attend.



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**Shared Information**

To streamline the process used by shareholding councils to procure contracts, information on MBIE's standard RFP templates was sent to all Shared Services Working Party members. Information on how to participate in syndicated contracts for BP Fuel (Ministry of Defence), Banking Services, Office Furniture (NZ Police), Media Monitoring and Employee Assistance Programmes was also circulated to all shareholding councils during the year.

For the eight councils participating in the BP Fuel contract, savings of \$372,000 were achieved over the 2016/17 financial year. (Hauraki, Matamata Piako, Otorohanga and Thames Coromandel Districts have not joined the BP contract. Note: Otorohanga have not joined because they do not have access to BP stations.)

**All of Government (AoG) Contracts**

Summary information on each council's participation, spend and savings on the range of AoG contracts available for the 2015/16 financial year was distributed to shareholders in October 2016. In 2016/17, the 12 shareholding councils spent \$18,441,067 on AoG contracts, and achieved savings of \$1,641,294 (8.9%).

**NEW ACTIVITIES**

**Learning and Development Working Party**

A new Working Party focused on investigating regional learning and development opportunities was established early in 2017, following the consideration and approval of a business case by the Board. A regional Workforce Development Policy was adopted by the Board in July 2017, and it is recommended that each council now adopts a mirror policy to promote regional alignment. A list of training courses and providers currently being used across the region is being compiled to identify opportunities for regional procurement. The aim will be to secure WLASS Master Agreements with a panel of providers who can deliver quality training and provide value for money. The scope of a potential IT solution for a regional on-line Learning & Development calendar, with e-learning capability, is also being investigated.

**Aligned Planning**

A report prepared for the Waikato Plan project in 2016 identified 20 action/opportunity areas to align regional planning processes and provide more efficient, effective and business-friendly resource consent processes. Following consideration of a Business case, the Board confirmed that implementing some of the actions/opportunities from that report should be pursued. Expressions of Interest were sought to project manage this work, and a Project Manager was appointed in June.

The project will seek to "make business easier" in the Waikato by:

- Delivering better services to customers
- Defining and delivering more efficient and effective "best practice" processes for the administration of resource consenting
- Ensuring regional consistency wherever possible in the administration of resource consenting.

All councils, except Taupo and Otorohanga, are participating in this project.

**Geospatial**

A WLASS Data Portal Steering Group has been commissioned by the Shared Services Working Party to assess shared geospatial opportunities for the region. A review of collaborative Spatial/GIS initiatives in other regions has been completed, and the benefits, based in particular on the knowledge and experience of the Canterbury Maps project, have been identified.

A business case will be prepared in first half of 2017/18, to identify the value proposition of progressing the project. All councils, except Rotorua and Taupo (who are involved in a similar BOPLASS project) are contributing to the investigation of this opportunity.



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(continued)**

**WLASS Financial Position**

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

The WLASS administration costs for this period were \$219,653 against a budget of \$271,117.

All WLASS service costs are shown per activity in the financial statements.

The current activities undertaken by WLASS are: Company Administration, Procurement, Information Technology (IT), Energy Management, Shared Valuation Data Services (SVDS), Road Asset Technical Accord (RATA), Waikato Regional Transport Model (WRTM), Waikato Building consent Group (WBCG), Future Proof and Waikato Mayoral Forum.

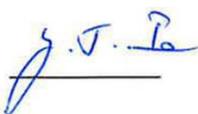
**Directors**

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

Six Board meetings were held during the year. Directors' attendance is shown in the table below.

Director	Position	Director Appointed By	Meetings Attended
Gavin Ion(Chair)	Chief Executive Waikato District Council	Waikato District Council	6
Blair Bowcott	Executive Director, Hamilton City Council	Hamilton City Council	6
Chris Ryan	CEO Waitomo District Council	Waitomo District Councils	3
Craig Hobbs	Chief Executive South Waikato District Council	South Waikato District Council	3
Dave Clibbery	Chief Executive Otorohanga District Council	Otorohanga District Council	5
Don McLeod	Chief Executive Matamata-Piako District Council	Matamata-Piako District Council	4
Gareth Green	Chief Executive Taupo District Council	Taupo District Council	5
Garry Dyet	Chief Executive Waipa District Council	Waipa District Council	6
Geoff Williams	Chief Executive Rotorua District Council	Rotorua District Council	1
Langley Cavers	Chief Executive Hauraki District Council	Hauraki District Council	5
Rob Williams	Chief Executive Thames-Coromandel District Council	Thames-Coromandel District Council	6
Vaughan Payne	Chief Executive Waikato Regional Council	Waikato Regional Council	6

For and on behalf of the Board.



Director  
22 September 2017



Director  
22 September 2017

*M*

**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 2017

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

#### Opinion

We have audited:

- the financial statements of the company on pages 22 to 39 that comprise the statement of financial position as at 30 June 2017, 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 5 to 10.

In our opinion:

- the financial statements of the company on pages 22 to 39:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; 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; and
- the performance information of the company on pages 5 to 10 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 2017.

Our audit was completed on 22 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.



### **Basis for opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

### **Responsibilities of the Board of Directors for the financial statements and the performance information**

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

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

### **Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.



We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

#### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 4, but does not include the financial statements, and our auditor's report thereon.



Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Independence**

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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

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



Waikato Local Authority Shared Services Limited  
Directory  
30 June 2017

**Directory**

**Company Number**

1730380

**Registered office**

Waikato District Council  
15 Galileo Street  
Ngaruawahia

**Directors**

ION, Gavin John  
BOWCOTT, Blair  
CAVERS, Langley David  
CLIBBERY, Dave  
DYET, Garry  
GREEN, Gareth  
HOBBS, Craig  
MCLEOD, Don  
PAYNE, Vaughan  
RYAN, Chris  
WILLIAMS, Geoff  
WILLIAMS, Rob

**Bankers**

Bank of New Zealand  
Hamilton Banking Centre  
Victoria Street  
Hamilton

**Auditors**

Audit New Zealand on behalf of the Auditor-General

Item 15

Attachment 1



Waikato Local Authority Shared Services Limited  
Statement of comprehensive revenue and expense  
For the year ended 30 June 2017

**Statement of comprehensive revenue and expense**

For the year ended 30 June 2017

	Note	Actual 2017 \$	Budget 2017 \$	Actual 2016 \$
<b>Revenue</b>				
SVDS Data Sales		386,760	227,919	223,669
Interest		6,215	6,500	11,529
Other revenue	4	<u>4,155,644</u>	<u>3,220,804</u>	<u>2,275,608</u>
<b>Total revenue</b>		<u><b>4,548,619</b></u>	<u><b>3,455,223</b></u>	<u><b>2,510,806</b></u>
<b>Expenditure</b>				
Depreciation and amortisation expense	10	164,286	170,142	419,507
Other expenses	5	<u>4,255,952</u>	<u>3,323,323</u>	<u>2,452,015</u>
<b>Total operating expenditure</b>		<u><b>4,420,238</b></u>	<u><b>3,493,465</b></u>	<u><b>2,871,522</b></u>
<b>Operating surplus/(deficit) before tax and share of equity accounted investments</b>		<u><b>128,381</b></u>	<u><b>(38,242)</b></u>	<u><b>(360,716)</b></u>
<b>Surplus/(deficit) before tax</b>		<b>128,381</b>	<b>(38,242)</b>	<b>(360,716)</b>
Income tax expense	6	-	-	-
<b>Surplus/(deficit) after tax</b>		<u><b>128,381</b></u>	<u><b>(38,242)</b></u>	<u><b>(360,716)</b></u>
		-	-	-
<b>Total other comprehensive income</b>		-	-	-
<b>Total comprehensive income</b>		<u><b>128,381</b></u>	<u><b>(38,242)</b></u>	<u><b>(360,716)</b></u>

Explanations of major variances against budget are provided in note 20

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Attachment 1

Item 15

Waikato Local Authority Shared Services Limited  
Statement of changes in equity  
For the year ended 30 June 2017

**Statement of changes in equity**  
For the year ended 30 June 2017

	Actual 2017 \$	Budget 2017 \$	Actual 2016 \$
Balance at 1 July	671,293	628,071	1,032,008
Total comprehensive revenue and expense previously reported	<u>128,381</u>	<u>(38,242)</u>	<u>(360,716)</u>
<b>Balance at 30 June</b>	<b><u>799,674</u></b>	<b><u>589,829</u></b>	<b><u>671,293</u></b>
<b>Total comprehensive revenue and expense attributable to:</b>			
Equity holders of Local Authority Shared Services Limited	799,674	589,829	671,293
Non-controlling interest	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total comprehensive revenue and expense</b>	<b><u>799,674</u></b>	<b><u>589,829</u></b>	<b><u>671,293</u></b>

*Explanations of major variances against budget are provided in note 20*  
-23-



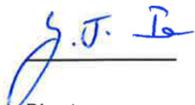
Waikato Local Authority Shared Services Limited  
Statement of financial position  
As at 30 June 2017

**Statement of Financial Position**

As at 30 June 2017

	Note	Actual 2017 \$	Budget 2017 \$	Actual 2016 \$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	7	953,946	623,031	682,673
Exchange trade and other receivables	8	409,363	-	370,003
Non-exchange trade and other receivables	8	75,021	3,394	66,064
Prepayments	9	147,500	2,692	148,820
<b>Total current assets</b>		<b>1,585,830</b>	<b>629,117</b>	<b>1,267,560</b>
<b>Non-current assets</b>				
Intangible assets	10	327,208	342,262	491,494
Other financial assets	11	81,000	-	-
<b>Total non-current assets</b>		<b>408,208</b>	<b>342,262</b>	<b>491,494</b>
<b>Total assets</b>		<b>1,994,038</b>	<b>971,379</b>	<b>1,759,054</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables and deferred revenue	12	1,194,364	335,305	1,087,761
<b>Total current liabilities</b>		<b>1,194,364</b>	<b>335,305</b>	<b>1,087,761</b>
<b>Non-current liabilities</b>				
<b>Total non-current liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>1,194,364</b>	<b>335,305</b>	<b>1,087,761</b>
<b>Net assets</b>		<b>799,674</b>	<b>636,074</b>	<b>671,293</b>
<b>EQUITY</b>				
Retained earnings	13	2,957,001	2,957,001	2,957,001
Reserves	13	(2,157,327)	(2,367,172)	(2,285,708)
<b>Total equity</b>		<b>799,674</b>	<b>589,829</b>	<b>671,293</b>

These financial statements have been authorised for issue by the Board of Directors on 22 September 2017

  
Director  
22 September 2017

  
Director  
22 September 2017

Explanations of major variances against budget are provided in note 20



Waikato Local Authority Shared Services Limited  
Cash flow statement  
For the year ended 30 June 2017

**Cash flow statement**

For the year ended 30 June 2017

	Actual 2017 \$	Budget 2017 \$	Actual 2016 \$
Note			
<b>Cash flows from operating activities</b>			
Interest Received	6,215	6,500	11,593
Receipts from other revenue	4,425,573	3,503,791	2,461,848
Payments to suppliers and employees	(4,101,152)	(3,379,111)	(2,430,722)
Income tax received / (paid)	2,509	(1,820)	1,170
Goods and services tax (net)	<u>19,130</u>	<u>(25,221)</u>	<u>(54,834)</u>
<b>Net cash flow from operating activities</b>	<b><u>352,275</u></b>	<b><u>104,139</u></b>	<b><u>(10,945)</u></b>
Purchase of intangible assets	-	(10,190)	-
Purchase of term deposits with maturities greater than 3 months	11 <u>(81,000)</u>	<u>-</u>	<u>-</u>
<b>Net cash flow from investing activities</b>	<b><u>(81,000)</u></b>	<b><u>(10,190)</u></b>	<b><u>-</u></b>
<b>Net (decrease)/increase in cash, cash equivalents, and bank overdrafts</b>	<b>271,275</b>	<b>93,949</b>	<b>(10,945)</b>
Cash, cash equivalents, and bank overdrafts at the beginning of the year	<u>682,673</u>	<u>529,082</u>	<u>693,617</u>
<b>Cash, cash equivalents, and bank overdrafts at the end of the year</b>	<b>7 <u>953,948</u></b>	<b><u>623,031</u></b>	<b><u>682,672</u></b>

Explanations of major variances against budget are provided in note 20

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**Waikato Local Authority Shared Services Limited**  
**Notes to the financial statements**  
**30 June 2017**

**1 Statement of accounting policies for the year ended 30 June 2017**

**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. Waikato 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 2017. The financial statements were authorised for issue by the Board of Directors on the 22 September 2017.

**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 and comply with Tier 2 PBE Standards reduced disclosure regime (RDR).

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

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

These financial statements comply with PBE standards RDR.

These financial statements are the third 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 2016/17 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 Summary of significant accounting policies (continued)

### 2.2 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.

## 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 ASSETS

#### 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.

#### Impairment of intangible assets

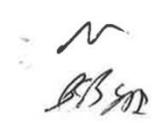
Intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the 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 assets 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.

#### 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.



Waikato Local Authority Shared Services Limited  
Notes to the financial statements  
30 June 2017  
(continued)

**4 Revenue**

**Accounting policy**

(i) **Revenue**

Revenue comprises the fair value of the considerations 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.

(ii) **Other Revenue**

User charges for all activities are recognised when invoiced to the user, ie. Councils. The recorded revenue is the net amounts of the member charges payable for the transaction. Contributions to Waikato Mayoral Forum projects and projects that were not completed in the previous financial year are recognised 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.

	Actual 2017 \$	Actual 2016 \$
<b><u>Non-exchange revenue</u></b>		
User Charges	1,203,182	525,066
Other	<u>316,131</u>	<u>169,550</u>
Total non-exchange revenue	<u>1,519,313</u>	<u>694,616</u>
<b><u>Exchange revenue</u></b>		
Procurement	794,505	352,446
Information Technology	53,600	22,334
Energy Management	116,184	96,000
Shared Valuation Data Services	78,463	78,500
Road Asset Technical Accord	1,107,321	618,420
Waikato Regional Transport Model	3,348	11,724
Waikato Building Consent Group	20,502	-
Waikato Mayoral Forum	<u>462,408</u>	<u>401,568</u>
Total exchange revenue	<u>2,636,331</u>	<u>1,580,992</u>
Total other revenue	<u>4,155,644</u>	<u>2,275,608</u>

**5 Other expenses**

	Actual 2017 \$	Actual 2016 \$
Audit fees for financial statement audit (current year)	20,600	15,348
Company Administration	199,053	173,767
Procurement	782,513	325,446
Information Technology	63,075	12,610
Energy Management	96,822	39,685
Shared Valuation Data Services	543,163	535,135
Road Asset Technical Accord	1,168,385	618,420
Waikato Regional Transport Model	82,187	183,289
Waikato Building Consent Group	265,326	-
Future Proof	572,421	-
Waikato Mayoral Forum	<u>462,407</u>	<u>548,314</u>
Total other expenses	<u>4,255,952</u>	<u>2,452,014</u>



Waikato Local Authority Shared Services Limited  
Notes to the financial statements  
30 June 2017  
(continued)

**6 Income tax**

**Accounting policy**

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 surplus 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 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 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 surpluses 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 income or directly in equity.

	Actual 2017 \$	Actual 2016 \$
<b>Components of income tax expense:</b>		
Current tax expense	-	-
Adjustments to current tax in prior years	-	-
Deferred tax expense	-	-
<b>Tax expense</b>	<u>-</u>	<u>-</u>
<b>Relationship between tax expense and accounting profit:</b>		
Net surplus (deficit) before tax	<u>128,381</u>	<u>(360,716)</u>
Tax at 28%	<u>35,947</u>	<u>(101,000)</u>
Non-taxable in calculating taxable income	-	-
Other timing adjustments	44,432	109,059
Non-taxable income	-	-
Prior year adjustment	-	-
Group loss offset	-	-
Deferred tax adjustment	(44,433)	(105,537)
Tax losses not recognised	<u>(35,946)</u>	<u>97,478</u>
<b>Tax expense</b>	<u>-</u>	<u>-</u>



Waikato Local Authority Shared Services Limited  
Notes to the financial statements  
30 June 2017  
(continued)

Deferred tax asset (liability)	Intangible assets \$	Other provisions \$	Tax losses \$	Total \$
Balance at 1 July 2015	(241,588)	-	241,588	-
Charged to surplus or deficit	105,537	-	(105,537)	-
Charged to other comprehensive income	-	-	-	-
<b>Balance at 30 June 2016</b>	<b>(136,051)</b>	<b>-</b>	<b>136,051</b>	<b>-</b>
	\$	\$	\$	\$
<b>Council</b>				
Balance at 1 July 2016	(136,051)	-	136,051	-
Charged to surplus or deficit	44,433	-	(44,433)	-
Charged to other comprehensive income	-	-	-	-
<b>Balance at 30 June 2017</b>	<b>(91,618)</b>	<b>-</b>	<b>91,618</b>	<b>-</b>

A deferred tax asset of \$644,377 (2016: \$680,324) has not been recognised in relation to tax losses carried forward of \$2,301,346 (2016: \$2,492,728).

## 7 Cash and cash equivalents

### Accounting policy

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.

	Actual 2017 \$	Actual 2016 \$
Cash at bank and in hand	903,946	637,271
Short term deposit maturing three months or less from date of acquisition	50,000	45,402
<b>Net Cash and Cash Equivalents and bank overdrafts for the purposes of the Statement of Cashflows</b>	<b>953,946</b>	<b>682,673</b>

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

## 8 Receivables

### Accounting policy

Short-term receivables are recorded at the amount due, less any provision for uncollectability.

Receivables are initially measured at nominal or face value. Receivables are subsequently adjusted for penalties and interest as they are charged and impairment losses. Non-current receivables are measured at the present value of the expected future cash inflows.

Debtors are amounts due from customers and other customers. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.



Waikato Local Authority Shared Services Limited  
Notes to the financial statements  
30 June 2017  
(continued)

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**8 Receivables (continued)**

	Actual 2017	Actual 2016
	\$	\$
Gross trade and other receivables	59,900	61,821
Related Party Receivables (note 16)	409,363	337,490
Accrued Interest on Short Term Deposits and Call Accounts	97	281
GST Refund Due	14,706	33,833
IRD - RWT Tax Paid	318	2,642
<b>Total debtors and other receivables</b>	<b>484,384</b>	<b>436,067</b>
<b>Exchange</b>		
Receivables from exchange transactions	409,363	370,003
<b>Non-exchange</b>		
Receivables from non-exchange transactions	75,021	66,064
<b>Total debtors and other receivables</b>	<b>484,384</b>	<b>436,067</b>

**9 Prepayments**

	Actual 2017	Actual 2016
	\$	\$
Prepayments	147,500	148,820
<b>Balance as at 30 June</b>	<b>147,500</b>	<b>148,820</b>

**10 Intangible assets**

*Accounting policy*

**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.

**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 derecognised. 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%

	Actual 2017	Actual 2016
	\$	\$
<b>Computer Software</b>		
Balance at 1 July	5,363,366	5,363,366
Additions	-	-
Disposals	-	-
<b>Balance at 30 June</b>	<b>5,363,366</b>	<b>5,363,366</b>

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**Waikato Local Authority Shared Services Limited**  
**Notes to the financial statements**  
**30 June 2017**  
(continued)

**10 Intangible assets (continued)**

<b>Accumulated amortisation and impairment losses</b>		
Balance at 1 July	4,871,872	4,452,365
Disposals	-	-
Amortisation as per Income statement	164,286	419,507
Impairment losses	-	-
Balance at 30 June	<u>5,036,158</u>	<u>4,871,872</u>

**Carrying Amounts**

Balance at 1 July	491,494	911,001
Balance at 30 June	327,208	491,494

Intangible assets include the Shared Value Data Services (SVDS) computer software, the Waikato Regional Transport Model (WRTM) and MoneyWorks computer software.

The carrying amount of the SVDS asset as at 30 June 2017 is \$180,864 (2016: \$272,063).

The carrying amount of the WRTM asset as at 30 June 2017 is \$145,832 (2016: \$218,748).

The carrying amount of the MoneyWorks asset as at 30 June 2017 is \$512 (2016: \$683).

The Board of Directors consider that there is no impairment of assets as at 30 June 2017. Accordingly no impairment adjustments are needed.

**11 Other financial assets**

**Accounting policy**

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

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.

	Actual 2017 \$	Actual 2016 \$
Term deposits with maturities greater than 3 months	<u>81,000</u>	-
<b>Balance as at 30 June</b>	<u>81,000</u>	-

**12 Payables and deferred revenue**

**Accounting policy**

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

	Actual 2017 \$	Actual 2016 \$
<b>Current</b>		
Trade payables and accrued expenses	461,460	482,003
Related party payables (note 16)	249,990	75,992



Waikato Local Authority Shared Services Limited  
Notes to the financial statements  
30 June 2017  
(continued)

**12 Payables and deferred revenue (continued)**

Deferred revenue	<u>482,914</u>	<u>529,766</u>
<b>Total creditors and other payables</b>	<b><u>1,194,364</u></b>	<b><u>1,087,761</u></b>
<b>Exchange</b>		
Trade payables	447,492	539,595
Accrued expenses	<u>263,958</u>	<u>18,400</u>
<b>Total creditors and other payables from exchange transactions</b>	<b><u>711,450</u></b>	<b><u>557,995</u></b>
<b>Non-exchange</b>		
Deferred revenue	<u>482,914</u>	<u>529,766</u>
<b>Total creditors and other payables from non-exchange transactions</b>	<b><u>482,914</u></b>	<b><u>529,766</u></b>
<b>Total creditors and other payables from exchange and non-exchange transactions</b>	<b><u>1,194,364</u></b>	<b><u>1,087,761</u></b>

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.

**13 Reconciliation of equity**

*Accounting policy*

Equity is the shareholders interest in WLASS and is measure 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 this note.

**Accumulated funds**

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

WLASS's objectives, policies and processes for managing capital are explained in note 19.

	Actual 2017 \$	Actual 2016 \$
<b>Total equity</b>		
Contributed equity	2,957,001	2,957,001
Opening retained earnings	<u>(2,157,327)</u>	<u>(2,285,708)</u>
<b>Balance at 30 June 2017</b>	<b><u>799,674</u></b>	<b><u>671,293</u></b>
<b>(a) Contributed equity</b>		
Shares on Issue	3,413,569	3,413,569
Uncalled capital	<u>(456,568)</u>	<u>(456,568)</u>
<b>Balance 30 June</b>	<b><u>2,957,001</u></b>	<b><u>2,957,001</u></b>
Balance at 1 July	2,957,001	2,957,001
Shares Issued	-	-
<b>Balance 30 June</b>	<b><u>2,957,001</u></b>	<b><u>2,957,001</u></b>
Balance at 1 July	<u>(2,285,708)</u>	<u>(1,924,992)</u>
Surplus/(deficit) for the year	<b><u>128,381</u></b>	<b><u>(360,716)</u></b>

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**Waikato Local Authority Shared Services Limited**  
**Notes to the financial statements**  
**30 June 2017**  
(continued)

**13 Reconciliation of equity (continued)**

**Balance 30 June** (2,157,327) (2,285,708)

The Company has issued 2,186,581 (2016 - 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
	<u>1,000</u>	<u>1</u>	<u>1</u>	<u>10</u>
	12,000	1,607,001	444,568	1,350,000
	<u>(12,000)</u>	<u>-</u>	<u>(444,568)</u>	<u>-</u>
	<u>-</u>	<u>1,607,001</u>	<u>-</u>	<u>1,350,000</u>

**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:

- (a) 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.
- (b) 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.
- (c) 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) A right to one vote prior to further WRTM service shares being issued.
- (b) 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.)
- (c) 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.
- (d) No right to share in the distribution of the surplus assets of the Company except to the extent provided for in (c) above.
- (e) 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  
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**14 Commitments**

**Non-cancellable operating expenses**

The majority of these non-cancellable commitments have a contract end date within the following six months of year end.

	Actual 2017 \$	Actual 2016 \$
<b>Non-cancellable operating agreements</b>		
Not later than one year	474,615	416,897
Later than one year and not later than five years	<u>291,667</u>	<u>612,500</u>
<b>Total non-cancellable operating agreements</b>	<u>766,282</u>	<u>1,029,397</u>

**15 Contingencies**

As at 30 June 2017 the Company had no contingent liabilities or assets (2016 - \$0)

**16 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.

	Actual 2017 \$	Actual 2016 \$
Jowett Consulting - LASS Chief Executive	<u>137,548</u>	<u>119,791</u>
<b>Total key management personnel compensation</b>	<u>137,548</u>	<u>119,791</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 2017 \$	Actual 2016 \$
<b>Income</b>		
Hamilton City Council	594,842	243,641
Hauraki District Council	227,880	88,926

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Waikato Local Authority Shared Services Limited  
Notes to the financial statements  
30 June 2017  
(continued)

**16 Related party transactions (continued)**

Matamata Piako District Council	383,458	97,920
Otorohanga District Council	166,709	110,424
Rotorua Lakes Council	55,743	68,574
South Waikato District Council	183,802	78,995
Taupo District Council	97,680	62,977
Thames Coromandel District Council	236,910	139,426
Waikato District Council	403,453	180,736
Waikato Regional Council	647,216	302,304
Waipa District Council	394,253	148,839
Waitomo District Council	201,434	92,874
	<u>3,593,380</u>	<u>1,615,636</u>

Revenue is related to user charges and IT, Energy Management, SVDS, RATA, WRTM, WBCG, Future Proof and Waikato Mayoral Forum activities.

	Actual 2017 \$	Actual 2016 \$
<b>Expenses</b>		
Hamilton City Council	69,675	808
Taupo District Council	2,628	-
South Waikato District Council	-	1,360
Waipa District Council	467,434	151,980
Waikato District Council	226,793	5,061
Waikato Regional Council - Services Provided	52,845	28,278
	<u>819,375</u>	<u>187,487</u>

Expenses are related to services provided by the related parties.

The figures above exclude invoices from Councils that relate to bills paid on behalf of WLASS; Waikato District Council \$1,344.98, Waikato Regional Council \$14,073.33 and Waipa District Council \$68,191.00 (2016 - \$14,291).

	Note	Actual 2017 \$	Actual 2016 \$
<b>Balance Sheet</b>			
<i>Trade &amp; Other Receivables</i>	8	-	-
Hamilton City Council		48,965	102,380
Hauraki District Council		39,057	10,367
Matamata Piako District Council		122,168	5,738
Otorohanga District Council		22,713	55,997
Rotorua Lakes Council		539	1,718
South Waikato District Council		21,180	1,819
Taupo District Council		13,692	2,655
Thames Coromandel District Council		40,698	29,751
Waikato District Council		14,663	44,920
Waikato Regional Council		10,491	26,959
Waipa District Council		28,579	28,944
Waitomo District Council		46,619	26,241
		<u>409,364</u>	<u>337,489</u>
<i>Trade &amp; Other Payables</i>			
Hamilton City Council	12	5,750	-
Jowett Consulting - LASS Chief Executive		13,949	16,493
Waikato District Council		29,661	1,428

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Waikato Local Authority Shared Services Limited  
Notes to the financial statements  
30 June 2017  
(continued)

**16 Related party transactions (continued)**

Waikato Regional Council	17,950	9,615
Waipa District Council	<u>182,680</u>	<u>48,457</u>
	<u>249,990</u>	<u>75,993</u>

**17 Director and executive disclosures**

No Directors fees were paid to Directors during the year. Directors are not directly remunerated by Waikato Local Authority Shared Services (2016: \$0).

**18 Events occurring after the balance date**

There have been no events after balance date.

**19 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) 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.

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.



**Waikato Local Authority Shared Services Limited**  
**Notes to the financial statements**  
**30 June 2017**  
(continued)

**19 Financial instruments (continued)**

**(b) 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 (note 11), 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.

**(c) 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.

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.

**(d) Financial instrument categories**

	Note	2017 \$	2016 \$
<b>FINANCIAL ASSETS</b>			
<b>Loans and receivables</b>			
Cash and cash equivalents	7	953,946	682,673
Receivables	8	469,360	436,067
Other financial assets	11	81,000	-
<b>Total loans and receivables</b>		<b>1,504,306</b>	<b>1,118,740</b>
<b>FINANCIAL LIABILITIES</b>			
<b>Financial liabilities at amortised cost</b>			
Payables and deferred revenue	12	1,194,364	557,995
<b>Total financial liabilities at amortised cost</b>		<b>1,194,364</b>	<b>557,995</b>

**20 Explanation of major variances against budget**

Explanations for major variations from the Company's budget figures in the statement of intent to 30 June 2017 are as follows:

**Statement of comprehensive revenue and expense**

SVDS data sales are higher than budget due to new data sales contracts bringing additional revenue. Revenue from the new contract with Homes.co.nz of \$50,073 was not included in the original budget as a precaution because they were a start-up with no trading history and the business model was unproven.

Other revenue is higher due to the WRAPS project being initially budgeted for at \$84,000 but then invoiced at \$577,155, an unbudgeted project for the Waikato Story received revenue of \$150,000 and the increase of \$146,853 revenue from SVDS Data Sales.



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

Item 15

**20 Explanation of major variances against budget (continued)**

Expenses increased due to the WRAPS project being initially budgeted for \$84,000 but expenses totalled \$434,100. RATA exceeded budgeted expenses by \$225,885 using surplus from 2015/16 and the Mayoral Forum using unbudgeted revenue in advance from 2015/16 of \$391,407.

**Statement of Changes in Equity**

The items as noted above have meant that the Company has made a gain of \$128,381 against a budgeted loss of \$38,242.

**Statement of Financial Position**

The cash balance is higher due to new activities having an end of year surplus (Future Proof \$76,446 and WBCG \$71,537) and SVDS Data Sales up \$156,380.

WLASS do not budget for having EOY receivables.

Prepayments are higher due to an unbudgeted invoice for \$147,500 - prepayment for Insurance Broking and Service Fee.

**Statement of Cash Flows**

Deferred revenue is not budgeted for as it results from revenue received not yet spent on expenses.

The \$81,000 term deposit is the first over three months investment for WLASS.

Actual intangible assets are lower because budget takes into account \$10,190 for SVDS enhancement; no enhancements for 2016/17.

**21 Adjustments to the Comparative Year Financial Statements**

The presentation of Note 4 and Note 5 have changed to show the classification per activity; this is considered to be more useful and appropriate for the readers.

Attachment 1



**Attachment 1**

**Item 15**





**STATEMENT OF INTENT  
FOR 2016/17**

**30 June 2016**

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## Waikato 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, Waikato Local Authority Shared Services Limited (LASS). The statement outlines the proposed work plan for 2016/17 and the Directors' accountabilities to the shareholders for corporate performance, as is intended by Schedule 8 of the Local Government Act 2002.

### Objectives of LASS

LASS was incorporated in December 2005, and is owned by the 12 Waikato local authorities. Each Waikato Council owns an equal number of shares in LASS and as such has an equal say in its development. LASS provides a legal entity, representative of all the shareholding councils, which can enter into contracts and agreements with external suppliers and provide value to the shareholders by reducing costs. These contracts are available to be joined by any shareholder that so chooses.

Much of the work of LASS is undertaken by Working Parties or Advisory Groups made up of staff representatives from the shareholding councils, with expertise and interest in particular services. The LASS CEO provides facilitation and co-ordination of the Working Parties, and is an ex officio member of the Advisory Groups.

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 its working parties.

The objectives of LASS are:

- To enable the Waikato councils to collectively be more effective as a region on the national stage
- To contribute to building central government's confidence in the Waikato region, to encourage central government investment
- To achieve effectiveness and efficiency gains
- To reduce duplication of effort and eliminate waste through repetition
- To make it easier for customers to engage with councils in the Waikato region
- To promote and contribute to the development of best practice
- To promote business transformation to improve customers' experiences.

### Nature and Scope of Current Activities

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

- 1 Shared Valuation Data Service (SVDS).** This operational system provides timely and accurate valuation data to member Councils and shareholders. The SVDS has become the accepted valuation database for the region. Data sales significantly reduce costs to the participating councils.

- 2 **Waikato Regional Transportation Model (WRTM).** This model became fully operational in February 2010. It 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. WRTM is making a significant contribution to strategic planning of land use and infrastructure within the region, and has been involved in regionally and nationally significant investigations including: the Waikato Expressway Network Plan; the Waikato Regional Land Transport Strategy and Regional Policy Statement; and transport impact assessment in relation to the development of Ruakura. From 1 July 2016, this activity will be managed as part of the Road Asset Technical Accord (RATA).
3. **Joint Procurement Initiatives.** LASS is a party to numerous 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, mail house 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 12 LASS councils, 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 University of Waikato have indicated interest, which will reduce the cost to the participating councils. WRAPS became a LASS-managed project in December 2014.

### Proposed New Activities

Three new activities will transfer into LASS, effective from 1 July 2016.

#### Waikato Building Consent Group

The Waikato Building Consent Group was initially set up by five Waikato local authorities in 2004 to foster co-operation, collaboration and consistency in building functions, legislative interpretation and process documentation across the partnering councils. The Group now comprises eight councils (Hamilton City, Hauraki, Matamata Piako, Otorohanga, Thames Coromandel, Waikato, Waipa and Waitomo Districts).

The Group has developed a common quality assurance system with associated supporting documentation and media that meet the legislative requirements of the Building Act 2004 and the Building (Accreditation of Building Consent Authorities) Regulations 2006. These regulations cover all aspects of the operational management and compliance of a Building Consent Authority (BCA).

The Vision of the Group is to:

- provide an excellent and consistent service to building consent customers across the Waikato region
- increase collaboration between BCAs
- improve communication between BCAs, and between BCAs and industry stakeholders
- ensure the competency of technical officers undertaking building control functions.

In 2015, the LASS CEO approached the Group to discuss a proposal to bring them under the LASS umbrella, consistent with the philosophy of having all Waikato shared services within LASS. This proposal was unanimously supported by the Group, and in November 2015, the LASS Board resolved to include the transfer of the Building activity into LASS in the draft 2016/17 Statement of Intent, for consultation with shareholders. No objections to this proposal were received.

Waikato District Council currently acts as the host council for the Group, providing accommodation and overheads (which are fully recovered from the Group), and managing the employment agreements/relationships with the two staff members. No changes to these arrangements are proposed.

The activity is fully funded by the participating councils and has been established as a separate cost centre within the LASS accounts.

#### **Road Asset Technical Accord (RATA)**

RATA was initially established as a centre of excellence for road asset planning in 2014, as a work stream under the Mayoral Forum. The aim of RATA is to achieve best practice in road asset management by improving capability, capacity and outcomes through effective collaboration.

Positive results and feedback have been achieved over the first 18 months of RATA's operation, and already, NZTA consider the RATA model to be the national benchmark for best practice. In late 2015, the RATA governance group, supported by a unanimous resolution of the Mayoral Forum, recommended the permanent establishment of RATA as a business unit within LASS.

Subsequently, the LASS Board resolved to include the transfer of RATA into LASS in the draft 2016/17 Statement of Intent, for consultation with shareholders. No objections to this proposal were received.

Waipa District Council currently acts as the host council for RATA, providing accommodation and overheads (which are fully recovered from RATA), and managing the employment agreements/relationships with the two staff members. No changes to these arrangements are proposed, although it is anticipated that the number of staff will increase in response to the expansion of RATA's activities.

The activity is fully funded by the participating councils and has been established as a separate cost centre within the LASS accounts.

### Future Proof

Future Proof is a collaborative partnership between Hamilton City Council, Waikato District Council, Waipa District Council, Waikato Regional Council and Tāngata whenua, with assistance from the New Zealand Transport Agency. The partners jointly developed the Future Proof Growth Strategy and Implementation Plan – a 50-year vision and implementation plan specific to the Hamilton, Waipa and Waikato sub-region (Future Proof sub-region). The Strategy was adopted by the partners on 30 June 2009.

Consistent with the shared services purpose of LASS, and following a resolution of the LASS Board, the administrative arrangements for Future Proof will be brought under the LASS umbrella, effective from 1 July 2016. There will be no change to the work currently undertaken by Future Proof, or to the employment arrangements of the Future Proof Planner, which is managed by Hamilton City Council.

The activity is fully funded by the participating councils and has been established as a separate cost centre within the LASS accounts. The current cost sharing formula between the four partner councils is Hamilton City and Waikato Regional Councils, 35% each, and Waipa and Waikato District Councils, 15% each.

### New Business Transformation Initiatives

Over the coming year, the Board will investigate business transformation opportunities which will improve customer experiences and provide added value, particularly within the digital field of operation. No new funding is currently required, as the Chief Executives of each council will work collectively within their existing budgets to scope the work required. This work will link to, and be a logical extension of, the work being undertaken as part of “Waikato Means Business” and the Waikato Plan. Modern Councils need to identify and respond to the digital challenges that technology provides by giving people the opportunity to do Council business for themselves, via their phone, tablet or computer. It is envisaged that this project will use our collective ability to examine and deliver solutions at reduced cost to the individual partnering authorities. Examples of successes could include on-line LIMS, on-line credit card payment facilities, and the continuing opportunities that on-line building consenting will present.

### Additional Costs

Two additional activities have been included in the Information Technology cost centre. There is a new budget of \$35,000 per annum to fund licensing for all councils to access the **BOPLASS Collaboration Portal** (noting that Rotorua and Taupo are excluded, as they already use the Collaboration Portal directly via BOPLASS). The budget includes software maintenance, user licences and administration support. The Portal was developed by BOPLASS, and has a public-facing website to communicate success stories to our communities; a project register where councils can record their work programmes; and a facility for shared workspaces. Further planned developments include discussion forums, a register of shared services and activity resource areas.

The second new budget of \$17,600 per annum is required to fund the **GIS Data Portal**. This covers hosting costs for the data platform and viewer, support to all councils (except for Rotorua and Taupo, who are hosted via BOPLASS), and the addition of further datasets to the Portal, using an external service provider. The initial datasets include aerial photography, 3-waters data and District Plan zones for the Waikato region. It is anticipated that a further eight modules will be developed over the coming year.

A new cost centre has been established for the **Energy Management** activity. At its February 2016 meeting, the Board resolved to enter into a Collaboration Agreement with the Energy Efficiency Conservation Authority (EECA), which will bring \$210,000 in revenue from EECA over three years, subject to meeting specific energy saving targets. This activity is fully funded by the 10 participating councils and has been established as a separate cost centre within the LASS accounts.

Additional funding of \$50,000 has been included in the Company Administration cost centre for the engagement of shared services contractors, to provide additional resources for progressing projects.

### Waikato Mayoral Forum

Establishment of the **Waikato Mayoral Forum** in 2012 resulted in the creation of five work streams 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, and is focussing on three main areas: reducing the number and standardising the format of Council policies and bylaws, and developing a regional Infrastructure Technical Specification, which will provide a single regional guide on how to construct public infrastructure.

The governance work stream is currently in abeyance. The spatial plan work stream is now known as the Waikato Plan, and is governed by a Joint Committee, which was established in July 2015. The two-waters project is now being run by a consortium comprising Hamilton City, Waikato and Waipa District Councils, who are investigating a future delivery model for water services across the three councils. As noted above, the roading work stream (RATA) is transferring into LASS from 1 July 2016. Finally, the Economic Development work stream has developed a strategy, and implementation of the "Waikato Means Business" plan has been devolved to an independent Steering Group since July 2015.

LASS provides administrative and financial support both to the Mayoral Forum and its work streams.

### Benefits of LASS

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 Mayoral Forum, the LASS Directors will continue to discuss opportunities to develop shared services at Board meetings. The Directors see the continuing investigation of possible future shared services as a key focus of their role.

## 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
Rob Williams	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
To be appointed	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 agreed that the proposed new service meets the objectives of LASS.

Shareholders will continue to contribute to the operational costs of the LASS on an annual basis. Specific projects will be funded solely by those councils which choose to participate, subject to funding approval from each participating council.

### Performance Targets

To ensure that the Company continues to operate effectively and efficiently, the performance targets for 2016/17 are as follows:

TARGET	METHOD	MEASURE
<p><b>Procurement</b> 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 through a competitive tender process.</p>
<p><b>Collaborative Projects</b> 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><b>Existing LASS Contracts</b> 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 renewal are tested for competitiveness and either renegotiated or tendered through a competitive process.</p>
<p><b>Cashflow</b> The company shall maintain a positive cashflow position.</p>	<p>The Financial Accountant reviews cashflow monthly.</p> <p>The LASS Board reviews the financial statements quarterly.</p>	<p>Monthly financial statements show a positive cashflow position.</p>
<p><b>Cost Control</b> Administration expenditure shall be managed and monitored.</p>	<p>The Financial Accountant and Chief Executive review expenditure monthly.</p> <p>The LASS Board reviews the financial statements quarterly.</p>	<p>Administration expenditure shall not exceed budget by more than 5%, unless prior approval is obtained from the Board.</p>

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<p><b>Reporting</b> Six monthly reports provided to Shareholders.</p>	<p>The Chief Executive prepares a written report for the LASS 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 LASS to the Shareholders every six months.</p> <p>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.</p>
<p><b>Waikato Mayoral Forum</b> The company shall provide administrative support and updates on Mayoral Forum work streams to the Mayoral Forum.</p>	<p>Updates on Mayoral Forum projects shall be co-ordinated by the LASS Chief Executive.</p> <p>Mayoral Forum projects shall be managed financially through the LASS.</p> <p>Note: The current approved work streams are:</p> <ul style="list-style-type: none"> <li>• Regulatory Bylaws and Policies</li> <li>• Waikato Plan</li> </ul>	<p>The Mayoral Forum is regularly updated on the progress of each approved work stream.</p> <p>Approved invoices for Mayoral Forum projects are paid by the 20<sup>th</sup> of the month following their receipt.</p>
<p><b>Shared Valuation Data Services (SVDS)</b> The SVDS is reliable, well maintained and available to all users.</p>	<p>A Contract Manager is appointed for SVDS.</p> <p>The Contract Manager monitors performance of the 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><b>Insurance</b> Achieve the relevant KPIs in Appendix 4 of the Insurance Brokerage contract with Aon.</p>	<p>The Insurance Broker delivers on the terms of their contract and provides value to the participating councils.</p>	<p>Strategic advice provided by Aon on the insurance programme structure is assessed as satisfactory in the annual LASS Shareholders' survey by the participating councils.</p> <p>The day-to-day service provided by Aon is assessed as satisfactory in the annual LASS Shareholders' survey by the participating councils.</p>

<p><b>RATA</b> All stakeholders are kept informed about RATA's projects and achievements.</p> <p>Sub-regional data collection contracts deliver good quality data on roading assets.</p>	<p>Six monthly and annual reports are provided to all stakeholders.</p> <p>Annual Forward Works Programme tours are completed, to provide opportunities for councils' roading staff to share their knowledge and experience</p> <p>Data collection contracts (minimum of two across the region) are managed in accordance with best practice.</p> <p>Data supplied by contractors is of good quality and meets all councils' requirements.</p>	<p>Reports presented to LASS Board as at 30 December and 30 June, and circulated to stakeholders.</p> <p>Reports include a summary of savings achieved.</p> <p>All RATA councils participate in the tour.</p> <p>Report on tour outcomes prepared by 31 December each year, and circulated to stakeholders.</p> <p>Contracts which are due for renewal are tested for competitiveness and either renegotiated or tendered through a competitive process.</p> <p>Any data issues are identified and resolved, with any incidents reported to stakeholders.</p>
<p><b>Waikato Regional Transport Model (WRTM)</b> The WRTM is reliable, well maintained and available to all users.</p>	<p>RATA manages the WRTM on behalf of LASS, and monitors the performance of the model supplier (currently Traffic Design Group). RATA 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. A report from RATA 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><b>Waikato Building Consent Group</b> Provide strategic direction and actively pursue improvements in Building Control across the Waikato region.</p>	<p>Develop and maintain a quality assurance system for building consents, that meets statutory compliance and supports excellence and consistency in customer service and business practice.</p>	<p>Internal audits completed annually for each Group member.</p> <p>Provide Group members with a joint quality assurance system that meets statutory compliance.</p>

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		Report at least six monthly to the LASS Board on the Group's activities.
<b>Future Proof</b> All stakeholders are kept informed about Future Proof's projects and achievements.	Six monthly and annual reports are provided to all stakeholders.	Reports presented to LASS Board as at 30 December and 30 June, and circulated to stakeholders.
<b>Shareholder Survey</b> Shareholders are satisfied with the performance of LASS.	An annual survey of shareholders is undertaken to assess satisfaction levels with LASS.	A survey of shareholders is undertaken each year, and the results are reported to all shareholders.
<b>Review of Benefits</b> Shareholders are informed of the benefits being provided to shareholding councils by LASS.	The benefits of LASS (including financial and non-financial achievements) are regularly analysed and reported to shareholders.	Information on the financial and non-financial benefits being achieved by LASS are included in the 6-monthly and Annual Report to shareholders.

## Policy Statements

### Changes to NZ Accounting Standards

LASS transitioned to the new Public Sector Public Benefit Entities (PBE) accounting standards for the year ended 30 June 2015. LASS is eligible to report in accordance with the Tier 2 PBE accounting standards.

### 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 are 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:

- Receivables are recorded at their face value, less any provisions for impairment.
- Investments are valued at the prevailing market value.
- Fixed assets are recorded at cost, less accumulated depreciation.

### Intangible Assets

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

Depreciation / Amortisation is 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 \$589,829 at 30 June 2017, which relates to 63.76% of total assets. The only liabilities of LASS are trade creditors.

The Forecast Financial Statements for 2016/17 are included as part of 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 from 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 distribution to and consideration by the shareholders.

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

Financials

Item 15

Attachment 2

<b>Local Authority Shared Services</b>					
<b>Company Summary</b>					
<b>For the Year Ended 30 June 2017</b>					
	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>					
Company Administration Member Charges	169,550	209,550	40,000	213,862	218,269
Recovery of Admin Costs	56,686	55,067	(1,619)	56,663	58,293
SVDS Member Charges	290,293	267,985	(22,308)	247,978	235,443
SVDS Data & Software Sales	192,000	227,919	35,919	262,933	278,718
TA Valuation Services Recovery	78,500	78,463	(37)	80,189	81,953
SVDS Enhancements Recovery	10,000	10,190	190	10,414	10,643
WRM Member Charges	128,143	101,834	(26,310)	113,097	115,475
WRM External User Recovery	12,000	12,000	0	12,000	12,000
Mayoral Forum Funding	440,000	71,000	(369,000)	7,000	7,000
Procurement Member Charges	0	20,000	20,000	20,000	20,000
N3 Membership Fee Recovery	18,000	18,000	0	18,000	18,000
ValueFinancials Fee Recovery	46,750	28,693	(18,057)	28,693	28,693
Insurance Brokerage Fee Recovery	147,500	147,500	0	147,500	147,500
Infometrics Recovery	70,400	62,400	(8,000)	62,400	62,400
Asset Valuation Services	0	0	0	0	0
RATA Funding	611,245	914,000	302,755	930,146	946,553
Health and Safety Working Party	0	5,000	5,000	5,000	5,000
IT Initiatives	22,334	53,600	31,266	43,600	43,600
EECA Collaboration - Council Contributions	16,000	80,000	64,000	89,200	101,500
EECA Revenue	0	133,000	133,000	35,000	35,000
Waikato Building Consent Group - Council	0	225,456	225,456	275,673	281,738
Waikato Building Consent Group - Accumulated	0	45,144	45,144	0	0
Future Proof - Council Contributions	0	455,000	455,000	465,010	475,240
Future Proof - Accumulated Fund	0	120,990	120,990	0	0
WRAPS Recovery	0	84,000	84,000	0	0
Historical Aerial Photos Recovery	77,000	77,000	0	77,000	0
Interest Received	7,500	6,500	(1,000)	6,500	6,500
<b>Total Income</b>	<b>2,393,901</b>	<b>3,510,291</b>	<b>1,116,390</b>	<b>3,207,859</b>	<b>3,189,519</b>
<b>Operating Expenditure</b>					
Company Admin Operating Expenditure	233,736	271,117	37,381	277,025	283,062
SVDS Operating Expenditure	561,293	574,367	13,074	591,101	596,115
WRM Operating Expenditure	183,773	113,834	(69,940)	125,097	127,475
Mayoral Forum Operating Expenditure	440,000	71,000	(369,000)	7,000	7,000
Procurement Operating Expenditure	359,650	442,593	82,943	358,593	281,593
RATA Operating Expenditure	611,245	914,000	302,755	930,146	946,553
IT Operating Expenditure	33,600	53,600	20,000	43,600	43,600
Building Consent Group Operating Expenditure	0	270,600	270,600	275,673	281,738
Future Proof Operating Expenditure	0	455,000	455,000	465,010	475,240
Energy Management Operating Expenditure	16,000	213,000	197,000	124,200	136,500
<b>Total Operating Expenditure</b>	<b>2,439,297</b>	<b>3,379,111</b>	<b>939,814</b>	<b>3,197,445</b>	<b>3,178,876</b>
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>	<b>(45,396)</b>	<b>131,180</b>	<b>176,576</b>	<b>10,414</b>	<b>10,643</b>
<b>Non-Cash Operating Expenditure</b>					
Company Admin Non-Cash Expenditure	171	171	0	171	171
SVDS Non-Cash Expenditure	109,699	97,055	(12,643)	102,055	110,475
WRM Non-Cash Expenditure	328,122	72,196	(255,926)	72,196	72,196
<b>Total Non-Cash Operating Expenditure</b>	<b>437,992</b>	<b>169,422</b>	<b>(268,569)</b>	<b>174,422</b>	<b>182,842</b>
<b>Earnings before interest and tax (EBIT)</b>	<b>(483,388)</b>	<b>(38,242)</b>	<b>445,145</b>	<b>(164,008)</b>	<b>(172,199)</b>
<b>Net Surplus (Deficit) before tax</b>	<b>(483,388)</b>	<b>(38,242)</b>	<b>445,145</b>	<b>(164,008)</b>	<b>(172,199)</b>
Company Admin Net Surplus (Deficit) before tax	(171)	(171)	0	(171)	(171)
SVDS Net Surplus (Deficit) before tax	(100,199)	(86,865)	13,333	(91,641)	(99,832)
WRM Net Surplus (Deficit) before tax	(371,752)	(72,196)	299,556	(72,196)	(72,196)
Mayoral Forum Net Surplus (Deficit) before tax	0	0	0	0	0
Procurement Net Surplus (Deficit) before tax	0	0	0	0	0
RATA Net Surplus (Deficit) before tax	0	0	0	0	0
IT Net Surplus (Deficit) before tax	(11,266)	0	11,266	0	0
Building Net Surplus (Deficit) before tax	0	0	0	(0)	(0)
Future Proof (Deficit) before tax	0	120,990	120,990	0	(0)
Energy Net Surplus (Deficit) before tax	0	0	0	0	0
<b>Net Surplus (Deficit) before tax</b>	<b>(483,388)</b>	<b>(38,242)</b>	<b>445,145</b>	<b>(164,008)</b>	<b>(172,199)</b>
<b>Capital Expenditure</b>					
Enhancements	10,000	10,190	190	10,414	10,643
<b>Total Capital Expenditure</b>	<b>10,000</b>	<b>10,190</b>	<b>190</b>	<b>10,414</b>	<b>10,643</b>

<b>Local Authority Shared Services</b>						
<b>Company Admin</b>						
<b>For the Year Ended 30 June 2017</b>						
	Notes	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>						
Company Administration Member Charges		169,550	209,550	40,000	213,862	218,269
Recovery of Admin Costs		56,686	55,067	(1,619)	56,663	58,293
Interest Received		7,500	6,500	(1,000)	6,500	6,500
<b>Total Income</b>		<b>233,736</b>	<b>271,117</b>	<b>37,381</b>	<b>277,025</b>	<b>283,062</b>
<b>Expenses</b>						
Accounting/ Financial Services		27,500	27,500	0	28,105	28,723
External Accounting/ Financial Services		4,000	5,000	1,000	5,110	5,222
Audit Fees		15,349	15,349	0	15,687	16,032
IT Services		92	92	0	92	92
Bank Charges		280	500	220	511	522
Legal Fees		2,500	2,500	0	2,500	2,500
Value Financials Licence Fee		2,600	2,341	(259)	2,393	2,445
Sundry Expenses		1,200	1,300	100	1,329	1,358
Professional Fees		0	2,500	2,500	2,555	2,611
Insurance		2,800	2,535	(265)	2,591	2,648
Shared Services Contractors	1	156,000	196,000	40,000	200,312	204,719
Company Secretary Services		11,415	5,500	(5,915)	5,621	5,745
Mileage Costs		10,000	10,000	0	10,220	10,445
<b>Total Expenses</b>		<b>233,736</b>	<b>271,117</b>	<b>37,381</b>	<b>277,025</b>	<b>283,062</b>
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Non-Cash Expenses</b>						
Depreciation		171	171	0	171	171
Earnings before interest and tax		(171)	(171)	0	(171)	(171)
<b>Net Surplus (Deficit) before tax</b>		<b>(171)</b>	<b>(171)</b>	<b>0</b>	<b>(171)</b>	<b>(171)</b>
<b>Notes</b>						
1) Additional funding to engage external contractors to support new shared services initiatives.						

<b>Local Authority Shared Services</b>						
<b>Procurement of Shared Services</b>						
<b>For the Year Ended 30 June 2017</b>						
	Notes	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>						
Procurement Member Charges	1	0	20,000	20,000	20,000	20,000
N3 Membership Fee Recovery		18,000	18,000	0	18,000	18,000
Value Financials Fee Recovery	2	46,750	28,693	(18,057)	28,693	28,693
Insurance Brokerage Fee Recovery		147,500	147,500	0	147,500	147,500
Infometrics Fee Recovery	3	70,400	62,400	(8,000)	62,400	62,400
Asset Valuation Services		0	0	0	0	0
Health and Safety Working Party	4	0	5,000	5,000	5,000	5,000
WRAPS Recovery	5	0	84,000	84,000	0	0
Historical Aerial Photos Recovery		77,000	77,000	0	77,000	0
<b>Total Income</b>		<b>359,650</b>	<b>442,593</b>	<b>82,943</b>	<b>358,593</b>	<b>281,593</b>
<b>Expenses</b>						
Professional Services	1	0	20,000	20,000	20,000	20,000
N3 Membership Fee Recovery		18,000	18,000	0	18,000	18,000
Value Financial Fees	2	46,750	28,693	(18,057)	28,693	28,693
Insurance Brokerage Fee Payable		147,500	147,500	0	147,500	147,500
Infometrics	3	70,400	62,400	(8,000)	62,400	62,400
Asset Valuation Services		0	0	0	0	0
Health and Safety Working Party	4	0	5,000	5,000	5,000	5,000
WRAPS Services	5	0	84,000	84,000	0	0
Historical Aerial Photos Services		77,000	77,000	0	77,000	0
<b>Total Expenses</b>		<b>359,650</b>	<b>442,593</b>	<b>82,943</b>	<b>358,593</b>	<b>281,593</b>
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Earnings before interest and tax		0	0	0	0	0
<b>Net Surplus (Deficit) before tax</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Notes</b>						
1) To fund external project management, procurement and feasibility investigations for new initiatives.						
2) The councils involved are Taupo District Council, Waitomo District Council, Waikato Regional Council, and LASS. Value Financial fees are reduced in 2016/17 due to the withdrawal of two councils.						
3) The councils involved are Hamilton City Council, Waikato District Council, Thames-Coromandel District Council, and Waikato Regional Council.						
4) New funding for Health and Safety projects.						
5) The WRAPS tender is currently being evaluated, and it is unknown at this stage what the total cost will be. \$84,000 from external agencies has already been received to help fund this project.						

<b>Local Authority Shared Services</b>						
<b>Information Technology (IT)</b>						
<b>For the Year Ended 30 June 2017</b>						
	Notes	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>						
IT Initiative Contributions	1	22,334	53,600	31,266	43,600	43,600
<b>Total Income</b>		<b>22,334</b>	<b>53,600</b>	<b>31,266</b>	<b>43,600</b>	<b>43,600</b>
<b>Expenses</b>						
Meeting Expenses		0	1,000	1,000	1,000	1,000
GIS Shared Data Portal	1, 2	33,600	17,600	(16,000)	7,600	7,600
Collaboration Portal	2	0	35,000	35,000	35,000	35,000
<b>Total Expenses</b>		<b>33,600</b>	<b>53,600</b>	<b>20,000</b>	<b>43,600</b>	<b>43,600</b>
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>	1	<b>(11,266)</b>	<b>0</b>	<b>11,266</b>	<b>0</b>	<b>0</b>
Earnings before interest and tax		(11,266)	0	11,266	0	0
<b>Net Surplus (Deficit) before tax</b>	1	<b>(11,266)</b>	<b>0</b>	<b>11,266</b>	<b>0</b>	<b>0</b>
<b>Notes</b>						
1) In 2015/16, \$11,266 was funded from prior years' IT surpluses.						
2) All councils are involved except Rotorua and Taupo, who are participating via BOPLASS.						

<b>Local Authority Shared Services</b>						
<b>Energy Management</b>						
<b>For the Year Ended 30 June 2017</b>						
	Notes	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>						
EECA Collaboration - Council Contributions	1	16,000	80,000	64,000	89,200	101,500
EECA Revenue		0	133,000	133,000	35,000	35,000
<b>Total Income</b>		<b>16,000</b>	<b>213,000</b>	<b>197,000</b>	<b>124,200</b>	<b>136,500</b>
<b>Expenses</b>						
EECA Collaboration		0	80,000	80,000	89,200	101,500
Professional Services Costs		16,000	133,000	117,000	35,000	35,000
<b>Total Expenses</b>		<b>16,000</b>	<b>213,000</b>	<b>197,000</b>	<b>124,200</b>	<b>136,500</b>
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Earnings before interest and tax		0	0	0	0	0
<b>Net Surplus (Deficit) before tax</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Notes</b>						
1) All councils are involved, except Thames-Coromandel and Matamata-Piako.						

<b>Local Authority Shared Services</b>						
<b>Shared Valuation Data Service (SVDS)</b>						
<b>For the Year Ended 30 June 2017</b>						
	Notes	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>						
SVDS Member Charges		290,293	267,985	(22,308)	247,978	235,443
TA Valuation Services Recovery		78,500	78,463	(37)	80,189	81,953
SVDS Enhancements Recovery	1	10,000	10,190	190	10,414	10,643
SVDS Data & Software Sales	2	192,000	227,919	35,919	262,933	278,718
<b>Total Income</b>		<b>570,793</b>	<b>584,557</b>	<b>13,764</b>	<b>601,515</b>	<b>606,758</b>
<b>Expenses</b>						
Hosting Contract		49,200	48,667	(533)	49,738	50,832
Software Contract	3	95,000	105,467	10,467	107,787	110,158
Management Services		276,500	283,187	6,687	289,417	295,784
TA Valuation Services		78,500	78,463	(37)	80,189	81,953
Consultancy Fees		16,000	16,000	0	16,352	16,712
Software Support Contingency		6,250	6,250	0	6,388	6,528
Security Certificates		0	300	300	300	300
Insurance		1,500	1,500	0	1,533	1,567
Legal Fees	4	4,000	4,000	0	8,000	0
Secretarial Services		3,000	3,000	0	3,066	3,133
On charge of LASS Admin Costs		31,343	27,534	(3,810)	28,331	29,147
<b>Total Expenses</b>		<b>561,293</b>	<b>574,367</b>	<b>13,074</b>	<b>591,101</b>	<b>596,115</b>
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>		<b>9,500</b>	<b>10,190</b>	<b>690</b>	<b>10,414</b>	<b>10,643</b>
<b>Non-Cash Expenses</b>						
Depreciation		109,699	97,055	(12,643)	102,055	110,475
Earnings before interest and tax		(100,199)	(86,865)	13,333	(91,641)	(99,832)
<b>Net Surplus (Deficit) before tax</b>		<b>(100,199)</b>	<b>(86,865)</b>	<b>13,333</b>	<b>(91,641)</b>	<b>(99,832)</b>
<b>Capital Expenditure</b>						
Enhancements	1	10,000	10,190	190	10,414	10,643
<b>Total Capital Expenditure</b>		<b>10,000</b>	<b>10,190</b>	<b>190</b>	<b>10,414</b>	<b>10,643</b>
<b>Total Cash Expenditure (Opex, Interest &amp; Capital)</b>		<b>571,293</b>	<b>584,557</b>	<b>13,264</b>	<b>601,515</b>	<b>606,758</b>
<b>Notes</b>						
1) Enhancement work to be recovered from individual councils.						
2) New data sales contract with Trade Me is expected to bring additional revenue.						
3) Software contract costs have increased in 2016/17 due to enhancements no longer being covered as part of this contract after contract re-negotiations.						
4) Provision in 2017/18 to tie in with contract review terms.						

<b>Local Authority Shared Services</b>					
<b>Road Asset Technical Accord (RATA)</b>					
<b>For the Year Ended 30 June 2017</b>					
Notes	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>					
NZTA	0	315,000	315,000	321,930	329,012
Councils - Data Collection	0	28,000	28,000	28,616	29,246
Councils - Project Funding	0	571,000	571,000	579,600	588,295
Roading (RATA)	611,245	0	(611,245)	0	0
<b>Total Income</b>	<b>611,245</b>	<b>914,000</b>	<b>302,755</b>	<b>930,146</b>	<b>946,553</b>
<b>Expenses</b>					
Data Collection	0	315,000	315,000	321,930	329,012
Forward Works Programme Tours	0	5,000	5,000	5,110	5,222
Asset Managers Forum	0	3,000	3,000	3,066	3,133
Benchmarking of Reg Road Outcomes	0	20,000	20,000	20,440	20,890
Deterioration Modelling	0	47,000	47,000	44,893	38,950
Staff and Contractor Services	0	365,000	365,000	371,720	382,795
External Contractor Support (Data Collection Contract)	0	7,000	7,000	7,154	7,311
Overheads <sup>1</sup>	0	152,000	152,000	155,833	159,239
Roading (RATA)	611,245	0	(611,245)	0	0
<b>Total Expenses</b>	<b>611,245</b>	<b>914,000</b>	<b>302,755</b>	<b>930,146</b>	<b>946,553</b>
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Earnings before interest and tax	0	0	0	0	0
<b>Net Surplus (Deficit) before tax</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Notes</b>					
1) Waipa District Council provides RATA with full support services, including accommodation, finance, IT, HR, GIS, legal advice, communications and Group Manager support.					
2) CPI Increase has been applied for 2017/18 and 2018/19 as per BERL LG cost index for OPEX.					

<b>Local Authority Shared Services</b>						
<b>Waikato Regional Transport Model (WRTM) <sup>1</sup></b>						
<b>For the Year Ended 30 June 2017</b>						
	Notes	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>						
WRTM Member Charges		128,143	101,834	(26,310)	113,097	115,475
External User Recovery		12,000	12,000	0	12,000	12,000
<b>Total Income</b>		<b>140,143</b>	<b>113,834</b>	<b>(26,310)</b>	<b>125,097</b>	<b>127,475</b>
<b>Expenses</b>						
WRTM Project Manager		18,000	18,000	0	18,908	19,386
Minor Model Upgrades		30,000	30,000	0	31,513	32,310
Peer Review		5,000	5,000	0	5,252	5,385
Annual Scheduling of Works Review		4,500	4,500	0	4,727	4,847
Insurance		1,300	1,300	0	1,366	1,401
WRTM Base Model Testing		15,000	0	(15,000)	0	0
External User Costs		10,000	10,000	0	10,000	10,000
Census Update		14,959	0	(14,959)	0	0
Tendering for WRTM Contract		13,671	0	(13,671)	0	0
Future Land Use Client Input		43,000	0	(43,000)	0	0
WRTM Projects		-	-	-	-	-
Future Land Use Update	2	0	15,000	15,000	0	0
Household Interview Survey (HIS) Scoping	3	0	2,500	2,500	0	0
HIS Input into National Survey	4	0	0	0	25,000	25,000
On charge of LASS Admin Costs		28,343	27,534	(810)	28,331	29,147
<b>Total Expenses</b>		<b>183,773</b>	<b>113,834</b>	<b>(69,940)</b>	<b>125,097</b>	<b>127,475</b>
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>	5	<b>(43,630)</b>	<b>0</b>	<b>43,630</b>	<b>0</b>	<b>0</b>
<b>Non-Cash Expenses</b>						
Depreciation	6	328,122	72,196	(255,926)	72,196	72,196
<b>Earnings before interest and tax</b>		<b>(371,752)</b>	<b>(72,196)</b>	<b>299,556</b>	<b>(72,196)</b>	<b>(72,196)</b>
<b>Net Surplus (Deficit) before tax</b>		<b>(371,752)</b>	<b>(72,196)</b>	<b>299,556</b>	<b>(72,196)</b>	<b>(72,196)</b>
<b>Notes</b>						
1) WRTM is being managed by RATA from 1 July 2016.						
2) Update of Future Land Use reference scenario post Auckland Unitary Plan decisions and Future Proof / Smart Growth updates.						
3) Prov Sum item - HIS research topic with NZTA at present. This budget will allow the WRTM partners to scope inputs needed.						
4) Prov Sum item - assumes input into national survey. Actual costs to be scoped with MOT.						
5) In 2015/16 \$46,630 was funded from unspent prior years contributions.						
6) The remaining useful life of the WRTM asset has been extended to June 2019. The model will be substantially reviewed during 2018/2019 with new census data and a software platform review.						

<b>Local Authority Shared Services</b>						
<b>Waikato Building Consent Group</b>						
<b>For the Year Ended 30 June 2017</b>						
	Notes	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>						
Member Charges	1	0	225,456	225,456	275,673	281,738
Accumulated Fund		0	45,144	45,144	0	0
<b>Total Income</b>		0	270,600	270,600	275,673	281,738
<b>Expenses</b>						
Salaries		0	206,200	206,200	209,856	214,473
Vehicle Expenses		0	17,700	17,700	18,089	18,487
Training / Professional Fees		0	3,300	3,300	3,373	3,447
Operating Costs		0	3,000	3,000	3,066	3,133
Communications / IT Costs		0	2,000	2,000	2,044	2,089
Annual Subscriptions		0	400	400	409	418
Overheads	2	0	38,000	38,000	38,836	39,690
<b>Total Expenses</b>		0	270,600	270,600	275,673	281,738
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>
Earnings before interest and tax		0	0	0	(0)	(0)
<b>Net Surplus (Deficit) before tax</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>
Notes						
1) Participating councils are Hamilton City and Hauraki, Matamata-Piako, Otorohanga, Thames-Coromandel, Waikato and Waitomo District Councils.						
2) Waikato District Council provides the Building Consent Group with support services, including accommodation, HR and Group Manager support.						

<b>Local Authority Shared Services</b>						
<b>Future Proof</b>						
<b>For the Year Ended 30 June 2017</b>						
	Notes	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>						
Member Charges	1	0	455,000	455,000	465,010	475,240
Accumulated Fund		0	120,990	120,990	0	0
<b>Total Income</b>		0	575,990	575,990	465,010	475,240
<b>Expenses</b>						
Implementation Advice (Reporting & Tangata Whenua)		0	125,000	125,000	127,750	130,561
Independent Chair		0	25,000	25,000	25,550	26,112
Tangata Whenua forum		0	15,000	15,000	15,330	15,667
Future Proof Co-Ordinator		0	65,000	65,000	66,430	67,891
Waikato DP Review		0	15,000	15,000	15,330	15,667
Waipa DP Appeals		0	0	0	0	0
Hamilton DP Appeals & Changes		0	15,000	15,000	15,330	15,667
General Submissions		0	15,000	15,000	15,330	15,667
Akl Unitary Plan		0	0	0	0	0
Southern Growth Corridor (MOUs)		0	5,000	5,000	5,110	5,222
Sub-regional Infrastructure Strategy		0	0	0	0	0
Cross-Boundary issues with Auckland Council		0	15,000	15,000	15,330	15,667
Future Proof Strategy Update		0	60,000	60,000	61,320	62,669
Economic Analysis for Strategy Update		0	20,000	20,000	20,440	20,890
Data Monitoring		0	5,000	5,000	5,110	5,222
Communications Advice for Strategy Update		0	20,000	20,000	20,440	20,890
NIDEA and WISE refinements		0	20,000	20,000	20,440	20,890
Independent Assessment of Growth Projections		0	15,000	15,000	15,330	15,667
Overheads	2	0	20,000	20,000	20,440	20,890
<b>Total Expenses</b>		0	455,000	455,000	465,010	475,240
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>		0	120,990	120,990	0	(0)
<b>Earnings before interest and tax</b>		0	120,990	120,990	0	(0)
<b>Net Surplus (Deficit) before tax</b>		0	120,990	120,990	0	(0)
<b>Notes</b>						
1) Participating councils are Hamilton City, Waikato and Waipa Districts and Waikato Regional Council.						
2) Hamilton City Council provides the support services for Future Proof, including accommodation and operational costs.						

<b>Local Authority Shared Services</b>						
<b>Mayoral Forum Projects</b>						
<b>For the Year Ended 30 June 2017</b>						
	Notes	Budget 2015/16	Budget 2016/17	Variance to Jun-16 Budget	Budget 2017/18	Budget 2018/19
<b>Income</b>						
Waikato Plan		319,000	0	(319,000)	0	0
Policy & Bylaws		114,000	0	(114,000)	0	0
Regional Infrastructure Tech. Specs.		0	50,000	50,000	0	0
Policy & Bylaws		0	7,000	7,000	0	0
Section 17a Review		0	7,000	7,000	0	0
Meeting Expenses Recovery		7,000	7,000	0	7,000	7,000
<b>Total Income</b>		<b>440,000</b>	<b>71,000</b>	<b>(369,000)</b>	<b>7,000</b>	<b>7,000</b>
<b>Expenses</b>						
Waikato Plan		319,000	0	(319,000)	0	0
Policy & Bylaws		114,000	0	(114,000)	0	0
Regional Infrastructure Tech. Specs.		0	50,000	50,000	0	0
Policy & Bylaws		0	7,000	7,000	0	0
Section 17a Review		0	7,000	7,000	0	0
Meeting Expenses		7,000	7,000	0	7,000	7,000
<b>Total Expenses</b>		<b>440,000</b>	<b>71,000</b>	<b>(369,000)</b>	<b>7,000</b>	<b>7,000</b>
<b>Earnings before interest, tax and depreciation/ amortisation (EBITA)</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Earnings before interest and tax		0	0	0	0	0
<b>Net Surplus (Deficit) before tax</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Local Authority Shared Services</b>					
<b>Balance Sheet</b>					
<b>For the Year Ended 30 June 2017</b>					
	Budget 2015/16	Budget 2016/17	Variance to Jun 16 Budget	Budget 2017/18	Budget 2018/19
<b>CAPITAL</b>					
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	(1,845,542)	(2,328,930)	(483,387)	(2,367,172)	(2,531,181)
Plus Current Year Operating Surplus/(Deficit)	(483,388)	(38,242)	445,145	(164,008)	(172,199)
<b>TOTAL CAPITAL FUNDS</b>	<b>628,071</b>	<b>589,829</b>	<b>(38,242)</b>	<b>425,820</b>	<b>253,621</b>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Prepayments	2,990	2,692	(298)	2,751	2,812
Accounts Receivable	15,167	3,394	(11,773)	3,770	3,849
RWT On Interest	560	1,820	1,260	1,820	1,820
Local Authority Shared Services On-Call	401,332	623,031	221,699	602,771	600,831
GST Paid	(32,833)	(48,066)	(15,232)	(45,398)	(45,119)
<b>TOTAL CURRENT ASSETS</b>	<b>387,216</b>	<b>582,872</b>	<b>195,657</b>	<b>565,715</b>	<b>564,193</b>
<b>NON-CURRENT ASSETS</b>					
SVDS - Intangible Asset	3,080,875	3,085,506	4,631	3,095,920	3,106,563
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	(4,894,039)	(5,041,294)	(147,255)	(5,215,717)	(5,398,559)
<b>TOTAL NON-CURRENT ASSETS</b>	<b>484,886</b>	<b>342,262</b>	<b>(142,624)</b>	<b>178,253</b>	<b>6,054</b>
<b>NET ASSETS</b>	<b>872,102</b>	<b>925,134</b>	<b>53,033</b>	<b>743,968</b>	<b>570,247</b>
<b>LESS CURRENT LIABILITIES</b>					
Accounts Payable	234,053	323,831	89,778	306,422	304,642
Accounts Payable Accrual	9,977	11,473	1,496	11,726	11,984
<b>TOTAL CURRENT LIABILITIES</b>	<b>244,030</b>	<b>335,305</b>	<b>91,275</b>	<b>318,148</b>	<b>316,626</b>
<b>NET WORKING CAPITAL</b>	<b>628,071</b>	<b>589,829</b>	<b>(38,242)</b>	<b>425,820</b>	<b>253,621</b>

<b>Local Authority Shared Services</b>					
<b>Statement of Cashflows</b>					
<b>For the Year Ended 30 June 2017</b>					
	Budget 2015/16	Budget 2016/17	Variance to Jun- 16 Budget	Budget 2017/18	Budget 2018/19
<b>Cashflows from Operating Activities</b>					
Interest Received	2,000	6,500	4,500	6,500	6,500
Receipts from Other Revenue	2,386,401	3,503,791	1,117,390	3,201,359	3,183,019
Payments to Suppliers	(2,439,297)	(3,379,111)	(939,814)	(3,197,445)	(3,178,876)
Taxes Paid	(560)	(1,820)	(1,260)	(1,820)	(1,820)
Goods & Services tax (net)	(32,833)	(25,221)	7,612	(18,943)	9,206
<b>Net cash from operating activities</b>	<b>(84,289)</b>	<b>104,139</b>	<b>188,428</b>	<b>(10,349)</b>	<b>18,029</b>
<b>Net cash from investing activities</b>					
Purchase of Intangible Assets	(10,000)	(10,190)	(190)	(10,414)	(10,643)
<b>Net cash from investing activities</b>	<b>(10,000)</b>	<b>(10,190)</b>	<b>(190)</b>	<b>(10,414)</b>	<b>(10,643)</b>
<b>Net increase in cash, cash equivalents and bank accounts</b>	<b>(94,289)</b>	<b>93,949</b>	<b>188,238</b>	<b>(20,763)</b>	<b>7,386</b>
Opening cash and cash equivalents and bank overdrafts	495,620	529,082	33,462	623,534	593,445
<b>Closing cash, cash equivalents and bank accounts</b>	<b>401,332</b>	<b>623,031</b>	<b>221,699</b>	<b>602,771</b>	<b>600,831</b>
<b>Summary of Bank Accounts</b>					
BNZ - Call a/c	401,332	623,031	221,699	602,771	600,831
<b>Closing Balance of Bank</b>	<b>401,332</b>	<b>623,031</b>	<b>221,699</b>	<b>602,771</b>	<b>600,831</b>



 **Waikato Innovation Park**  
Growing Technology Business

**FOODWAIKATO** 

**INNOVATION  
WAIKATO LIMITED**

Annual Report 2017



Item 16

Attachment 1



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**DIRECTORY**

*As at 30 June 2017*

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 Profit after tax of \$1,520,000 compared with last year of \$1,283,000
- Park tenancy average occupancy rate of 97% for the year
- Waikato Innovation Park's "WIPL" Masterplan has been converted to a concept plan. This will be submitted as part of Hamilton City Council District Plan. This plan will ensure future developments are aligned and coordinated in a carefully managed way and aligned with the purpose of the park
- The Fourth annual survey of tenants was completed, and indicated the gross turnover of all Park companies has increased by 42% to \$427 million, with 61% engaged in research and development, 68% actively engaged in exporting, 39% of the park companies are working collaboratively together, and 562 people are employed at the Park
- New Zealand Food Innovation (Waikato) Limited "Food Waikato" undertook 305 dryer days of manufacturing against a plan of 300
- 555 tonnes of sheep milk manufactured 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 was expanded by an extra resource and research and capacity funding to reflect the growth in the Waikato region
- \$46m of grants issued by Callaghan Innovation for Research and Development for the Waikato and \$514,000 of grants for capability building from NZTE allocated to clients in the Waikato
- Eleven events hosted by the Business Growth team, including 5 seminars and 5 training or network sessions
- Shareholder Hamilton City resolved to sell its shareholding in WIPL of a suitable developer (conditional on full value been achieved) to fund the growth outlined in the Masterplan while retaining the purpose of the Park
- Central Government approval received for the sale of WIPL property assets



**Earl Rattray**  
Chairman



**Stuart Gordon**  
Chief Executive



**Earl Rattray**



**Stuart Gordon**

#### Food Waikato contribution to the regional economy:

Food Waikato produced 1,745 tonnes of product in the 2016-2017 year at an export value of \$32m. A record year for Food Waikato. This means that an estimated \$130 million of export sales have been manufactured in the last three years. A survey of customers indicates they have invested \$135 million in farms, genetics, and or production facilities over the last three years in the Waikato region.

#### Financial Performance:

The year ending June 2017 produced excellent financial performance for the Innovation Waikato Limited group. Group Revenue increased by 12% to \$11,329,000 this year. Group Total Comprehensive Income for the year just ended was \$1,520,000 compared to a \$2,571,000 profit last year. The Comprehensive Income last year included \$2,075,000 from revaluations and \$496,000 from trading profits. More importantly Net Cash Flow from operating activities was \$1,556,000 this year. As part of the Group, Food Waikato revenue grew 4% from \$6,758,000 last year to \$7,052,000 this year. Food Waikato's Total Comprehensive Income was a net profit of \$678,000 compared to last year of \$456,000. Food Waikato's net cash from operating activities was \$845,000.

As a result of the above excellent performance the Groups Total Equity improved by \$1,520,000 to \$18,717,000



#### 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, Andy West and Helen Cross. Given the unique role Food Waikato is performing as part of the New Zealand Food Innovation Network a Board with specialised skills governs Food Waikato. Barry Harris (chairman), Richard Perry (CFO Callaghan Innovation) and Peter Hobman along with Earl comprise 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 set up a series of best practice policies and monitors those policies and the company risk register to ensure compliance.

The Board takes seriously its ongoing obligation to ensure public safety and a safe working environment. A strategic review of workplace safety policies and hazards has been undertaken and health and safety leadership 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

Innovation Waikato Limited **Annual Report 5**



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 2017 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 2017**

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

1. Goal: 300 days of product development production days budgeted by NZFIW  
Achieved: 305 production days achieved
2. Goal: \$50 million contribution to the region  
Achieved: \$53 million exports sales estimated from production at NZFIW
3. Goal: Commitment by private capital to establish to increased drying capacity.  
Achieved: Informal discussions have been held with prospective investors no formal agreement has been reached
4. Goal: Existing buildings 98% occupied  
Achieved: Average occupancy 97% during the year

5. Goal: Ownership of Waikato innovation park remains as it currently is.

Achieved: Agreement between Central government and Hamilton City Council reached to sell property division of WIPL to fund growth and structure and process of sale agreed.

6. Financial performance

	Actual 2017 \$000	Target 2017 \$000	Actual 2016 \$000
Group EBITDA	\$4,564	\$3,521	\$3,758
Group cash from operating activities	\$1,568	\$447	\$1,679
Retained earnings increase	\$1,054	\$801	\$802
Shareholders' funds (including deferred income)/ Tangible assets	44%	42%	41%

**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 2017 year achievements, which mean we are now well placed for growth in the future. In particular Food Waikato's growth in production days and financial returns. The Park now has critical mass and financial stability and is looking forward to its next growth stage.



**FOODWAIKATO**



Innovation Waikato Limited **Annual Report 6**



**ANNUAL REPORT**

*For the Year Ended 30 June 2017*

**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 2017.

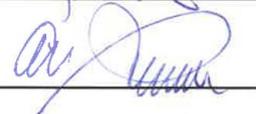
**Reporting concessions**

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	<u>22-8-17</u>	Date
 _____	Director	<u>22.08.17</u>	Date



**STATEMENT OF COMPREHENSIVE INCOME**

For the Year Ended 30 June 2017

	NOTE	Group \$000		Company \$000	
		2017	2016	2017	2016
<b>Revenue</b>					
Operating revenue	4	11,329	10,093	-	-
Cost of sales		(333)	(778)	-	-
<b>Gross profit</b>		<b>10,996</b>	<b>9,315</b>	-	-
Other income	5	179	179	-	-
Other gains	9	227	787	-	-
Share of profit from associate	17	2	(3)	-	-
<b>Total Revenue</b>		<b>11,404</b>	<b>10,278</b>	-	-
<b>Expenses</b>					
Operating expenses		(3,847)	(3,691)	-	-
Personnel costs	6	(2,447)	(2,100)	-	-
Depreciation	21	(1,209)	(1,085)	-	-
Audit fees		(49)	(43)	-	-
Directors fees	7	(246)	(253)	-	-
Bad and doubtful debts		6	(22)	-	-
Other losses	9	(257)	(420)	-	-
<b>Total operating expenses</b>		<b>(8,049)</b>	<b>(7,614)</b>	-	-
Finance income	8	2	9	-	-
Finance costs	8	(1,267)	(1,194)	-	-
<b>Net finance costs</b>	8	<b>(1,265)</b>	<b>(1,185)</b>	-	-
<b>Profit/(loss) before tax</b>		<b>2,090</b>	<b>1,479</b>	-	-
Less: Income tax	10	(570)	(196)	-	-
<b>Profit/(loss) for the year</b>		<b>1,520</b>	<b>1,283</b>	-	-
<b>Other comprehensive income</b>					
Gain/(loss) on property revaluation		-	1,789	-	-
Income tax on other comprehensive income	10	-	(501)	-	-
<b>Total Other Comprehensive Income</b>		-	<b>1,288</b>	-	-
<b>Total comprehensive income for the year</b>		<b>1,520</b>	<b>2,571</b>	-	-

The accompanying notes form part of these financial statements.

*M*



**STATEMENT OF COMPREHENSIVE INCOME**

*For the Year Ended 30 June 2017 (continued)*

	NOTE	Group \$000		Company \$000	
		2017	2016	2017	2016
<b>Total profit/(loss) attributable to:</b>					
Innovation Waikato Limited		1,054	902	-	-
Non-controlling interest		465	381	-	-
<b>Total comprehensive income attributable to:</b>					
Innovation Waikato Limited		1,054	1,626	-	-
Non-controlling interest		465	946	-	-

*The accompanying notes form part of these financial statements.*



**STATEMENT OF CHANGES IN EQUITY**

For the Year Ended 30 June 2017

Group	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Non- controlling interest	\$000 Total equity
<b>Balance as at 1 July 2015</b>		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
<b>Total comprehensive income for the year</b>		-	723	902	946	2,571
<b>Balance as at 30 June 2016</b>		2,400	2,729	8,986	3,082	17,197
<b>Balance as at 1 July 2016</b>		2,400	2,729	8,986	3,082	17,197
<i>Total comprehensive income</i>						
Profit for the year		-	-	1,054	465	1,520
Other comprehensive income for the year		-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	1,054	465	1,520
<b>Balance as at 30 June 2017</b>		2,400	2,729	10,040	3,547	18,717

Company	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Total equity
<b>Balance as at 1 July 2015</b>		2,400	-	5,215	7,615
<i>Total comprehensive income</i>					
Profit for the year		-	-	-	-
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	-	-
<b>Balance as at 30 June 2016</b>		2,400	-	5,215	7,615
<b>Balance as at 1 July 2016</b>		2,400	-	5,215	7,615
<i>Total comprehensive income</i>					
Profit for the year		-	-	-	-
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	-	-
<b>Balance as at 30 June 2017</b>		2,400	-	5,215	7,615

The accompanying notes form part of these financial statements.





**STATEMENT OF FINANCIAL POSITION**

As at 30 June 2017

	NOTE	Group \$000		Company \$000	
		2017	2016	2017	2016
<b>ASSETS</b>					
<b>Non-current assets</b>					
Investment in associates	17	20	18	-	-
Investment in subsidiaries	18	-	-	9,776	9,776
Work in progress	20	939	531	-	-
Property, plant and equipment	21	19,931	20,585	-	-
Investment property	22	25,750	25,650	-	-
Intangible asset	19	2	-	-	-
<b>Total non-current assets</b>		<b>46,642</b>	<b>46,784</b>	<b>9,776</b>	<b>9,776</b>
<b>Current assets</b>					
Cash and cash equivalents	12	792	1,982	-	-
Inventories	13	99	344	-	-
Trade and other receivables	14	1,335	847	-	-
Prepayments		110	104	-	-
Accrued income		44	-	-	-
<b>Total current assets</b>		<b>2,380</b>	<b>3,277</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>		<b>49,022</b>	<b>50,061</b>	<b>9,776</b>	<b>9,776</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	11	2,400	2,400	2,400	2,400
Revaluation reserve	11	2,729	2,729	-	-
Retained earnings		10,040	8,986	5,215	5,215
<b>Total equity attributable to the Company</b>		<b>15,169</b>	<b>14,114</b>	<b>7,615</b>	<b>7,615</b>
Non-controlling interest	11	3,547	3,082	-	-
<b>Total equity</b>		<b>18,717</b>	<b>17,197</b>	<b>7,615</b>	<b>7,615</b>
<b>Non-current liabilities</b>					
Deferred tax liability	10	1,828	1,693	-	-
Deferred income	23	2,822	3,089	-	-
Term loans	24	22,960	8,890	-	-
Other loans	25	300	450	-	-
Provisions	26	191	189	-	-
<b>Total non-current liabilities</b>		<b>28,101</b>	<b>14,311</b>	<b>-</b>	<b>-</b>

The accompanying notes form part of these financial statements.





**STATEMENT OF FINANCIAL POSITION**

*As at 30 June 2017 (Continued)*

	NOTE	Group \$000		Company \$000	
		2017	2016	2017	2016
<b>Current liabilities</b>					
Cash and cash equivalents	12	-	-	-	-
Payables and accruals	15	1,249	1,580	-	-
Deferred income	23	355	595	-	-
Term loans	24	-	15,628	-	-
Other loans	25	600	750	-	-
Related parties	16	-	-	2,161	2,161
<b>Total current liabilities</b>		<b>2,204</b>	<b>18,553</b>	<b>2,161</b>	<b>2,161</b>
<b>Total liabilities</b>		<b>30,305</b>	<b>32,864</b>	<b>2,161</b>	<b>2,161</b>
<b>Total equity and liabilities</b>		<b>49,022</b>	<b>50,061</b>	<b>9,776</b>	<b>9,776</b>

*The accompanying notes form part of these financial statements.*

  
\_\_\_\_\_  
Director  
22 August 2017

  
\_\_\_\_\_  
Director  
22 August 2017





**STATEMENT OF CASH FLOWS**

For the Year Ended 30 June 2017

	NOTE	Group \$000		Company \$000	
		2017	2016	2017	2016
<b>Cash flow from operating activities</b>					
Receipts from customers		10,451	9,952	-	-
Payments to suppliers and employees		(7,320)	(6,861)	-	-
Interest received		2	9	-	-
Interest paid		(1,274)	(1,182)	-	-
Tax payments		(178)	(290)	-	-
GST (net)*		(126)	51	-	-
<b>Net cash from operating activities</b>	29	<b>1,556</b>	<b>1,679</b>	-	-
<b>Cash flow from investing activities</b>					
Purchase of property, plant and equipment		(564)	(394)	-	-
Purchase of investment property		10	(9,443)	-	-
Purchase of assets under construction		(339)	483	-	-
Purchase of intangible asset		(2)	-	-	-
Sale of property, plant and equipment		5	-	-	-
<b>Net cash from/(used in) investing activities</b>		<b>(890)</b>	<b>(9,354)</b>	-	-
<b>Cash flow from financing activities</b>					
Proceeds from borrowing		25,262	9,961	-	-
Repayment of borrowings		(27,118)	(263)	-	-
<b>Net cash from/(used in) financing activities</b>		<b>(1,856)</b>	<b>9,698</b>	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,190)</b>	<b>2,023</b>	-	-
Cash and cash equivalents at 1 July		1,982	(41)	-	-
<b>Cash and cash equivalents at 30 June</b>	12	<b>792</b>	<b>1,982</b>	-	-

\*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 2017

### 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 2017. The financial statements were authorised for issue by the Board of Directors on the 22nd August 2017. 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.

#### b. Uncertainty about the future structure of the group

In July 2016, Hamilton City Council (HCC) resolved to sell 100% of its share in Waikato Innovation Park Limited. This resolution included the requirement to restructure the Group to ensure HCC retained its 70% controlling interest in New Zealand Food Innovation Waikato Limited, currently held by WIPL, after the sale.

The possible future group structure may impact on the going concern assumption of Innovation Waikato Limited. The timing and format of the restructure, as well the sale of the Council's shares in WIPL, is uncertain at this time. The Board has continued to adopt the going concern assumption in preparing the financial statements.

#### c. 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.

#### d. Functional and Presentational Currency

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

#### e. 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

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 21: Property, plant and equipment
- Note 22: Investment property
- Note 23: Deferred income
- Note 26: Provisions

### f. Change in Accounting Policies

#### *Intangible Assets*

A new accounting policy for Intangible Assets has been created due to the registration of Trademarks.

### 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.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

### *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.

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.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

### 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).

### 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.

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## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

### **i. Intangible assets**

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Trademarks 10 years

### **m. Trade and Other Payables**

Trade and other payables are stated at cost.

### **n. 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.

### **o. 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.

### **p. 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.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

### q. 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.

### r. 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 2017*

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>4. REVENUE</b>				
Revenue from sale of goods	283	519	-	-
Revenue from the rendering of services	11,046	9,574	-	-
<b>Total operating revenue</b>	<b>11,329</b>	<b>10,093</b>	-	-

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>5. OTHER INCOME</b>				
Deferred Grant income	179	179	-	-
<b>Total other income</b>	<b>179</b>	<b>179</b>	-	-

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>6. PERSONNEL COSTS</b>				
Salaries and wages	2,405	2,063	-	-
Defined contribution plan	42	37	-	-
<b>Total personnel costs</b>	<b>2,447</b>	<b>2,100</b>	-	-

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>7. DIRECTORS FEES</b>				
Directors fees	246	253	-	-
<b>Total directors fees</b>	<b>246</b>	<b>253</b>	-	-



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>8. FINANCE COSTS</b>				
<i>Finance income</i>				
Interest income of short-term bank deposit	2	9	-	-
<b>Total finance income</b>	<b>2</b>	<b>9</b>	<b>-</b>	<b>-</b>
<i>Finance costs</i>				
Bank fees	(8)	(10)	-	-
Interest on finance lease liabilities	(5)	(20)	-	-
Interest on bank overdraft	-	(2)	-	-
Interest on bank borrowings	(1,254)	(1,162)	-	-
<b>Total finance costs</b>	<b>(1,267)</b>	<b>(1,194)</b>	<b>-</b>	<b>-</b>
<b>Net finance costs</b>	<b>(1,265)</b>	<b>(1,185)</b>	<b>-</b>	<b>-</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>9. OTHER GAINS AND LOSSES</b>				
<i>Other gains</i>				
Gain on changes in fair value of investment property	227	787	-	-
<b>Total other gains</b>	<b>227</b>	<b>787</b>	<b>-</b>	<b>-</b>
<i>Other losses</i>				
Foreign exchange gain/(loss)	1	(15)	-	-
Loss on disposal of fixed assets	(258)	(280)	-	-
Loss on disposal of capital work in progress	-	(125)	-	-
<b>Total other losses</b>	<b>(257)</b>	<b>(420)</b>	<b>-</b>	<b>-</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>10. INCOME TAX</b>				
<i>Current tax</i>				
Current year	(455)	(92)	-	-
Adjustment for prior years	-	(1)	-	-
<i>Deferred tax</i>				
Current year	(115)	(103)	-	-
<b>Total tax expense recognised in the current year</b>	<b>(570)</b>	<b>(196)</b>	<b>-</b>	<b>-</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

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

	Group \$000		Company \$000	
	2017	2016	2017	2016
Profit before tax	2,090	1,479	-	-
Income tax expense at 28%	(585)	(414)	-	-
Effect of income that is exempt from tax	1	-	-	-
Effect of expenses that are not deductible in determining taxable profit	(52)	(45)	-	-
Deferred tax not recognised on investment property	66	263	-	-
<b>Income tax expense recognised in profit or loss</b>	<b>(570)</b>	<b>(196)</b>	<b>-</b>	<b>-</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>Current tax assets and liabilities</b>				
Income tax payable	(154)	98	-	-
Benefit of tax loss transferred from NZFIW	-	-	-	-
	<b>(154)</b>	<b>98</b>	<b>-</b>	<b>-</b>

**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	(2,383)	20	-	(2,363)
Provisions	24	(4)	-	20
Investment property	(218)	(79)	-	(297)
Deferred income	862	(50)	-	812
Tax losses	11	(11)	-	-
Doubtful debts	11	(11)	-	-
<b>Balance as at 30 June 2017</b>	<b>(1,693)</b>	<b>(135)</b>	<b>-</b>	<b>(1,828)</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

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
<b>Balance as at 30 June 2016</b>	<b>(1,053)</b>	<b>(139)</b>	<b>(501)</b>	<b>(1,693)</b>

11. EQUITY	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>Share capital</b>				
<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)
<b>Issued and called shares 30 June</b>	<b>2,400</b>	<b>2,400</b>	<b>2,400</b>	<b>2,400</b>

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 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>12. CASH AND CASH EQUIVALENTS</b>				
BNZ Bank account 96	208	1,419	-	-
BNZ Bank oncall accounts	-	422	-	-
BNZ Bank account 75	584	141	-	-
<b>Total cash and cash equivalents</b>	<b>792</b>	<b>1,982</b>	-	-
Current assets	792	1,982	-	-
Current liabilities	-	-	-	-
<b>Total cash and cash equivalents</b>	<b>792</b>	<b>1,982</b>	-	-

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

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>13. INVENTORIES</b>				
Goods in transit	-	178	-	-
Raw materials	99	166	-	-
<b>Total trade and other receivables</b>	<b>99</b>	<b>344</b>	-	-

The cost of inventories recognised as an expense during the year was \$332,996 (2016: \$778,840)

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>14. TRADE AND OTHER RECEIVABLES</b>				
Gross trade and other receivables	1,335	788	-	-
Provision for doubtful debts	-	(39)	-	-
Income tax receivable	-	98	-	-
<b>Total trade and other receivables</b>	<b>1,335</b>	<b>847</b>	-	-

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>15. PAYABLES AND ACCRUALS</b>				
Accounts payable	576	547	-	-
Accruals	512	936	-	-
Income tax payable	154	-	-	-
Other payables	7	97	-	-
<b>Total payables and accruals</b>	<b>1,249</b>	<b>1,580</b>	-	-



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>16. RELATED PARTIES</b>				
Waikato Innovation Park Limited	-	-	2,161	2,161
<b>Total related parties</b>	-	-	<b>2,161</b>	<b>2,161</b>

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	
	2017	2016	2017	2016
<b>17. INVESTMENT IN ASSOCIATES</b>				
<i>New Zealand Food Innovation Network Ltd</i>				
Interest held by the group	25%	25%	-	-
Opening balance	17	20	-	-
Share of revenue and expenses	2	(3)	-	-
<b>Balance at 30 June</b>	<b>19</b>	<b>17</b>	<b>-</b>	<b>-</b>
<b>Total investment in associates</b>	<b>20</b>	<b>18</b>	<b>-</b>	<b>-</b>

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	
	2017	2016	2017	2016
<b>18. INVESTMENT IN SUBSIDIARIES</b>				
<i>Shares at cost</i>				
Waikato Innovation Park Limited	-	-	9,776	9,776
<b>Total investment in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>9,776</b>	<b>9,776</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>19. INTANGIBLE ASSET</b>				
<i>Cost - Trademark</i>				
Balance 1 July 2016	-	-	-	-
Additions	2	-	-	-
<b>Balance 30 June 2017</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>20. WORK IN PROGRESS</b>				
Infrastructure for new park	402	377	-	-
Master and concept plans	192	-	-	-
Work around the park	5	-	-	-
Co-lab at the park	-	154	-	-
Silo 4	340	-	-	-
<b>Total work in progress</b>	<b>939</b>	<b>531</b>	<b>-</b>	<b>-</b>

**21. PROPERTY, PLANT AND EQUIPMENT**

Group (\$000)	Property	Plant & Equipment	Office & Computer	Motor vehicles	Total
<b>As at 30 June 2016</b>					
Cost or valuation	4,276	19,601	143	8	24,028
Accumulated depreciation	(598)	(2,782)	(58)	(5)	(3,443)
<b>Net book amount</b>	<b>3,678</b>	<b>16,819</b>	<b>85</b>	<b>3</b>	<b>20,585</b>
<b>For the year ended 30 June 2017</b>					
Opening net book amount	3,678	16,819	85	3	20,585
Additions	114	354	76	30	574
Disposals	-	(12)	(4)	(3)	(19)
Depreciation charge	(173)	(1,007)	(27)	(2)	(1,209)
<b>Closing net book amount</b>	<b>3,619</b>	<b>16,154</b>	<b>130</b>	<b>28</b>	<b>19,931</b>
<b>As at 30 June 2017</b>					
Cost or valuation	4,390	19,937	207	30	24,564
Accumulated depreciation	(771)	(3,783)	(77)	(2)	(4,633)
<b>Net book amount</b>	<b>3,619</b>	<b>16,154</b>	<b>130</b>	<b>28</b>	<b>19,931</b>

No valuation was completed in 2017. Property, plant & equipment was valued by North Langley & Associates Ltd, an independent registered valuer on 1 June 2016. 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 2017 (2016: NIL). No borrowing costs were capitalised during the year. (2016: 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 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>22. INVESTMENT PROPERTY</b>				
Balance at 1 July	25,650	15,700	-	-
Additions/(disposals)	(127)	9,163	-	-
Fair value gain/(loss) on valuation	227	787	-	-
<b>Balance at 30 June</b>	<b>25,750</b>	<b>25,650</b>	-	-

Total investment property held under operating leases was \$25,750,000 (2016: \$25,650,000).

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	
	2017	2016	2017	2016
<b>23. DEFERRED INCOME</b>				
Original Grant	3,794	3,794	-	-
less Deferred income recognised prior years	(716)	(537)	-	-
	<b>3,078</b>	<b>3,257</b>	-	-
Opening balance	3,078	3,257	-	-
Less deferred income recognised	(179)	(179)	-	-
<b>Total deferred grant</b>	<b>2,899</b>	<b>3,078</b>	-	-
Revenue received in advance	278	606	-	-
<b>Total deferred income</b>	<b>3,177</b>	<b>3,684</b>	-	-
Total current portion	355	595	-	-
Total non current portion	2,822	3,089	-	-
<b>Total deferred income</b>	<b>3,177</b>	<b>3,684</b>	-	-

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.

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**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>24. TERM LOANS</b>				
BNZ 67378152-01 loan	-	6,200	-	-
BNZ 67378152-03 loan	-	122	-	-
BNZ 67378152-04 loan	-	8,894	-	-
BNZ 67378152-05 loan	14,786	-	-	-
BNZ 92346126-01 loan	-	7,833	-	-
BNZ 92346126-02 loan	-	1,469	-	-
BNZ 92346126-03 loan	8,174	-	-	-
<b>Total term loans</b>	<b>22,960</b>	<b>24,518</b>	-	-
Total current portion	-	15,628	-	-
Total non current portion	22,960	8,890	-	-
<b>Total term loans</b>	<b>22,960</b>	<b>24,518</b>	-	-

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

	2017		2016	
	Interest Rate	Maturity Date	Interest Rate	Maturity Date
BNZ 67378152-01 loan	-	-	5.42%	July 2016
BNZ 67378152-03 loan	-	-	5.88%	June 2018
BNZ 67378152-04 loan	-	-	5.18%	July 2016
BNZ 67378152-05 loan	5.00%	July 2021	-	-
BNZ 92346126-01 loan	-	-	6.05%	June 2019
BNZ 92346126-02 loan	-	-	4.97%	June 2019
BNZ 92346126-03 loan	5.61%	August 2021	-	-

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>25. OTHER LOANS</b>				
Bonds	900	900	-	-
Technopak - Equipment loan	-	300	-	-
<b>Total other loans</b>	<b>900</b>	<b>1,200</b>	-	-
Total current portion	600	750	-	-
Total non current portion	300	450	-	-
<b>Total other loans</b>	<b>900</b>	<b>1,200</b>	-	-



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>26. PROVISIONS</b>				
Nu Mega Limited	191	189	-	-
<b>Total provisions</b>	<b>191</b>	<b>189</b>	<b>-</b>	<b>-</b>

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.

**27. 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	
	2017	2016	2017	2016
<b>Non-cancellable operating lease commitments</b>				
No later than one year	251	24	-	-
Later than one year and not later than five years	988	68	-	-
Later than five years	1,460	117	-	-
	<b>2,699</b>	<b>209</b>	<b>-</b>	<b>-</b>

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 2017 was \$185,146 (2016: \$182,733).

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>28. FINANCIAL INSTRUMENTS</b>				
<b>Loans and receivables</b>				
Cash and cash equivalents	792	1,982	-	-
Trade and other receivables	1,335	847	-	-
<b>Total loans and receivables</b>	<b>2,127</b>	<b>2,829</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities at amortised cost</b>				
Cash and cash equivalents	-	-	-	-
Payables and accruals	1,249	1,580	-	-
Term Loans	22,960	24,518	-	-
Other loans	900	1,200	-	-
Provisions	191	189	-	-
Related parties	-	-	2,161	2,161
<b>Total financial liabilities at amortised cost</b>	<b>25,300</b>	<b>27,487</b>	<b>2,161</b>	<b>2,161</b>

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 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>29. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH</b>				
<b>Profit/(loss) for the year</b>	<b>1,520</b>	<b>1,283</b>	-	-
<b>Add/(less) non-cash items</b>				
Depreciation and amortisation	1,209	1,085	-	-
Fair value loss/(gain) on investment property	(227)	(787)	-	-
Other losses	257	420	-	-
Income tax expense recognised in profit or loss	570	196	-	-
Share of associates (surplus)/deficit	(2)	3	-	-
Deferred income	(179)	(179)	-	-
<b>Total non-cash items</b>	<b>1,628</b>	<b>738</b>	-	-
<b>Add/(less) movements in working capital</b>				
Trade debtors and other receivables	(586)	157	-	-
Prepayments	(7)	38	-	-
Accrued income	(44)	-	-	-
Trade creditors and other payables	(872)	(287)	-	-
Revenue received in advance	(328)	94	-	-
Inventories	245	(344)	-	-
<b>Total movement in working capital</b>	<b>(1,592)</b>	<b>(342)</b>	-	-
<b>Net cash flow from operating activities</b>	<b>1,556</b>	<b>1,679</b>	-	-

**30. RELATED PARTY TRANSACTIONS**

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

**Shareholders**

Waikato Innovation Park Limited paid \$102,834 (2016: \$267,800) to Hamilton City Council for rates, trade waste, water rates and development costs; there is a balance of \$2,101 outstanding at 30 June 2017 (2016: \$604).

Waikato Innovation Park Limited received \$30,800 (2016: NIL) from Hamilton City Council for consulting costs, there is a balance of \$4,370 outstanding at 30 June 2017 (2016: NIL).

**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 \$509,859 (2016: \$252,373) to Waikato Innovation Park Limited for corporate management services. The amount outstanding at balance date was \$29,497 (2016: \$22,471).



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

### *New Zealand Food Innovation (Waikato) Limited*

New Zealand Food Innovation (Waikato) Limited tax liability in relation to 2016 was decreased by a subvention payment of \$71,098 to Waikato Innovation Park Limited (2016 -\$126,352).

### *New Zealand Food Innovation Network Ltd*

NZFIW made sales of \$65,000 (2016: \$61,733) to New Zealand Food Innovation Network Ltd for Business Development Manager services. The amount outstanding at balance date was \$11,500 (2016: \$10,618).

### **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 \$54,456 (2016: \$49,649) for rent and operating expenses; a balance of \$382 was outstanding at 30 June 2017 (2016: \$609).

Andrew West was the Chairman of Herd Homes Ltd (resigned October 2016), a private company which rents office space from Waikato Innovation Park Limited. During the year Waikato Innovation Park Limited charged Herd Homes Ltd \$16,711 (2016: \$18,518) for rent and operating expenses; a balance of \$1,003 was outstanding at 30 June 2017 (2016: \$1,400).

Earl Rattray is a shareholder of Fonterra, a co-operative dairy company. During the year New Zealand Food Innovation (Waikato) Limited charged Fonterra \$40,642 GST exclusive (2016: NIL) for manufacturing costs; a balance of \$46,739 GST inclusive was outstanding at 30 June 2017 (2016: NIL).

### **Key Management Personnel Disclosure**

Key Management personnel compensation	2017: \$1,039,664	2016: \$928,385
---------------------------------------	-------------------	-----------------

### **31. CONTINGENCIES**

No contingencies have been identified at balance date (2016: NIL).

### **32. COMMITMENTS**

As at 30 June 2016 Waikato Innovation Park Limited had no capital commitments (2016: \$93,688). New Zealand Food Innovation (Waikato) Limited has capital commitments of \$91,707 to Tetrapak for the completion of Silo 4 (2016: NIL).



**NOTES TO THE FINANCIAL STATEMENTS**

*For the Year Ended 30 June 2017*

**33. 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 2017 (Group)**

Key objective	Actual results
1. 300 days of product development production via the spray dryer contributing \$50 million to the regional economy	305 spray dryer days were achieved with \$53 million of exports from the region
2. Commitment by private capital to establish increased spray drying capacity alongside the existing dryer.	With the delay in the sale of the property assets this was not achieved though informal discussions have continued.
3. Investment as a 10% minority interest in new spray dryer to obtain increased open access space for new customers.	With the delay in the sale of the property assets this was not achieved though informal discussions have continued.
4. Resource consents obtained for a new spray dryer facility.	With the delay in the sale of the property assets this was not achieved though informal discussions have continued.
5. Existing buildings 98% occupied	97.2% occupancy rate achieved
6. Surplus cash applied to repayment of BNZ debt to address the thin Equity/ Total Assets ratios.	BNZ debt reduced by \$1.5m
7. All interest rate and debt BNZ covenants are met.	Covenants all met 100% of the time

(These key objectives differ from the previous financial year)

Financial performance targets and actual results to 30 June 2017 (Group)	2017	2017	2016	2016
	Actual \$000	Statement of Corporate Intent \$000	Actual \$000	Statement of Corporate Intent \$000
Earnings before interest, taxation and depreciation	4,564	3,521	3,758	3,055
Cash from operating activities	1,556	447	1,679	1,423
Increase in retained earnings	1,054	601	902	6,370
Shareholders' funds (including deferred income)/Tangible assets	44%	42%	41%	42%





**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

Budget and actual results to 30 June 2017 (Group)	2017	2017	2016	2016
	Actual \$000	Statement of Corporate Intent \$000	Actual \$000	Statement of Corporate Intent \$000
EBITDA Property	1,810	1,534	1,558	1,338
EBITDA Economic development	59	13	44	37
EBITDA NZFIW	2,695	1,974	2,156	1,680
<b>Group EBITDA</b>	<b>4,564</b>	<b>3,521</b>	<b>3,758</b>	<b>3,055</b>
Depreciation	1,209	1,077	1,085	1,078
Interest	1,265	1,610	1,194	1,256
<b>Total other overheads</b>	<b>2,474</b>	<b>2,687</b>	<b>2,279</b>	<b>2,334</b>
<b>Net profit before tax</b>	<b>2,090</b>	<b>834</b>	<b>1,479</b>	<b>721</b>
Dividends	-	-	-	(51)
Income tax	(570)	(234)	(196)	-
<b>Profit for the year</b>	<b>1,520</b>	<b>600</b>	<b>1,283</b>	<b>670</b>

Budget and actual results to 30 June 2017 (Group)	2017	2017	2016	2016
	Actual \$000	Statement of Corporate Intent \$000	Actual \$000	Statement of Corporate Intent \$000
<b>Total current assets</b>	<b>2,380</b>	<b>1,275</b>	<b>3,277</b>	<b>768</b>
<b>Non-current assets</b>				
Buildings and plant	29,369	28,918	29,328	28,911
Plant and equipment	16,312	15,120	16,907	15,492
Other non-current assets	939	2,901	531	-
<b>Total tangible assets</b>	<b>46,620</b>	<b>46,939</b>	<b>46,766</b>	<b>44,403</b>
Intangible assets	2	-	-	-
Investment in associate	20	-	18	-
<b>Total non-current assets</b>	<b>46,642</b>	<b>46,939</b>	<b>46,784</b>	<b>44,403</b>
<b>Total assets</b>	<b>49,022</b>	<b>48,214</b>	<b>50,061</b>	<b>45,171</b>
<b>Total current liabilities</b>	<b>2,204</b>	<b>1,279</b>	<b>17,958</b>	<b>925</b>
<b>Term liabilities</b>				
Bank loans	22,960	25,498	8,890	24,210
Deferred income	2,822	2,901	3,684	4,799
Bonds	300	2,123	450	1,104



**NOTES TO THE FINANCIAL STATEMENTS**

*For the Year Ended 30 June 2017*

Provisions	191	-	189	-
Deferred tax liability	1,828	-	1,693	152
<b>Total term liabilities</b>	<b>28,101</b>	<b>30,522</b>	<b>14,906</b>	<b>30,265</b>
<b>Total liabilities</b>	<b>30,305</b>	<b>31,801</b>	<b>32,864</b>	<b>31,190</b>
<b>Net Assets</b>	<b>18,717</b>	<b>16,413</b>	<b>17,197</b>	<b>13,981</b>
<b>Total equity</b>	<b>18,717</b>	<b>16,413</b>	<b>17,197</b>	<b>13,981</b>

**AUDIT NEW ZEALAND**  
Mana Arotake Aotearoa

### **Independent Auditor's Report**

#### **To the readers of Innovation Waikato Limited and Group's financial statements and performance information for the year ended 30 June 2017**

The Auditor-General is the auditor of Innovation Waikato Limited (the Company) and 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 Company and Group, on his behalf.

#### **Opinion**

We have audited:

- the financial statements of the Company and Group on pages 8 to 31, that comprise the statement of financial position as at 30 June 2017, 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 and Group on pages 32 to 34.

In our opinion:

- the financial statements of the Company and Group on pages 8 to 31:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; 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; and
- the performance information of the Company and Group on pages 32 to 34 presents fairly, in all material respects, the Company and Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Company and Group's objectives for the year ended 30 June 2017.

Our audit was completed on 22 August 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to the uncertainty about the future structure of the Company and Group. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

### **Uncertainty about the future structure of the Company and Group**

Without modifying our opinion, we draw attention to the disclosures made in note 2b on page 14 about the uncertainty of the future structure of the Group that arises from a decision by Hamilton City Council, the ultimate parent of the Group, to sell the Company and Group's shares in its subsidiary Waikato Innovation Park Limited (WIPL). To retain its 70% controlling interest in New Zealand Food Waikato Limited (currently held by WIPL) after the proposed sale, a restructure of the Group is being considered. Because the timing and format of the restructure has not been decided, there is uncertainty whether the Company and Group will continue to operate as a going concern after selling its shareholding in WIPL. We consider the disclosures about this uncertainty to be appropriate to the Company and Group's circumstances.

### **Basis for opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

### **Responsibilities of the Board of Directors for the financial statements and the performance information**

The Board of Directors is responsible on behalf of the Company and Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the Company and Group.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Company and Group for assessing the Company and Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Company and Group or to cease operations, or has no realistic alternative but to do so.

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

### **Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 and Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Company and Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Company and Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible solely for the

direction, supervision and performance of the Company and Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 6, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

### **Independence**

We are independent of the Company and Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.

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



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



**Waikato Innovation Park**  
"Growing Technology Business"

**WAIKATO  
INNOVATION PARK  
LIMITED**

Annual Report 2017



Item 16

Attachment 3



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*For the Year Ended 30 June 2017*

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**DIRECTORY**

*As at 30 June 2017*

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



**ANNUAL REPORT**

*For the Year Ended 30 June 2017*

**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 2017.

**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>22.8.17</u>	Date
 _____	Director	<u>22.08.17</u>	Date



**STATEMENT OF COMPREHENSIVE INCOME**

For the Year Ended 30 June 2017

	NOTE	Group \$000		Company \$000	
		2017	2016	2017	2016
<b>Revenue</b>					
Operating revenue	4	11,329	10,093	4,694	3,729
Cost of sales		(333)	(778)	-	-
<b>Gross profit</b>		<b>10,996</b>	<b>9,315</b>	<b>4,694</b>	<b>3,729</b>
Other income	5	179	179	-	-
Other gains	8	227	787	227	787
Share of profit from associate	16	2	(3)	-	-
<b>Total revenue</b>		<b>11,404</b>	<b>10,278</b>	<b>4,921</b>	<b>4,516</b>
<b>Expenses</b>					
Operating expenses		(3,847)	(3,690)	(1,524)	(1,428)
Personnel costs	6	(2,447)	(2,100)	(1,093)	(903)
Depreciation	19	(1,209)	(1,085)	(62)	(39)
Audit fees		(49)	(43)	(29)	(25)
Directors fees		(246)	(253)	(154)	(138)
Bad and doubtful debts		6	(22)	6	(22)
Other losses	8	(257)	(420)	(258)	(405)
<b>Total operating expenses</b>		<b>(8,049)</b>	<b>(7,613)</b>	<b>(3,114)</b>	<b>(2,960)</b>
Finance income	7	2	9	2	9
Finance costs	7	(1,267)	(1,194)	(732)	(593)
<b>Net finance costs</b>	7	<b>(1,265)</b>	<b>(1,185)</b>	<b>(730)</b>	<b>(584)</b>
<b>Profit/(loss) before tax</b>		<b>2,090</b>	<b>1,480</b>	<b>1,077</b>	<b>972</b>
Subvention payment received/(paid)		-	-	71	(126)
Income tax	9	(570)	(196)	(306)	(19)
<b>Profit/(loss) for the year</b>		<b>1,520</b>	<b>1,284</b>	<b>842</b>	<b>827</b>
<b>Other comprehensive income</b>					
Gain/(loss) on property revaluation	19	-	1,789	-	-
Income tax on other comprehensive income	9	-	(501)	-	-
<b>Total other comprehensive income</b>		<b>-</b>	<b>1,288</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>1,520</b>	<b>2,572</b>	<b>842</b>	<b>827</b>

The accompanying notes form part of these financial statements.





**STATEMENT OF COMPREHENSIVE INCOME**

*For the Year Ended 30 June 2017 (Continued)*

	NOTE	Group \$000		Company \$000	
		2017	2016	2017	2016
<b>Total profit/(loss) attributable to:</b>					
Waikato Innovation Park Limited		1,317	1,147	842	827
Non-controlling interest		203	137	-	-
<b>Total comprehensive income attributable to:</b>					
Waikato Innovation Park Limited		1,317	2,049	842	827
Non-controlling interest		203	524	-	-

*The accompanying notes form part of these financial statements.*



### STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2017

Group	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Non- controlling interest	\$000 Total equity
<b>Balance as at 1 July 2015</b>		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	-	387	1,289
<b>Total comprehensive income for the year</b>		-	902	1,147	524	2,573
<b>Balance as at 30 June 2016</b>		9,776	3,402	4,355	1,825	19,357
<b>Balance as at 1 July 2016</b>		9,776	3,402	4,355	1,825	19,357
<i>Total comprehensive income</i>						
Profit for the year		-	-	1,317	203	1,520
Other comprehensive income for the year		-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	1,317	203	1,520
<b>Balance as at 30 June 2017</b>		9,776	3,402	5,672	2,028	20,877

Company	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Total equity
<b>Balance as at 1 July 2015</b>		9,776	-	3,007	12,783
<i>Total comprehensive income</i>					
Profit for the year		-	-	827	827
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	827	827
<b>Balance as at 30 June 2016</b>		9,776	-	3,834	13,610
<b>Balance as at 1 July 2016</b>		9,776	-	3,834	13,610
<i>Total comprehensive income</i>					
Profit for the year		-	-	842	842
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	842	842
<b>Balance as at 30 June 2017</b>		9,776	-	4,676	14,452

The accompanying notes form part of these financial statements.





**STATEMENT OF FINANCIAL POSITION**

As at 30 June 2017

	NOTE	Group \$000		Company \$000	
		2017	2016	2017	2016
<b>ASSETS</b>					
<b>Non-current assets</b>					
Investment in associates	16	19	17	-	-
Investment in subsidiaries	17	-	-	333	333
Investment property	18	25,750	25,650	25,750	25,650
Property, plant and equipment	19	19,931	20,585	391	248
Work in progress	20	939	531	599	531
Intangible asset	21	2	-	1	-
<b>Total non-current assets</b>		<b>46,641</b>	<b>46,783</b>	<b>27,074</b>	<b>26,762</b>
<b>Current assets</b>					
Cash and cash equivalents	11	792	1,982	584	563
Inventories	12	99	344	-	-
Trade and other receivables	13	1,335	847	320	301
Accrued income		44	-	52	-
Prepayments		111	104	29	40
Related parties	15	2,161	2,161	2,161	2,161
<b>Total current assets</b>		<b>4,542</b>	<b>5,438</b>	<b>3,146</b>	<b>3,065</b>
<b>Total assets</b>		<b>51,183</b>	<b>52,221</b>	<b>30,220</b>	<b>29,827</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	10	9,776	9,776	9,776	9,776
Revaluation reserve	10	3,402	3,402	-	-
Retained earnings		5,672	4,355	4,676	3,834
<b>Equity attributable to owners of the Company</b>		<b>18,850</b>	<b>17,533</b>	<b>14,452</b>	<b>13,610</b>
<i>Non-controlling interest</i>	10	2,028	1,825	-	-
<b>Total equity</b>		<b>20,878</b>	<b>19,357</b>	<b>14,452</b>	<b>13,610</b>
<b>Non-current liabilities</b>					
Deferred tax liability	9	1,828	1,693	288	183
Deferred income	22	2,822	3,089	-	-
Term loans	25	22,960	8,890	14,786	63
Other loans	23	300	450	-	-
Provisions	24	191	189	-	-
<b>Total non-current liabilities</b>		<b>28,101</b>	<b>14,311</b>	<b>15,074</b>	<b>246</b>

The accompanying notes form part of these financial statements.





**STATEMENT OF FINANCIAL POSITION**

*As at 30 June 2017 (Continued)*

	NOTE	Group \$000		Company \$000	
		2017	2016	2017	2016
<b>Current liabilities</b>					
Cash and cash equivalents	11	-	-	-	-
Payables and accruals	14	1,249	1,580	664	814
Related parties	15	-	-	-	4
Deferred income	22	355	595	30	-
Term loans	25	-	15,628	-	15,153
Other loans	23	600	750	-	-
<b>Total current liabilities</b>		<b>2,204</b>	<b>18,553</b>	<b>694</b>	<b>15,971</b>
Total Liabilities		<b>30,305</b>	<b>32,864</b>	<b>15,768</b>	<b>16,217</b>
<b>Total equity and liabilities</b>		<b>51,183</b>	<b>52,221</b>	<b>30,220</b>	<b>29,827</b>

*The accompanying notes form part of these financial statements.*



Director  
22 August 2017



Director  
22 August 2017



**STATEMENT OF CASH FLOWS**

For the Year Ended 30 June 2017

	NOTE	Group \$000		Company \$000	
		2017	2016	2017	2016
<b>Cash flow from operating activities</b>					
Receipts from customers		10,451	9,952	4,550	3,547
Payments to suppliers and employees		(7,320)	(6,861)	(3,170)	(2,345)
Interest received		2	9	2	9
Interest paid		(1,274)	(1,182)	(738)	(581)
Tax payments		(178)	(290)	14	(218)
Subvention payment paid		-	-	71	(126)
GST (net)*		(126)	51	(20)	(3)
<b>Net cash from operating activities</b>	27	<b>1,556</b>	<b>1,679</b>	<b>710</b>	<b>283</b>
<b>Cash flow from investing activities</b>					
Purchase of property, plant and equipment		(564)	(394)	(221)	(60)
Purchase of investment property		10	(9,443)	10	(9,443)
Purchase of assets under construction		(339)	483	(52)	916
Purchase of intangible asset		(2)	-	(1)	-
Sale of property, plant and equipment		5	-	5	-
<b>Net cash from/(used in) investing activities</b>		<b>(890)</b>	<b>(9,354)</b>	<b>(259)</b>	<b>(8,587)</b>
<b>Cash flow from financing activities</b>					
Proceeds from borrowing		25,262	9,961	15,636	8,904
Repayment of borrowings		(27,118)	(263)	(16,066)	(65)
<b>Net cash from/(used in) financing activities</b>		<b>(1,856)</b>	<b>9,698</b>	<b>(430)</b>	<b>8,839</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,190)</b>	<b>2,023</b>	<b>21</b>	<b>535</b>
Cash and cash equivalents at 1 July		1,982	(41)	563	28
<b>Cash and cash equivalents at 30 June</b>	11	<b>792</b>	<b>1,982</b>	<b>584</b>	<b>563</b>

\*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 2017

### 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 2017. The financial statements were authorised for issue by the Board of Directors on the 22nd August 2017. 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 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 - Investment property
- Note 19 - Property, plant and equipment
- Note 22 - Deferred income
- Note 24 - Provisions

#### e. Change in Accounting Policies

##### *Intangible Assets*

A new accounting policy for Intangible Assets has been created due to the registration of Trademarks.



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

### 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.





## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

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 consist of interest and bank fees) 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 'Trade and other receivables' financial instruments (Note 28).

### 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 2017

### 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 assets' 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. Intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Trademarks	10 years
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### m. Trade and Other Payables

Trade and other payables are stated at cost.

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

### n. 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.

### o. 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.

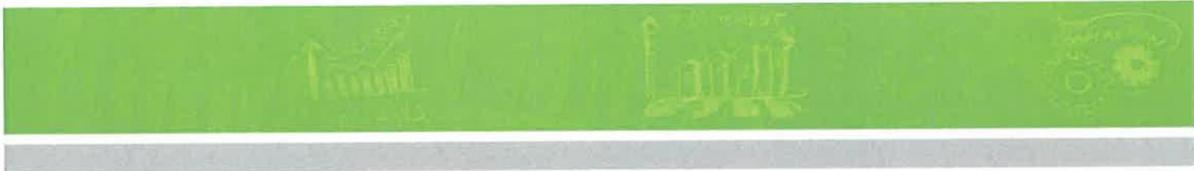
### p. Short-term Employee Benefits

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.

### 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

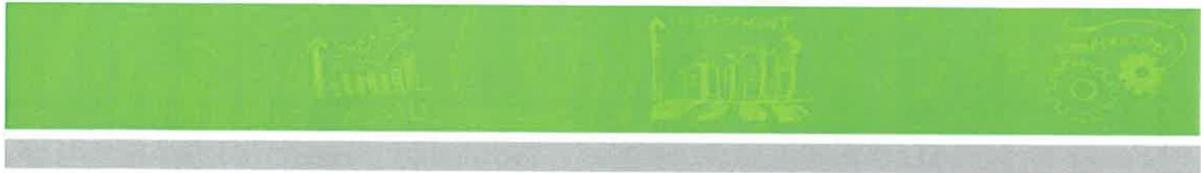
*For the Year Ended 30 June 2017*

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.

### r. 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 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>4. REVENUE</b>				
Revenue from sale of goods	283	519	-	-
Revenue from the rendering of services	11,046	9,574	4,694	3,729
<b>Total operating revenue</b>	<b>11,329</b>	<b>10,093</b>	<b>4,694</b>	<b>3,729</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>5. OTHER INCOME</b>				
Deferred Grant income	179	179	-	-
<b>Total other income</b>	<b>179</b>	<b>179</b>	<b>-</b>	<b>-</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>6. PERSONNEL COSTS</b>				
Salaries and wages	2,405	2,063	1,072	885
Defined contribution plan	42	37	21	18
<b>Total personnel costs</b>	<b>2,447</b>	<b>2,100</b>	<b>1,093</b>	<b>903</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>7. FINANCE COSTS</b>				
<i>Finance income</i>				
Interest income of short-term bank deposit	2	9	2	9
<b>Total finance income</b>	<b>2</b>	<b>9</b>	<b>2</b>	<b>9</b>
<i>Finance costs</i>				
Bank fees	(8)	(10)	(5)	(6)
Interest on other payables	(5)	(20)	(2)	(16)
Interest on bank overdrafts	-	(2)	-	(1)
Interest on bank borrowings	(1,254)	(1,162)	(725)	(570)
<b>Total finance costs</b>	<b>(1,267)</b>	<b>(1,194)</b>	<b>(732)</b>	<b>(593)</b>
<b>Net finance costs</b>	<b>(1,265)</b>	<b>(1,185)</b>	<b>(730)</b>	<b>(584)</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>8. OTHER GAINS AND LOSSES</b>				
<i>Other gains</i>				
Gain on changes in fair value of investment property	227	787	227	787
<b>Total other gains</b>	<b>227</b>	<b>787</b>	<b>227</b>	<b>787</b>
<i>Other losses</i>				
Net foreign exchange gain/(loss)	1	(15)	-	-
Loss on disposal of fixed assets	(258)	(280)	(258)	(280)
Loss on disposal of capital work in progress	-	(125)	-	(125)
<b>Total other losses</b>	<b>(257)</b>	<b>(420)</b>	<b>(258)</b>	<b>(405)</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>9. INCOME TAX</b>				
<i>Current tax</i>				
Current year	(455)	(92)	(201)	-
Adjustment for prior years	-	(1)	-	(1)
<i>Deferred tax</i>				
Current year	(115)	(103)	(85)	(53)
Adjustment for prior years	-	-	(20)	35
<b>Total tax expense recognised in the current year</b>	<b>(570)</b>	<b>(196)</b>	<b>(306)</b>	<b>(19)</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<i>The income tax expense for the year can be reconciled to the accounting profit as follows:</i>				
Profit before tax	2,090	1,480	1,077	972
Income tax expense at 28%	(585)	(414)	(301)	(272)
Effect of income that is exempt from tax	1	-	-	-
Effect of expenses that are not deductible in determining taxable profit	(52)	(45)	(51)	(44)
Deferred tax not recognised on investment property	66	263	66	263
Prior period adjustments	-	-	(20)	34
<b>Income tax expense recognised in profit or loss</b>	<b>(570)</b>	<b>(196)</b>	<b>(306)</b>	<b>(19)</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

**Deferred tax balances**

**Group (\$000)**

*Deferred tax assets/(liabilities) in relation to:*

Property, plant and equipment

Provisions

Investment property

Deferred income

Tax losses

Doubtful debts

**Balance as at 30 June 2017**

	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Property, plant and equipment	(2,383)	20	-	(2,363)
Provisions	24	(4)	-	20
Investment property	(218)	(79)	-	(297)
Deferred income	862	(50)	-	812
Tax losses	11	(11)	-	-
Doubtful debts	11	(11)	-	-
<b>Balance as at 30 June 2017</b>	<b>(1,693)</b>	<b>(135)</b>	<b>-</b>	<b>(1,828)</b>

**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
<b>Balance as at 30 June 2016</b>	<b>(1,053)</b>	<b>(139)</b>	<b>(501)</b>	<b>(1,693)</b>

**Company (\$000)**

*Deferred tax assets/(liabilities) in relation to:*

Property, plant and equipment

Provisions

Investment property

Doubtful debts

Tax loss

**Balance as at 30 June 2017**

	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Property, plant and equipment	(4)	(3)	-	(7)
Provisions	17	(1)	-	16
Investment property	(218)	(79)	-	(297)
Doubtful debts	11	(11)	-	-
Tax loss	11	(11)	-	-
<b>Balance as at 30 June 2017</b>	<b>(183)</b>	<b>(105)</b>	<b>-</b>	<b>(288)</b>





**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

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	-	(4)	-	(4)
Provisions	18	(1)	-	17
Investment property	(153)	(65)	-	(218)
Finances leases	(3)	3	-	-
Doubtful debts	8	3	-	11
Tax loss	-	11	-	11
<b>Balance as at 30 June 2016</b>	<b>(130)</b>	<b>(53)</b>	<b>-</b>	<b>(183)</b>

Current tax assets and liabilities	Group \$000		Company \$000	
	2017	2016	2017	2016
Income tax payable	(154)	(98)	(92)	(121)
Benefit of tax loss transferred from NZFIW	-	-	-	-
	<b>(154)</b>	<b>(98)</b>	<b>(92)</b>	<b>(121)</b>

10. EQUITY	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>Share capital</b>				
<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)	-	-
<b>Issued and called shares 30 June</b>	<b>9,776</b>	<b>9,776</b>	<b>9,776</b>	<b>9,776</b>

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 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>11. CASH AND CASH EQUIVALENTS</b>				
BNZ Bank account 96	208	1,419	-	-
BNZ Bank oncall account	-	422	-	422
BNZ Bank account 75	584	141	584	141
<b>Total cash and cash equivalents</b>	<b>792</b>	<b>1,982</b>	<b>584</b>	<b>563</b>
Current assets	792	1,982	584	563
Current liabilities	-	-	-	-

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

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>12. INVENTORIES</b>				
Goods in transit	-	178	-	-
Raw materials	99	166	-	-
<b>Total inventories</b>	<b>99</b>	<b>344</b>	<b>-</b>	<b>-</b>

The cost of inventories recognised as an expense during the year was \$332,996 (2016: \$778,840)

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>13. TRADE AND OTHER RECEIVABLES</b>				
Gross trade and other receivables	1,335	788	291	197
Inter-entity receivables	-	-	29	22
Provision for doubtful debts	-	(39)	-	(39)
Income tax receivable	-	98	-	121
<b>Total trade and other receivables</b>	<b>1,335</b>	<b>847</b>	<b>320</b>	<b>301</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>14. PAYABLES AND ACCRUALS</b>				
Accounts payable	576	547	312	291
Accruals	512	936	254	492
Income tax payable	154	-	92	-
Other payables	7	97	6	31
<b>Total payables and accruals</b>	<b>1,249</b>	<b>1,580</b>	<b>664</b>	<b>814</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>15. RELATED PARTIES</b>				
New Zealand Food Innovation (Waikato) Limited	-	-	-	(4)
Innovation Waikato Limited	2,161	2,161	2,161	2,161
<b>Total related parties</b>	<b>2,161</b>	<b>2,161</b>	<b>2,161</b>	<b>2,157</b>

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.

Waikato Innovation Park Limited has paid operating costs of \$509,859 (2016: \$252,373) on behalf of NZFIW. NZFIW also owes Waikato Innovation Park Limited \$29,497 (2016: \$22,471) for office expenses, this amount is recorded in receivables.

The Company's tax liability in relation to 2016 was increased by a subvention payment of \$71,098 (2016: -\$126,352) from NZFIW.

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>16. INVESTMENT IN ASSOCIATES</b>				
<i>New Zealand Food Innovation Network Ltd</i>				
Interest held by the group	25%	25%	-	-
Opening balance	17	20	-	-
Share of revenue and expenses	2	(3)	-	-
<b>Balance at 30 June</b>	<b>19</b>	<b>17</b>	<b>-</b>	<b>-</b>
<b>Total investment in associates</b>	<b>19</b>	<b>17</b>	<b>-</b>	<b>-</b>

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	
	2017	2016	2017	2016
<b>17. INVESTMENT IN SUBSIDIARIES</b>				
<i>Shares at cost</i>				
New Zealand Food Innovation (Waikato) Limited	-	-	333	333
<b>Total investment in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>333</b>	<b>333</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

18. INVESTMENT PROPERTY	Group \$000		Company \$000	
	2017	2016	2017	2016
Balance at 1 July	25,650	15,700	25,650	15,700
Additions/(disposals)	(127)	9,163	(127)	9,163
Fair value gain/(loss) on valuation	227	787	227	787
<b>Balance at 30 June</b>	<b>25,750</b>	<b>25,650</b>	<b>25,750</b>	<b>25,650</b>

Total investment property held under operating leases is \$25,750,000 (2016: \$25,650,000).

The Company's investment properties are valued annually at fair value effective 30 June. All investment properties are 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	Motor vehicles	Total
<b>As at 30 June 2016</b>					
Cost or valuation	4,276	19,601	143	8	24,028
Accumulated depreciation	(598)	(2,782)	(58)	(5)	(3,443)
<b>Net book amount</b>	<b>3,678</b>	<b>16,819</b>	<b>85</b>	<b>3</b>	<b>20,585</b>
<b>For the year ended 30 June 2017</b>					
Opening net book amount	3,678	16,819	85	3	20,585
Additions	114	354	77	30	575
Disposals	-	(12)	(4)	(3)	(19)
Depreciation charge	(173)	(1,007)	(27)	(2)	(1,209)
<b>Closing net book amount</b>	<b>3,619</b>	<b>16,154</b>	<b>131</b>	<b>28</b>	<b>19,932</b>
<b>As at 30 June 2017</b>					
Cost or valuation	4,390	19,937	207	30	24,564
Accumulated depreciation	(771)	(3,783)	(77)	(2)	(4,633)
<b>Net book amount</b>	<b>3,619</b>	<b>16,154</b>	<b>130</b>	<b>28</b>	<b>19,931</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

Company (\$000)	Property	Plant & Equipment	Office and computer	Motor vehicles	Total
<b>As at 30 June 2016</b>					
Cost or valuation	-	268	136	8	412
Accumulated depreciation	-	(102)	(57)	(5)	(164)
<b>Net book amount</b>	<b>-</b>	<b>166</b>	<b>79</b>	<b>3</b>	<b>248</b>
<b>For the year ended 30 June 2017</b>					
Opening net book amount	-	166	79	3	248
Additions	-	124	69	31	224
Disposals	-	(12)	(4)	(3)	(19)
Depreciation charge	-	(33)	(27)	(2)	(62)
<b>Closing net book amount</b>	<b>-</b>	<b>245</b>	<b>117</b>	<b>29</b>	<b>391</b>
<b>As at 30 June 2017</b>					
Cost or valuation	-	374	193	31	598
Accumulated depreciation	-	(129)	(76)	(2)	(207)
<b>Net book amount</b>	<b>-</b>	<b>245</b>	<b>117</b>	<b>29</b>	<b>391</b>

No valuation was completed in 2017. Property, plant & equipment was valued by North Langley & Associates Ltd, an independent registered valuer on 1 June 2016. 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 2017. (2016: NIL).

No borrowing costs were capitalised during the year. (2016: NIL)

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>20. WORK IN PROGRESS</b>				
Infrastructure for new park	402	377	402	377
Master and concept plans	192	-	192	-
Work around the park	5	-	5	-
Co-lab at the park	-	154	-	154
Silo 4	340	-	-	-
<b>Total work in progress</b>	<b>939</b>	<b>531</b>	<b>599</b>	<b>531</b>



**NOTES TO THE FINANCIAL STATEMENTS**

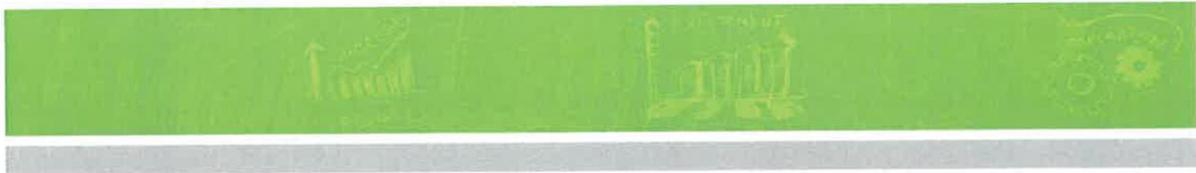
For the Year Ended 30 June 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>21. INTANGIBLE ASSET</b>				
<i>Cost - Trademark</i>				
Balance 1 July 2016	-	-	-	-
Additions	2	-	1	-
<b>Balance 30 June 2017</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>-</b>

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>22. DEFERRED INCOME</b>				
<b>Deferred Grant</b>				
Original Grant	3,794	3,794	-	-
less Deferred income recognised prior years	(716)	(537)	-	-
	<b>3,078</b>	<b>3,257</b>	<b>-</b>	<b>-</b>
Opening balance	3,078	3,257	-	-
Less deferred income recognised	(179)	(179)	-	-
<b>Total deferred grant</b>	<b>2,899</b>	<b>3,078</b>	<b>-</b>	<b>-</b>
Revenue received in advance	278	606	30	-
<b>Total deferred income</b>	<b>3,177</b>	<b>3,684</b>	<b>30</b>	<b>-</b>
Total current portion	355	595	30	-
Total non current portion	2,822	3,089	-	-
<b>Total deferred income</b>	<b>3,177</b>	<b>3,684</b>	<b>30</b>	<b>-</b>

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 (Plant) and 25 (Building) years respectively for the Spray Dryer Facility being the estimated useful life of the assets.

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>23. OTHER LOANS</b>				
Bonds	900	900	-	-
Technopak - Equipment loan	-	300	-	-
<b>Total other loans</b>	<b>900</b>	<b>1,200</b>	<b>-</b>	<b>-</b>
Total current portion	600	750	-	-
Total non current portion	300	450	-	-
<b>Total other loans</b>	<b>900</b>	<b>1,200</b>	<b>-</b>	<b>-</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

24. PROVISIONS	Group \$000		Company \$000	
	2017	2016	2017	2016
Nu Mega Limited	191	189	-	-
<b>Total provisions</b>	<b>191</b>	<b>189</b>	<b>-</b>	<b>-</b>

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. TERM LOANS	Group \$000		Company \$000	
	2017	2016	2017	2016
BNZ 67378152-01 loan	-	6,200	-	6,200
BNZ 67378152-03 loan	-	122	-	122
BNZ 67378152-04 loan	-	8,894	-	8,894
BNZ 67378152-05 loan	14,786	-	14,786	-
BNZ 92346126-01 loan	-	7,833	-	-
BNZ 92346126-02 loan	-	1,469	-	-
BNZ 92346126-03 loan	8,174	-	-	-
	<b>22,960</b>	<b>24,518</b>	<b>14,786</b>	<b>15,216</b>
Total current portion	-	15,628	-	15,153
Total non-current portion	22,960	8,890	14,786	63
<b>Total term loans</b>	<b>22,960</b>	<b>24,518</b>	<b>14,786</b>	<b>15,216</b>

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

	2017		2016	
	Interest Rate	Maturity Date	Interest Rate	Maturity Date
BNZ 67378152-01 loan	-	-	5.42%	July 2016
BNZ 67378152-03 loan	-	-	5.88%	June 2018
BNZ 67378152-04 loan	-	-	5.18%	July 2016
BNZ 67378152-05 loan	5.00%	July 2021	-	-
BNZ 92346126-01 loan	-	-	6.06%	June 2019
BNZ 92346126-02 loan	-	-	4.97%	June 2019
BNZ 92346126-03 loan	5.61%	August 2021	-	-



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

**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	
	2017	2016	2017	2016
<b>Non-cancellable operating lease commitments</b>				
No later than one year	251	24	251	24
Later than one year and no later than five years	988	68	988	68
Later than five years	1,460	117	1,460	117
	<b>2,699</b>	<b>209</b>	<b>2,699</b>	<b>209</b>

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 2017 was \$185,146 (2016: \$182,733).

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>27. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH</b>				
<b>Profit/(loss) for the year</b>	<b>1,520</b>	<b>1,284</b>	<b>842</b>	<b>827</b>
<b>Add/(less) non-cash items</b>				
Depreciation and amortisation	1,209	1,085	62	39
Fair value loss/(gain) on investment property	(227)	(787)	(224)	(787)
Other losses	257	420	258	405
Income tax expense and subvention payment	570	196	306	145
Share of associates (surplus)/deficit	(2)	3	-	-
Deferred income	(179)	(179)	-	-
<b>Total non-cash items</b>	<b>1,628</b>	<b>738</b>	<b>402</b>	<b>(198)</b>
<b>Add/(less) movements in working capital</b>				
Trade debtors and other receivables	(586)	158	(140)	245
Prepayments	(7)	36	11	38
Accrued income	(44)	-	(52)	-
Trade creditors and other payables	(872)	(287)	(383)	(483)
Revenue received in advance	(328)	94	30	(146)
Inventories	245	(344)	-	-
<b>Total movement in working capital</b>	<b>(1,592)</b>	<b>(343)</b>	<b>(534)</b>	<b>(346)</b>
<b>Net cash flow from operating activities</b>	<b>1,556</b>	<b>1,679</b>	<b>710</b>	<b>283</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

	Group \$000		Company \$000	
	2017	2016	2017	2016
<b>28. FINANCIAL INSTRUMENTS</b>				
<b>Loans and receivables</b>				
Cash and cash equivalents	792	1,982	584	563
Trade and other receivables	1,335	847	320	301
Related parties	2,161	2,161	2,161	2,161
<b>Total loans and receivables</b>	<b>4,288</b>	<b>4,990</b>	<b>3,065</b>	<b>3,025</b>
<b>Financial liabilities at amortised cost</b>				
Cash and cash equivalents	-	-	-	-
Payables and accruals	1,249	1,580	664	814
Term loans	22,960	24,518	14,786	15,216
Other loans	900	1,200	-	-
Provisions	191	189	-	-
<b>Total financial liabilities at amortised cost</b>	<b>25,300</b>	<b>27,487</b>	<b>15,450</b>	<b>16,030</b>

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

**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 \$102,834 (2016: \$267,800) to Hamilton City Council for rates, trade waste, water rates and development costs; there is a balance of \$2,101 outstanding at 30 June 2017 (2016: \$604).

Waikato Innovation Park Limited received \$30,800 (2016: NIL) from Hamilton City Council for consulting costs, there is a balance of \$4,370 outstanding at 30 June 2017 (2016: NIL).

**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 \$509,859 (2016: \$252,373) to Waikato Innovation Park Limited for corporate management services.

New Zealand Food Innovation (Waikato) Limited tax liability in relation to 2016 was decreased by a subvention payment of \$71,098 to the Company (2016 -\$126,352).

*New Zealand Food Innovation Network Ltd*

NZFIW made sales of \$65,000 (2016: \$61,733) to New Zealand Food Innovation Network Ltd for Business Development Manager services. The amount outstanding at balance date was \$11,500 (2016: \$10,618).

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

### 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 \$54,456 (2016: \$49,649) for rent and operating expenses; a balance of \$382 was outstanding at 30 June 2017 (2016: \$609).

Earl Rattray is a shareholder of Fonterra, a co-operative dairy company. During the year New Zealand Food Innovation (Waikato) Limited charged Fonterra \$40,642 GST exclusive (2016: NIL) for manufacturing costs; a balance of \$46,739 GST inclusive was outstanding at 30 June 2017 (2016: NIL).

Andrew West was the Chairman of Herd Homes Ltd (resigned October 2016), a private company which rents office space from Waikato Innovation Park Limited. During the year Waikato Innovation Park Limited charged Herd Homes Ltd \$16,711 (2016: \$18,518) for rent and operating expenses; a balance of \$1,003 was outstanding at 30 June 2017 (2016: \$1,400).

### Key Management Personnel Disclosure

Key management personnel compensation 2017: \$1,039,664 2016: \$928,385

### 30. CONTINGENCIES

No contingencies have been identified at balance date (2016: NIL).

### 31. CAPITAL COMMITMENTS

As at 30 June 2016 Waikato Innovation Park Limited had no capital commitments (2016: \$93,688). New Zealand Food Innovation (Waikato) Limited has capital commitments of \$91,707 to Tetrapak for the completion of Silo 4. (2016: NIL)

### 32. 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 2016/17 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)	2017	2017	2016	2016
	Actual \$000	Statement of Corporate Intent \$000	Actual \$000	Statement of Corporate Intent \$000
Income - Company	4,921	3,752	-	-
Income - NZFIW	6,721	5,865	-	-
EBITDA - Company: Property	1,810	1,534	1,434	1,388
EBITDA - Company: Economic Development	59	13	44	37
EBITDA - NZFIW	2,695	1,974	2,156	1,680
Existing buildings occupied	97%	98%	96%	98%

The favourable EBITDA for property is due to expense control and higher than expected recovery of operating expenses from Tenants.

The favourable EBITDA for NZFIW is due to greater usage of the wetside by 68 days with a resultant favourable price variance.

**Attachment 3**

**Item 16**

**AUDIT NEW ZEALAND**  
Mana Arotake Aotearoa

## Independent Auditor's Report

### To the readers of Waikato Innovation Park Limited and Group's financial statements and performance information for the year ended 30 June 2017

The Auditor-General is the auditor of Waikato Innovation Park Limited (the Company) and 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 Company and Group, on his behalf.

#### Opinion

We have audited:

- the financial statements of the Company and Group on pages 5 to 29, that comprise the statement of financial position as at 30 June 2017, 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 and Group on page 29.

In our opinion:

- the financial statements of the Company and Group on pages 5 to 29:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; 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 International Financial Reporting Standards Reduced Disclosure Regime; and
- the performance information of the Group on page 29 presents fairly, in all material respects, the Company and Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Company and Group's objectives for the year ended 30 June 2017.

Our audit was completed on 22 August 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

### **Basis for opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

### **Responsibilities of the Board of Directors for the financial statements and the performance information**

The Board of Directors is responsible on behalf of the Company and Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the Company and Group.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Company and Group for assessing the Company and Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Company and Group or to cease operations, or has no realistic alternative but to do so.

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

### **Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 and Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Company and Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Company and Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible solely for the direction, supervision and performance of the Company and Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

### Independence

We are independent of the Company and Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.

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



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



**FOODWAIKATO**



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

Annual Report 2017



**Item 16**

**Attachment 5**



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**DIRECTORY**

*As at 30 June 2017*

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



**ANNUAL REPORT**

*For the Year Ended 30 June 2017*

**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 2017.

**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

04/8/2017 Date

Director

04/8/2017 Date



**STATEMENT OF COMPREHENSIVE INCOME**

*For the Year Ended 30 June 2017*

		\$000	
	NOTE	2017	2016
<b>Revenue</b>			
Revenue	4	7,052	6,758
Cost of sales		(333)	(778)
<b>Gross profit</b>		<b>6,719</b>	<b>5,980</b>
Share of profit/(loss) from associate	15	2	(3)
<b>Total revenue</b>		<b>6,721</b>	<b>5,977</b>
<b>Expenses</b>			
Operating expenses		(2,538)	(2,476)
Personnel costs	5	(1,354)	(1,197)
Depreciation	16	(1,148)	(1,046)
Audit fees		(20)	(18)
Directors fees		(115)	(115)
Other gains and losses	7	1	(15)
<b>Total operating expenses</b>		<b>(5,174)</b>	<b>(4,867)</b>
Finance costs	6	(535)	(601)
<b>Finance costs</b>	6	<b>(535)</b>	<b>(601)</b>
<b>Profit/(loss) before tax</b>		<b>1,012</b>	<b>509</b>
Subvention payment received/(paid)		(71)	126
Income tax	8	(263)	(179)
<b>Profit/(loss) for the year</b>		<b>678</b>	<b>456</b>
<b>Other comprehensive income</b>			
Gain/(loss) on property revaluation	16	-	1,789
Income tax on other comprehensive income	8	-	(501)
<b>Total other comprehensive income</b>		<b>-</b>	<b>1,288</b>
<b>Total comprehensive income for the year</b>		<b>678</b>	<b>1,744</b>

*The accompanying notes form part of these financial statements.*

New Zealand Food Innovation (Waikato) Limited **Annual Report 5**



**STATEMENT OF CHANGES IN EQUITY**

*For the Year Ended 30 June 2017*

	NOTE	\$000 Share Capital	\$000 Revaluation reserve	\$000 Retained earnings	\$000 Total equity
<b>Balance as at 1 July 2015</b>		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
<b>Total comprehensive income for the year</b>		-	1,288	456	1,744
<b>Balance as at 30 June 2016</b>		3,333	3,788	(1,041)	6,080
<b>Balance as at 1 July 2016</b>		3,333	3,788	(1,041)	6,080
<i>Total comprehensive income</i>					
Profit for the year		-	-	678	678
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	678	678
<b>Balance as at 30 June 2017</b>		3,333	3,788	(363)	6,758

*The accompanying notes form part of these financial statements.*



**STATEMENT OF FINANCIAL POSITION**

*As at 30 June 2017*

	NOTE	\$000	
		2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Related parties	14	-	4
Investment in associates	15	19	17
Property, plant and equipment	16	19,542	20,337
Assets under construction		340	-
Intangible asset	17	1	-
<b>Total non-current assets</b>		<b>19,902</b>	<b>20,358</b>
<b>Current assets</b>			
Cash and cash equivalents	10	208	1,419
Inventories	11	99	344
Trade and other receivables	12	1,044	568
Prepayments		81	64
<b>Total current assets</b>		<b>1,432</b>	<b>2,395</b>
<b>Total assets</b>		<b>21,334</b>	<b>22,753</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	9	3,333	3,333
Revaluation reserve	9	3,788	3,788
Retained earnings		(363)	(1,041)
<b>Total equity</b>		<b>6,758</b>	<b>6,080</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	8	1,540	1,510
Deferred income	18	2,822	3,089
Term loans	20	8,174	8,827
Other loans	21	300	450
Provisions	19	191	189
<b>Total non-current liabilities</b>		<b>13,027</b>	<b>14,065</b>
<b>Current liabilities</b>			
Cash and cash equivalents	10	-	-
Payables and accruals	13	624	788
Deferred income	18	325	595
Term loans	20	-	475
Other loans	21	600	750
<b>Total current liabilities</b>		<b>1,549</b>	<b>2,608</b>

*The accompanying notes form part of these financial statements.*

New Zealand Food Innovation (Waikato) Limited **Annual Report 7**

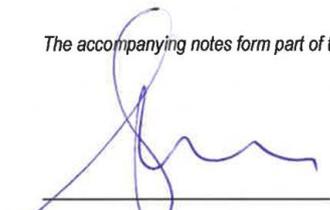


**STATEMENT OF FINANCIAL POSITION**

As at 30 June 2017

	NOTE	2017	2016
<b>Total liabilities</b>		<b>14,576</b>	<b>16,673</b>
<b>Total equity and liabilities</b>		<b>21,334</b>	<b>22,753</b>

*The accompanying notes form part of these financial statements.*

  
\_\_\_\_\_  
Director  
22 August 2017

  
\_\_\_\_\_  
Director  
22 August 2017



**STATEMENT OF CASH FLOWS**

*For the Year Ended 30 June 2017*

		\$000	
	NOTE	2017	2016
<b>Cash flow from operating activities</b>			
Receipts from customers		6,103	6,617
Payments to suppliers and employees		(4,352)	(4,732)
Interest received		-	-
Interest paid		(536)	(601)
Tax payments		(192)	(72)
Subvention payment received/(paid)		(71)	126
GST (net)*		(106)	54
<b>Net cash from operating activities</b>	22	<b>846</b>	<b>1,392</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(343)	(763)
Purchase of assets under construction		(287)	-
Purchase of intangible assets		(1)	-
<b>Net cash from/(used in) investing activities</b>		<b>(631)</b>	<b>(763)</b>
<b>Cash flow from financing activities</b>			
Proceeds from borrowing		9,626	1,057
Repayment of borrowings		(11,052)	(198)
<b>Net cash from/(used in) financing activities</b>		<b>(1,426)</b>	<b>859</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,211)</b>	<b>1,488</b>
Cash and cash equivalents at 1 July		1,419	(69)
<b>Cash and cash equivalents at 30 June</b>	10	<b>208</b>	<b>1,419</b>

*\*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 2017

### 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 2017. The financial statements were authorised for issue by the Board of Directors on the 22nd August 2017. 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 an 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: Property, plant and equipment

Note 18: Deferred income

Note 19: Provisions

#### e. Change in Accounting Policies

##### *Intangible Assets*

A new accounting policy for Intangible Assets has been created due to the registration of the FoodWaikato Trademark.





## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

### 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 on an accrual basis.

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 2017

### 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 'Trade and other receivables' financial instruments (Note 23).

### 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. Intangible Assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Trademarks	10 years
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## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

### k. Trade and Other Payables

Trade and other payables are stated at cost.

### l. 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.

### m. 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.

### n. 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.

### o. 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 2017*

### **p. 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 2017*

4. REVENUE	\$000	
	2017	2016
Revenue from the sale of goods	283	519
Revenue from the rendering of services	6,590	6,060
Deferred Grant income	179	179
<b>Total operating revenue</b>	<b>7,052</b>	<b>6,758</b>

5. PERSONNEL COSTS	\$000	
	2017	2016
Salaries and wages	1,333	1,178
Defined contribution plan	21	19
<b>Total personnel costs</b>	<b>1,354</b>	<b>1,197</b>

6. FINANCE COSTS	\$000	
	2017	2016
<i>Finance costs</i>		
Bank fees	(3)	(4)
Interest on other payables	(3)	(4)
Interest on bank overdraft	-	(1)
Interest on bank borrowings	(529)	(592)
<b>Total finance costs</b>	<b>(535)</b>	<b>(601)</b>

7. OTHER GAINS AND LOSSES	\$000	
	2017	2016
<i>Losses</i>		
Net foreign exchange gain/(loss)	1	(15)
<b>Total other gains and losses</b>	<b>1</b>	<b>(15)</b>



**NOTES TO THE FINANCIAL STATEMENTS**

*For the Year Ended 30 June 2017*

	\$000	
	2017	2016
<b>8. INCOME TAX</b>		
<i>Current tax</i>		
Current year	(253)	(92)
Adjustment for prior years	20	-
	(233)	(92)
<i>Deferred tax</i>		
Current year	(30)	(52)
Adjustment for prior year	-	(35)
<b>Total income tax expense recognised</b>	<b>(263)</b>	<b>(179)</b>

	\$000	
	2017	2016
<i>The income tax expense for the year can be reconciled to the accounting profit as follows:</i>		
Profit before tax	1,012	509
Income tax expense at 28%	(283)	(143)
Effect of income that is exempt from tax	1	-
Effect of expenses that are not deductible in determining taxable profit	(1)	(1)
Adjustment for prior year - subvention payment	20	(35)
<b>Income tax expense recognised in profit or loss</b>	<b>(263)</b>	<b>(179)</b>

**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	(2,379)	23	-	(2,356)
Provisions	7	(3)	-	4
Deferred income	862	(50)	-	812
<b>Balance as at 30 June 2017</b>	<b>(1,510)</b>	<b>(30)</b>	<b>-</b>	<b>(1,540)</b>

(\$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)	-	-
<b>Balance as at 30 June 2016</b>	<b>(923)</b>	<b>(86)</b>	<b>(501)</b>	<b>(1,510)</b>



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

**9. EQUITY**

**Share capital**

*Ordinary shares (105 shares)*

Balance 1 July

less uncalled shares

**Total Ordinary shares**

*Preference shares (45 shares)*

Balance 1 July

less uncalled shares

**Total Preference shares**

**Total issued and called shares 30 June**

	\$000	
	2016	2015
Balance 1 July	334	334
less uncalled shares	(1)	(1)
<b>Total Ordinary shares</b>	<b>333</b>	<b>333</b>
Balance 1 July	3,000	3,000
less uncalled shares	-	-
<b>Total Preference shares</b>	<b>3,000</b>	<b>3,000</b>
<b>Total issued and called shares 30 June</b>	<b>3,333</b>	<b>3,333</b>

*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 (20 December 2018) 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 2017*

	\$000	
	2017	2016
<b>10. CASH AND CASH EQUIVALENTS</b>		
BNZ Bank account	208	1,419
<b>Total cash and cash equivalents</b>	<b>208</b>	<b>1,419</b>

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

	\$000	
	2017	2016
<b>11. INVENTORIES</b>		
Goods in transit	-	178
Raw materials	99	166
<b>Total inventories</b>	<b>99</b>	<b>344</b>

The cost of inventories recognised as an expense during the year was \$332,996. (2016: \$778,840)

	\$000	
	2017	2016
<b>12. TRADE AND OTHER RECEIVABLES</b>		
Gross trade and other receivables	1,044	568
<b>Total trade and other receivables</b>	<b>1,044</b>	<b>568</b>

	\$000	
	2017	2016
<b>13. PAYABLES AND ACCRUALS</b>		
Accounts payable	265	233
Accruals	266	444
Income tax payable	62	23
Inter-entity payable	29	22
Other payables	1	66
<b>Total payables and accruals</b>	<b>623</b>	<b>788</b>

	\$000	
	2017	2016
<b>14. RELATED PARTIES</b>		
Waikato Innovation Park Limited	-	4
<b>Total related parties</b>	<b>-</b>	<b>4</b>

New Zealand Food Innovation (Waikato) Ltd owes Waikato Innovation Park Limited \$29,497 (2016: \$22,472) for office expenses.



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

	\$000	
	2017	2016
<b>15. INVESTMENT IN ASSOCIATES</b>		
<i>New Zealand Food Innovation Network Ltd</i>		
Interest held by the group	25%	25%
Opening balance	17	20
Share of revenue and expenses	2	(3)
<b>Balance at 30 June</b>	<b>19</b>	<b>17</b>
<b>Total investment in associates</b>	<b>19</b>	<b>17</b>

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
<b>As at 30 June 2016</b>				
Cost or valuation	4,276	19,333	7	23,616
Accumulated depreciation	(598)	(2,680)	(1)	(3,279)
<b>Net book amount</b>	<b>3,678</b>	<b>16,653</b>	<b>6</b>	<b>20,337</b>
<b>For the year ended 30 June 2017</b>				
Opening net book amount	3,678	16,653	6	20,337
Additions	114	230	8	352
Revaluation	-	-	-	-
Depreciation charge	(173)	(974)	-	(1,147)
<b>Closing net book amount</b>	<b>3,619</b>	<b>15,909</b>	<b>14</b>	<b>19,542</b>
<b>As at 30 June 2017</b>				
Cost or valuation	4,390	19,563	15	23,968
Accumulated depreciation	(771)	(3,654)	(1)	(4,426)
<b>Net book amount</b>	<b>3,619</b>	<b>15,909</b>	<b>14</b>	<b>19,542</b>

No valuation was completed in 2017. Property, plant & equipment was valued by North Langley & Associates Ltd, an independent registered valuer on 1 June 2016. 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 2017. (2016: NIL) No borrowing costs were capitalised during the year. (2016: 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 2017

17. INTANGIBLE ASSETS	\$000	
	2017	2016
<i>Cost - Trademark</i>		
Balance 1 July 2016	-	-
Additions	1	-
<b>Balance 30 June 2017</b>	<b>1</b>	<b>-</b>

18. DEFERRED INCOME	\$000	
	2017	2016
Original Grant	3,794	3,794
less Deferred income recognised prior years	(716)	(537)
	<b>3,078</b>	<b>3,257</b>
Opening balance	3,078	3,257
less Deferred income recognised	(179)	(179)
<b>Total deferred grant</b>	<b>2,899</b>	<b>3,078</b>
Revenue received in advance	248	606
<b>Total deferred income</b>	<b>3,147</b>	<b>3,684</b>
Total current portion	325	595
Non current portion	2,822	3,089
<b>Total deferred income</b>	<b>3,147</b>	<b>3,684</b>

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.

19. PROVISIONS	\$000	
	2017	2016
Nu Mega Limited	191	189
<b>Total provisions</b>	<b>191</b>	<b>189</b>

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.



**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

20. TERM LOANS	\$000	
	2017	2016
BNZ 92346126-01 loan	-	7,833
BNZ 92346126-02 loan	-	1,469
BNZ 92346126-03 loan	8,174	-
	<b>8,174</b>	<b>9,302</b>
Total current portion	-	475
Non current portion	8,174	8,827
<b>Total term loan</b>	<b>8,174</b>	<b>9,302</b>

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

	2017		2016	
	<i>Interest rate</i>	<i>Maturity Date</i>	<i>Interest rate</i>	<i>Maturity Date</i>
BNZ 92346126-01 loan	-	-	6.06%	June 2019
BNZ 92346126-02 loan	-	-	4.97%	June 2019
BNZ 92346126-03 loan	5.61%	August 2021	-	-

21. OTHER LOANS	\$000	
	2017	2016
Bonds	900	900
Technopak - Equipment loan	-	300
<b>Total other loans</b>	<b>900</b>	<b>1,200</b>
Total current portion	600	750
Total non current portion	300	450
<b>Total other loans</b>	<b>900</b>	<b>1,200</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended 30 June 2017

	\$000	
	2017	2016
<b>22. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH</b>		
<b>Profit/(loss) for the year</b>	678	456
<b>Add/(less) non-cash items</b>		
Depreciation and amortisation	1,148	1,046
Share of associates (surplus)/deficit	(2)	3
Income tax expense and subvention payment in profit or loss	73	53
Deferred income	(179)	(179)
<b>Total non-cash items</b>	<b>1,040</b>	<b>923</b>
<b>Add/(less) movements in working capital</b>		
Revenue received in advance	(357)	240
Trade debtors and other receivables	(476)	(75)
Prepayments	(17)	(1)
Trade creditors and other payables	(267)	193
Inventories	245	(344)
<b>Total movement in working capital</b>	<b>(872)</b>	<b>13</b>
<b>Net cash flow from operating activities</b>	<b>846</b>	<b>1,392</b>

**23. FINANCIAL INSTRUMENTS**

\$000	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale	Total
<b>Assets as per balance sheet</b>					
Cash and cash equivalents	208	-	-	-	208
Trade and other receivables	1,044	-	-	-	1,044
<b>Balance as at 30 June 2017</b>	<b>1,252</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,252</b>

\$000	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
<b>Liabilities as per balance sheet</b>				
Cash and cash equivalents	-	-	-	-
Payables and accruals	-	-	624	624
Other loans	-	-	900	900
Term loans	-	-	8,174	8,174
Provisions	-	-	191	191
<b>Balance as at 30 June 2017</b>	<b>-</b>	<b>-</b>	<b>9,889</b>	<b>9,889</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2017

\$000	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale	Total
<b>Assets as per balance sheet</b>					
Cash and cash equivalents	1,419	-	-	-	1,419
Trade and other receivables	568	-	-	-	568
<b>Balance as at 30 June 2016</b>	<b>1,987</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,987</b>

\$000	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
<b>Liabilities as per balance sheet</b>				
Cash and cash equivalents	-	-	-	-
Payables and accruals	-	-	788	788
Other loans	-	-	1,200	1,200
Term loans	-	-	9,302	9,302
Provisions	-	-	189	189
<b>Balance as at 30 June 2016</b>	<b>-</b>	<b>-</b>	<b>11,479</b>	<b>11,479</b>

### 24. 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 \$65,000 (2016: \$61,733) to New Zealand Food Innovation Network Ltd for Business Development Manager services. The amount outstanding at balance date was \$11,500 (2016: \$10,618).

*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 \$509,859 (2016: \$252,373) to Waikato Innovation Park Limited for corporate management services.

New Zealand Food Innovation (Waikato) Limited paid a subvention payment of \$71,098 (2016: \$126,352) to its parent entity: Waikato Innovation Park Limited for the 2016 tax year.

*Key Management Personnel Disclosure*

Key management personnel compensation                      2017: \$384,153    2016: \$353,927

*Other*

Earl Rattray is a shareholder of Fonterra, a co-operative dairy company. During the year New Zealand Food Innovation (Waikato) Limited charged Fonterra \$40,642 GST exclusive (2016: NIL) for manufacturing costs; a balance of \$46,739 GST inclusive was outstanding at 30 June 2017 (2016: NIL).

### 25. CONTINGENCIES

No contingencies have been identified at balance date (2016: NIL).



**NOTES TO THE FINANCIAL STATEMENTS**

*For the Year Ended 30 June 2017*

**26. COMMITMENTS**

As at 30 June 2017 New Zealand Food Innovation (Waikato) Limited has capital commitments of \$91,707 to Tetrapak for the completion of Silo 4. (2016: NIL)

**27. 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 2016/17 Statement of Corporate Intent was approved by Hamilton City Council.

Performance information relevant to the Company is disclosed below:

Budget and actual results	2017	2017	2016	2016
	Actual \$000	Statement of Corporate Intent \$000	Actual \$000	Statement of Corporate Intent \$000
Revenue NZFIW	7,052	5,865	6,758	-
EBITDA NZFIW	2,695	1,974	2,156	1,680
Days of production on dryer	305 days	300 days	302 days	300 days
\$50million contribution to regional economy	53,000	50,000	49,100	50,000

The favourable variation for NZFIW is due to 68 more days of wetside plant production on high value infant formula than budgeted. Estimated export sales exceed expectations at \$53.2m with the greater production of infant formula.

The Company's revenue grew 4% from \$6,758,000 last year to \$7,052,000 this year. The Company's Comprehensive Income was a net profit of \$678,000 compared to last year of \$456,000. Net cash from operating activities was \$846,000

**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 2017**

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 his behalf.

#### **Opinion**

We have audited:

- the financial statements of the company on pages 5 to 24, that comprise the statement of financial position as at 30 June 2017, 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 24.

In our opinion:

- the financial statements of the company on pages 5 to 24:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; 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 International Financial Reporting Standards Reduced Disclosure Regime; and
- the performance information of the company on page 24 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 2017.

Our audit was completed on 24 August 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

#### **Basis for opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our

responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

### **Responsibilities of the Board of Directors for the financial statements and the performance information**

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

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

### **Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

### **Independence**

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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



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

2016/2017

## 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 2017 plus estimates for the years ending 30<sup>th</sup> June 2018 and 2019.

### 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 Achievements to date

Waikato Innovation Park has three streams of Business, as follows:

#### 3.1 Regional Economic Development through the Business Growth team by:

- a) Facilitating research and development business funding by representing Callaghan Innovation. In the last three years \$44.9 million of funding has been secured within the region.
- b) Facilitating capacity building for export business by representing NZTE training voucher system. In the last three years \$1.1 million of funding has been secured.
- c) Managing Business Mentors in the Waikato region.

The Business growth team group is a vital part of the Waikato economic eco-system establishing multiple business to business networks and holding key economic knowledge events.

#### 3.2 Property development with a technology innovation theme

A very successful property business has been established focusing on agriculture, Agri-Tech Food and IT based tenants with 33 tenant companies and approximately 479 employees currently occupying the Park.

A new 3600 square metre building has been completed for Tetra Pak which brings the total of tenanted space to 11,840 square metres. Tenant's sales are now a combined \$300million with 36% of the tenants working with other tenants in collaborative ventures. Seventy percent of the Park's tenants exported their products and services.

#### 3.3 Food Innovation

The spray dryer was successfully commissioned in July 2012 and initially met Dairy Goat Cooperative's customer requirements to allow it to expand its sales and supply. As a result Dairy Goat Cooperative made an investment of \$68million in a plant on its own site.

A further \$3million investment by Callaghan Innovation allowed a full infant formula blending plant of \$5.7million and ingredient warehouse to be established. It allows specialty ingredients such as vitamins, minerals and oils to be 'wet blended' with milk or fruit juice prior to being spray dried to powder in the facility. Since the upgrade, there has been increase in goat and sheep fresh milk production.

NZFIW are fully booked until June 2017 for fresh milk production apart from a small amount of space for one-day trials. As a result NZFIW is now contributing through manufacturing approximately \$50million of exports per year.

#### 4.0 Key assumptions

The Statement of Intent assumes:

1. That the WIPL Board has adopted the masterplan for building growth on Waikato Innovation Park.
2. In order to fund building growth targets, raising capital from private investors will be required.
3. That Hamilton City Council, after providing seed capital, intends to sell its shares in the property division of Waikato Innovation Park Limited
4. The Financials included in the Statement of Intent reflects only the status quo situation with no growth in property buildings or injection of capital.
5. The assumptions and financials in the Statement of Intent will be reviewed upon completion of the Hamilton City Council evaluation of its strategic position.

#### 5.0 Nature and Scope of Activities to be Undertaken

##### Key Objectives

The key objectives that can be achieved during the years ending June 2017 to 2019:

##### Regional Business Partner Division

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 from Callaghan innovation and NZTE, incubation, clustering, and business to business collaboration.

##### New Zealand Food Innovation Waikato Limited 2016-2017

1. 300 days of product development production via the spray dryer contributing \$50million to the regional economy.
2. Approval of both shareholders is obtained before private investment is agreed or NZFIW commits to the new spray dryer.
3. Commitment by private capital to establish increased spray drying capacity alongside the existing dryer.
4. Investment as a 10% minority interest in new spray dryer to obtain increased open access space for new customers.
5. Resource consents obtained for a new spray dryer facility.

##### 2017-2018

1. 300 days of product development production via the spray dryer contributing \$50million to the regional economy
2. New spray dryer facility completed.
3. Assist with the development of new valued added sheep milk industry products and the international launch of one substantial new product.

### 2018-2019

1. 300 days of product development production via the spray dryer contributing \$50million to the regional economy.
2. Assist with new drying technology to further develop the horticulture industry.
3. Launch of two new value added products within the sheep milk industry.
4. Dividend received from investment in new spray dryer.

### Waikato Innovation Park limited 2017-2019- Property

1. Existing buildings 98% occupied.
2. Ownership of the Waikato Innovation Park remains as it currently is.
3. No additional buildings budgeted.
4. Surplus cash applied to repayment of BNZ debt to address the thin Equity/ Total Assets ratios.
5. All interest rate and debt BNZ covenants are met.

### 6.0 Key Performance Targets (\$,000)

	2017	2018	2019
Group EBITDA	3521	3797	4119
Group Cash from operating activities	447	1022	1040
Retained Earning	601	784	1040
Shareholders' funds (including deferred Income)/ Tangible assets	42%	43%	45%

### 7.0 Capital Expenditure Detail (\$,000)

	2017	2018	2019
Property	415	500	500
Food Waikato	580	380	380
<b>Total</b>	<b>1115</b>	<b>900</b>	<b>900</b>

## 8.0 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
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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 30<sup>th</sup> June 2013 is \$31,392,000. Total term liabilities at 30<sup>th</sup> June 2013 were \$20.5m

IV. Dividend Policy

It is proposed to review the dividend policy during the 2015/2016 financial year.

### 9.0 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.

### 10.0 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 and construction sectors. Earl is NZ dairy farmer, and has interests in several international farming enterprises. Accredited Fellow member of the NZ Institute of Directors.
- **Helen Cross** is an experienced director and advisor to boards with over 17 years' experience providing strategic guidance, problem solving and governance. Helen has worked extensively with technology, engineering and service providers in NZ.
- **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** was previously Chief Executive of AgResearch, New Zealand's principal research organisation supporting the country's dairy, meat and wool industries and pro Vice Chancellor of Lincoln University Accredited member of NZ Institute of Directors.

There are three governance sub committees established in 2015, being:

- Audit and Risk Committee
- Remuneration Committee
- Special Projects Committee

#### 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.

#### 9.0 Financials:

##### Waikato Innovation Park

##### Consolidated Group Income Statements

Group Income	Jun-17	Jun-18	Jun-19
NZFIW Income	5,865	6,102	6,088
Property Group Income	3,752	3,912	4,097
<b>Total Group Income</b>	<b>9,617</b>	<b>10,014</b>	<b>10,186</b>
<b>Total Operating Costs</b>	<b>6,096</b>	<b>6,217</b>	<b>6,067</b>
<b>EBITDA</b>	<b>3,521</b>	<b>3,797</b>	<b>4,119</b>
Other Overheads			
Depreciation	1,077	1,103	1,131
Interest	1,610	1,605	1,543
<b>Total Other Overheads</b>	<b>2,687</b>	<b>2,708</b>	<b>2,674</b>
<b>Net Profit Before Tax</b>	<b>834</b>	<b>1,089</b>	<b>1,445</b>
Income Tax	(234)	(305)	(405)
<b>Net Profit After Tax</b>	<b>601</b>	<b>784</b>	<b>1,040</b>

**Waikato Innovation Park  
Consolidated Group Financial Positions**

\$ '000	Jun-17	Jun-18	Jun-19
<b>Total Current Assets</b>	1,275	1,740	1,773
<b>Non Current Assets</b>			
Plant & Equipment	15,120	14,828	14,546
Buildings	28,918	29,007	29,058
Other Non-Current Assets	2,901	2,901	2,901
<b>Total Non-current Assets</b>	46,938	46,736	46,504
<b>Total Assets</b>	48,213	48,475	48,277
<b>Total Current Liabilities</b>	1,279	1,282	1,319
<b>Non Current Liabilities</b>			
Bank Loans	25,498	25,302	24,506
Deferred Grant Income	2,901	2,722	2,543
Other non-Current Liabilities	2,123	1,973	1,673
<b>Total Non-Current Liabilities</b>	30,522	29,998	28,723
<b>Total Liabilities</b>	31,801	31,279	30,041
<b>Total Equity</b>	16,412	17,196	18,236