

Presbyterian Support Otago Incorporated

Consolidated Financial Statements

For the year ended 30 June 2018

Presbyterian Support Otago Incorporated

Consolidated Financial Statements

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Presbyterian Support Otago Incorporated

General Information

Board of Trustees as at 30 June 2018

David Richardson, Chairperson
Michael Parker, Chief Executive
Lindsay Alderton
Frazer Barton
Philip Broughton
Rachel Judge
Bernie Lepper
Raymond Macleod
Margaret-Jean Malcolm
Timothy Mephram
Beverley Rodwell
Stephanie Pettigrew
Helen Scott

Principal Place of Business/Registered Office

407 Moray Place
Dunedin 9016
New Zealand
Phone: 03 477 7115

Solicitors

Anderson Lloyd
Private Bag 1959
Dunedin 9054
New Zealand

Bankers

ANZ Bank
The Octagon
Dunedin 9016
New Zealand

Westpac Bank
George Street
Dunedin 9016
New Zealand

Auditors

PricewaterhouseCoopers
P O Box 5848
Dunedin 9058
New Zealand

Presbyterian Support Otago Incorporated

Consolidated Statement of Comprehensive Revenue and Expense

for the Year ended 30 June 2018

| | <i>Notes</i> | Group 2018 \$000's | Group 2017(restated) \$000's |
|---|--------------|--------------------------|------------------------------------|
| Revenue | | | |
| Income from services | | 32,764 | 28,332 |
| Sale of Goods | | 1,093 | 1,040 |
| Donations/Grants/Bequests | | 803 | 777 |
| Interest Income | | 74 | 26 |
| Other Investment Income | | 806 | 864 |
| Movement in fair value of Investment Properties | 4 | 225 | 101 |
| Total Operating Income | 2 | <u>35,765</u> | <u>31,140</u> |
| Expenses | | | |
| Employment related | | 24,967 | 21,051 |
| General Operating | | 1,753 | 2,098 |
| Advertising & Marketing | | 142 | 146 |
| Office & Administration | | 543 | 473 |
| Servicing Resources | | 2,165 | 1,959 |
| Occupancy Costs | | 3,389 | 2,862 |
| Health, Medical & Safety | | 1,130 | 1,006 |
| Depreciation/amortisation | | 1,354 | 1,319 |
| Finance Costs | | 102 | 114 |
| Lease Costs | | 194 | 174 |
| Movement in obligation to purchase unit title | | - | 15 |
| Total Operating Expenditure | 3 | <u>35,739</u> | <u>31,217</u> |
| Net Operating Surplus for the Year | | 26 | (77) |
| Share of net deficit Joint Venture | 10 | (121) | (2,512) |
| Net Surplus / (Deficit) for the Year | | <u>(95)</u> | <u>(2,589)</u> |
| Other Comprehensive Revenue & Expense | | | |
| Operating Property Revaluation | 12 | - | 6,711 |
| Total Comprehensive Revenue and Expense | | <u>(95)</u> | <u>4,122</u> |



Consolidated Statement of Changes in Net Assets / Equity

for the Year ended 30 June 2018

| Group | Operating Property | | Investment Property | | Restricted Reserves | | Total |
|--|-------------------------------|------------------------|------------------------|---------------------|-----------------------|------------------|-------|
| | General Reserves(restated) | Revaluation Reserve | Revaluation Reserve | Special Reserves | Endowment Reserves | Equity(restated) | |
| Balance 1 July 2016 | 26,621 | 9,989 | 1,373 | 286 | 5,177 | 43,446 | |
| Correction of error (note 30) | (65) | | | | | (65) | |
| Restated balance 1 July 2016 | 26,556 | 9,989 | 1,373 | 286 | 5,177 | 43,381 | |
| Net Deficit for the Year | (2,589) | - | - | - | - | (2,589) | |
| Other Comprehensive Income | - | 6,711 | - | - | - | 6,711 | |
| Total Comprehensive Income | (2,589) | 6,711 | - | - | - | 4,122 | |
| <u>Transfers</u> | | | | | | | |
| Investment Property Revaluation | (101) | - | 101 | - | - | - | |
| Transfers - Interest/Bequests | (299) | - | - | 9 | 290 | - | |
| Transfers - Expenditure | 135 | - | - | (3) | (132) | - | |
| Balance 30 June 2017 | 23,702 | 16,700 | 1,474 | 292 | 5,335 | 47,503 | |
| <u>Movements for the year to June 2018</u> | | | | | | | |
| Net Surplus for the Year | (95) | - | - | - | - | (95) | |
| Other Comprehensive Income | - | - | - | - | - | - | |
| Total Comprehensive Income | (95) | - | - | - | - | (95) | |
| <u>Transfers</u> | | | | | | | |
| Investment Property Revaluation | (225) | - | 225 | - | - | - | |
| Transfers - Interest/Bequests | (316) | - | - | 10 | 306 | - | |
| Transfers - Expenditure | 151 | - | - | (2) | (149) | - | |
| Balance 30 June 2018 | 23,217 | 16,700 | 1,699 | 300 | 5,492 | 47,408 | |

Presbyterian Support Otago Incorporated

Consolidated Statement of Financial Position

As at 30 June 2018

| | Notes | Group 2018 \$000's | Group 2017(restated) \$000's |
|--|-------|--------------------------|------------------------------------|
| Equity | | | |
| General Reserves | 29 | 23,217 | 23,702 |
| Operating Property Revaluation Reserve | 29 | 16,700 | 16,700 |
| Investment Property Revaluation Reserve | 29 | 1,699 | 1,474 |
| Restricted Reserves | 29 | 5,792 | 5,627 |
| Total Equity | | 47,408 | 47,503 |
| <i>Represented by :</i> | | | |
| Current Assets | | | |
| Cash and cash equivalents | 6 | 1,963 | 2,685 |
| Short term deposits | 6 | 2,126 | 1,017 |
| Inventories | 7 | 147 | 129 |
| Receivables from exchange transactions | 8 | 2,445 | 2,331 |
| | | 6,681 | 6,162 |
| Non Current Assets | | | |
| Investment Properties | 9 | 3,576 | 3,351 |
| Investment in Joint Venture | 10 | 129 | - |
| Intangible Assets | 11 | 175 | 196 |
| Property, Plant and Equipment | 12 | 56,486 | 57,091 |
| | | 60,366 | 60,638 |
| Total Assets | | 67,047 | 66,800 |
| Current Liabilities | | | |
| Accounts Payable and Accruals from exchange transactions | 13 | 3,175 | 2,785 |
| Retirement Village Deferred Income | 15 | 686 | 626 |
| Borrowings | 16 | 335 | 326 |
| Refundable portion - Occupation Right Agreements | 17 | 11,073 | 10,920 |
| Obligations to purchase Unit Titles | 18 | 250 | 250 |
| Employee Entitlements | 14 | 2,434 | 2,370 |
| | | 17,953 | 17,277 |
| Non Current Liabilities | | | |
| Borrowings | 16 | 1,686 | 2,020 |
| Total Liabilities | | 19,639 | 19,297 |
| Total Net Assets | | 47,408 | 47,503 |

Signed on behalf of the Board as at 9th October 2018.


Mr David Richardson
Chairman


Mr Timothy Mephram
Deputy Chairman



Consolidated Statement of Cash Flows

for the Year ended 30 June 2018

| | Notes | Group 2018 \$000's | Group 2017 \$000's |
|---|-------|--------------------------|--------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| <i>Cash was Provided from :</i> | | | |
| Services provided | | 33,779 | 28,702 |
| Bequests received | | 138 | 43 |
| Grants and Donations received | | 665 | 734 |
| Investment Income | | 348 | 420 |
| | | <u>34,930</u> | <u>29,899</u> |
| <i>Cash was applied to :</i> | | | |
| Employees and Suppliers | | 33,851 | 27,662 |
| Interest Paid | | 102 | 114 |
| | | <u>33,953</u> | <u>27,776</u> |
| Net Cash flows from Operating Activities | 5 | <u>977</u> | <u>2,123</u> |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| <i>Cash was Provided from :</i> | | | |
| Proceeds from Sale of Biological Assets | | - | 172 |
| Proceeds from Occupation Right Agreements | | 2,185 | 3,300 |
| | | <u>2,185</u> | <u>3,472</u> |
| <i>Cash was applied to :</i> | | | |
| Purchase of Property, Plant and Equipment | | 568 | 2,178 |
| Purchase of Investments - Joint Venture | | 250 | 150 |
| Purchase of Investments - Investment Properties | | - | - |
| Investments in Short Term Deposits | | 1,109 | 1,017 |
| Refunds of Occupation Right Agreements | | 1,632 | 1,549 |
| | | <u>3,559</u> | <u>4,894</u> |
| Net Cash flows from/(to) Investing Activities | | <u>(1,374)</u> | <u>(1,422)</u> |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| <i>Cash was Provided from :</i> | | | |
| Proceeds from Borrowings | | - | 1,000 |
| | | <u>-</u> | <u>1,000</u> |
| <i>Cash was applied to :</i> | | | |
| Settlement of Loans | | 325 | 1,313 |
| Net Cash flows from/(to) Financing Activities | | <u>(325)</u> | <u>(313)</u> |
| Net (Decrease)/Increase in cash held | | <u>(722)</u> | <u>388</u> |
| Opening Balance of cash and cash equivalents | | 2,685 | 2,297 |
| Closing Balance of cash and cash equivalents | | <u>1,963</u> | <u>2,685</u> |
| Represented by : | | | |
| Cash and Cash Equivalents | | 1,963 | 2,685 |
| | 6 | <u>1,963</u> | <u>2,685</u> |



Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements

for the Year ended 30 June 2018

1 Statement of Accounting Policies

The Reporting Entity

Presbyterian Support Otago Incorporated (the "Parent") was registered on 12 October 1907 under the provisions of "The Religious, Charitable and Educational Trust Board Incorporated Act 1884" (now the "Charitable Trusts Act 1957"). The Group comprising of the Parent and PSO Retirement Villages Limited is a reporting entity for the purposes of the Financial Reporting Act 2013 and its financial statements comply with that Act.

The Group's principal activities are carried out under three core operational areas;

Enliven

Services for older people include activities of Residential aged care, Community based services and Retirement living options. Presbyterian Support Otago currently operates eight residential aged care facilities across Otago.

There are three retirement villages that are operated by PSO Retirement Villages Limited.

Community based services to assist older people living in their own home, services include Club Enliven, Individualised Funding, Visiting Volunteers and Home Share.

Family Works

Family Works services include social work, counselling, food bank, emergency response, budgeting advice, parenting support, youth development and community development programmes.

Presbyterian Support Otago

Presbyterian Support Otago operates three social enterprises to support the work of the organisation, namely, Ross Café, Shop On charity shops (three stores) and the YouthGrow Garden Centre.

As such the Group is a Public Benefit Entity for the purposes of complying with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP').

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP') and they comply with the Public Benefit Entity (PBE) Accounting Standards applicable to not for profit public benefit entities. Pursuant to the Accounting Standards Framework mandated by the External Reporting Board (XRB), the Group reports in accordance with Tier 1 PBE Accounting Standards.

The financial statements have been prepared on a historical cost basis, except for land and buildings, investment properties and biological assets which have been measured at fair value.

The presentation currency used is New Zealand Dollars and all figures have been rounded to whole thousands (\$000's) (K=000).

The consolidated financial statements have been approved for issue by the Board on 9 October 2018.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2018 and the comparative information presented for the year ended 30 June 2017.

Specific Accounting Policies

(a) *Principals of Consolidation*

The Group financial statements consolidate the financial statements of the Parent (Presbyterian Support Otago Incorporated) and its subsidiary PSO Retirement Villages Limited, over which the Parent has the power to govern the financial and operating policies so as to obtain benefits from its activities.

The subsidiary, PSO Retirement Villages Limited, has a 30 June balance date and consistent accounting policies are applied.

Subsidiaries which form part of the Group are consolidated from the date on which control is transferred. They are de-consolidated from the date that control ceases.

(i) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by a binding agreement and requiring unanimous consent for strategic financial and operating decisions.

Joint ventures that are structured in a separate vehicle are classified 'jointly-controlled-entities' and are accounted for using the equity method whereby the Group's share of the net assets and liabilities is included in the Group's financial statements.

The consolidated statements include the Group's 50% share of Aspiring Enliven Care Centre Limited Partnership net result and net assets and liabilities.

Notes to the Financial Statements - continued

for the Year ended 30 June 2018

All transactions and balances between Group entities are eliminated on consolidation.

(b)

Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from exchange transactions

(i) Services rendered

Revenue for this category is recognised in the accounting period in which the services are rendered.

(ii) Sale of goods

Revenue is recognised when the risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be reliably measured. Risks and rewards of ownership are considered passed to the buyer at the time of delivery or pick up of the goods to or by the customer.

(iii) Interest income

Interest income is recognised on an accrual basis as and when the right to receive interest is established.

(iv) Rental income

Rental income from investment properties is accounted for as and when the income is earned.

(v) Retirement Village Income

Retirement village services fees are recognised on an accrual basis.

The village contribution accrues during the occupation of the resident and is offset against the obligation to residents and settled on termination of the occupation licence. The village contribution legally accrues over a four year period to a maximum of 25% for Wanaka Retirement Village and Ranui Court or 15% for Columba Court of the market value of the licence. The village contribution is accrued to the Statement of Comprehensive Revenue and Expense on a straight line basis over the estimated average period of occupancy with a range between 6.6 and 7.5 years. The village contribution difference between legal entitlement and the average period of occupancy is treated as deferred revenue in the Statement of Financial Position.

Revenue from non-exchange transactions

Non-exchange transactions are those where the Group receives an inflow of resources (i.e. cash and other tangible or intangible items) but provides no (or nominal) direct consideration in return.

With the exception of services-in-kind, inflows of resources from non-exchange transactions are only recognised as assets where both:

- It is probable that the associated future economic benefit of service potential will flow to the Group, and
- Fair value is reliably measurable.

Inflows of resources from non-exchange transactions that are recognised as assets are recognised as non-exchange revenue, to the extent that a liability is not recognised in respect to the same inflow.

Liabilities are recognised in relation to inflows of resources from non-exchange transactions when there is a resulting present obligation as a result of the non-exchange transactions, where:

- It is probable that an outflow of resources embodying future economic benefit or service potential will be required to settle the obligation, and
- The amount of the obligation can be reliably estimated.

The following specific recognition criteria in relation to the Group's non-exchange transaction revenue streams must also be met before revenue is recognised.

Fundraising

The Group's fundraising activities involve the following, quarterly campaigns and mail outs where an "ask" for donations is included, general donations received on an ad-hoc basis, planned events that are held where donations are requested, public talks and presentations where donations are requested, website and social media options for donations. Gifts of goods that are then sold through the Groups three charity shops are also a significant source of fundraising revenue.

(i) Donations and bequests

Donations and bequests are recognised in the accounting period they are received.

(ii) Grants

Grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance when received and recognised as revenue when the conditions of the grant are satisfied.

(iii) Donated goods

Gifts of goods in kind sold through the Group's charity shops are recognised as revenue at the time of sale.

Notes to the Financial Statements - continued

for the Year ended 30 June 2018

(c) **Trade and Other Receivables**

Accounts receivable are recognised initially at fair value with subsequent provision, if required, for doubtful debts.

(d) **Cash and Cash Equivalents**

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and on hand and short term deposits with an original maturity of three months or less, which are subject to insignificant risk to changes in value.

(e) **Goods and Services Tax (GST)**

The financial statements are prepared on a GST exclusive basis, with the exception of receivables and accounts payable which are stated inclusive of GST.

(f) **Inventories**

Inventories are valued at the lower of cost or net realisable value after making appropriate provision for damaged or obsolete nursery stock.

(g) **Investment Properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at balance date. Gains or losses arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Revenue and Expense in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Statement of Comprehensive Revenue and Expense in the year of retirement or disposal. No depreciation is provided for in respect of Investment Properties because the annual valuation takes into account the state of each property at balance date.

(h) **Biological Assets**

Biological assets are measured initially at cost and subsequently at their stated fair value less estimated point of sale costs which reflects market conditions at balance date. Biological assets contained within these financial statements comprise of forestry rights.

(i) **Leases**

(i) *Group as lessee*

Operating lease payments where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are included as an expense in the Statement of Comprehensive Revenue and Expense in equal instalments over the lease term. The Group is not party to any finance leases.

(ii) *Group as lessor*

Assets leased to third parties under operating leases include property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to the lessee) is recognised on a straight-line basis over the lease term.

(j) **Provisions and Employee Leave Entitlements**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date.

Employee leave benefits

(i) *Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, annual leave expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) *Long service leave*

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted at the reporting date to match, as closely as possible, the estimated future cash outflows.

Provision is made in respect of the Group's liability for annual leave, long service leave plus salaries and wages accrued to 30 June each year.

(k) **Taxation**

Presbyterian Support Otago Incorporated and PSO Retirement Villages Limited are charitable organisations and are exempt from income tax and FBT.

(l) **Property, Plant and Equipment and Depreciation**

Operating Property

Property held on account is held for the purpose of meeting service delivery objectives.

Land and buildings are measured at fair value, based on periodic but at least triennial valuations by qualified external independent valuers using a discounted cash flow model, less accumulated depreciation on buildings and any impairment losses recognised after the date of the revaluation.

Plant and equipment is stated at historical cost less depreciation and any accumulated impairment

Notes to the Financial Statements - continued

for the Year ended 30 June 2018

losses.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Revenue and Expense during the financial period in which they are incurred.

When an item of Property, Plant and Equipment is disposed of, the difference between net disposal proceeds and the carrying amount is recognised as a gain or loss in the Statement of Comprehensive Revenue and Expense.

Property, Plant and Equipment held with the intention of resale is recorded separately in the Statement of Financial Position at the lower of cost and net realisable value.

Types of assets that make up operating property include, Rest Homes, Retirement Villages, Office Buildings, Plant and Equipment, Furniture and Fittings, Motor Vehicles and Computer Equipment.

Depreciation

Depreciation of property, plant and equipment, other than freehold land, art works and Capital Work in Progress, is calculated so as to allocate the cost or value of the assets less their residual values over their estimated useful lives. There is no depreciation calculated on freehold land, art works and Capital Work in Progress.

The useful lives used in the preparation of these statements are as follows :

| | |
|------------------------------|------------------|
| Buildings | 28 - 50 years SL |
| Furniture & fittings | 10 years DV |
| Plant & equipment | 10 years SL |
| Boilers | 10 years DV |
| Motor vehicles | 5 years SL |
| Computer equipment | 4 years SL |
| Electronic business machines | 6 years SL |

Land and Building Revaluations

Any revaluation increment relating to the Group's interest in property is credited to the Operating Property Revaluation Reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset class previously recognised in the Statement of Comprehensive Revenue and Expense, in which case the increase is recognised as revenue in the Statement of Comprehensive Revenue and Expense. The remaining revaluation increment is credited to the Refundable Portion - Occupation Right Agreements to reflect the market value for each license. Any revaluation decrease is recognised in the Statement of Comprehensive Revenue and Expense, except that it offsets a previous revaluation increase of the same asset class, in which case the decrease is debited directly to the Operating Property Revaluation to the extent of the credit balance existing in the reserve for that assets class.

(m) **Intangible Assets**

Intangible assets acquired are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The costs associated with maintaining computer software is recognised as an expense in the Statement of Comprehensive Revenue and Expense when incurred.

The useful lives used in the preparation of these statements are as follows :

| | |
|-------------------|------------|
| Computer Software | 4 years SL |
|-------------------|------------|

(n) **Impairment of non-financial assets**

The carrying amount of the Group's non-financial assets, investment properties and inventories are reviewed at each reporting date to determine whether there is an indication of impairment. If such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows (for cash-generating assets) of future remaining service potential (for non-cash-generating assets) 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 or CGU.

Cash-generating assets and non-cash generating assets are distinguished as follows,:

Notes to the Financial Statements - continued

for the Year ended 30 June 2018

Cash-generating assets, CGU

These are assets held with the primary objective of generating a commercial return and a CGU is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets. The most significant CGUs for the Group have been identified as individual aged care facilities and retirement villages.

Non-cash-generating assets

These are assets other than cash-generating assets. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

(o) **Accounts Payable and Accruals**

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid on the 20th of the month following invoice.

(p) **Interest-bearing Loans and Borrowings**

All loans and borrowings are initially recognised at fair value of the consideration received. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Borrowing costs

Borrowing costs generally are recognised as an expense when incurred, however when the borrowing costs relate to the acquisition, construction or production of a qualifying asset then they are included in the cost of that asset. A qualifying asset is one that takes a substantial period of time to get ready for its intended use. The capitalisation of borrowing costs will cease when the asset is available for its intended use.

(q) **Restricted Reserves**

While all movements in these reserves are recorded in the Statement of Comprehensive Revenue and Expense, funds are bequeathed or designated for a specific purpose and are not available for general use. Transfers from these reserves are made only for the purposes specified.

(r) **Financial Instruments**

The Group is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, debtors, creditors and loans. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to the financial instruments are recognised in the Statement of Comprehensive Revenue and Expense.

Financial Assets

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are derecognised as a financial asset only when the contractual rights to the cash flows from the assets expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Refundable Portion - Occupation Right Agreements

Occupation Right Agreements (ORA) confer to residents the right of occupancy of the retirement village unit for life, or until the agreement is terminated by either party as prescribed. This right is the refundable deposit on the license issued and represents a percentage of the market value paid for each license. The percentage refundable varies between 95% and 75% as per the terms prescribed in the ORA.

Amounts payable under ORA's are non interest bearing and recorded as a current liability in the Statement of Financial Position net of village contributions receivable.

(s) **Significant Accounting Judgements, Estimates and Assumptions**

In applying the Group's policies, management continually evaluates judgements, estimates and assumptions made based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions made. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Notes to the Financial Statements - continued

for the Year ended 30 June 2018

(i) Significant Accounting Judgements

Impairment of Property, Plant and Equipment

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include the residential aged care sector performance and funding, economic and political environments.

(ii) Significant Accounting Estimates and Assumptions

Estimation of useful lives of assets

The estimation of the useful lives of assets has predominantly been based on historical experience. Adjustments to useful life are made when considered necessary.

Retirement Village expected tenure

As discussed in note 1 (b) (v), the calculation for recognition of Retirement Village Contribution in the Income Statements is based on an estimate of the expected period of tenure of residents. The expected period of tenure, based on historical and industry experience is estimated to be between 6.6 and 7.5 years.

Revaluation of Property, Plant and Equipment

Land and buildings are revalued every three years. Valuations are carried out in compliance with the professional standards of the NZ Institute of Valuers by experienced independent valuers. The valuer has used assumptions relating to future cash flows arising from the properties and assumptions relating to future growth rates of retirement village occupation right agreement amounts, the average duration of residency of occupants and appropriate discount rates. Refer note 12 for key assumptions made. The fair value of property, plant and equipment is subjective and changes to the assumptions have a significant impact on profit and the fair value.

Revaluation of Investment Property

Investment property is revalued annually. Valuations are carried out in compliance with the professional standards of the NZ Institute of Valuers by experienced independent valuers. Refer to note 9 for key assumptions made and methodologies used.

(t) **Statement of Cash Flows**

The Statement of Cash Flows is prepared exclusive of Goods and Services Tax (GST), which is consistent with the method used in the Statement of Comprehensive Revenue and Expense. Cash and cash equivalents comprise cash on hand and on demand deposits and other short term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and includes all call borrowing such as bank overdrafts used by the Group as part of their day-to-day cash management.

'Operating activities' represents all transactions and other events that are not investing or financing activities, and includes receipts and repayments.

'Investing activities' are those activities relating to the acquisition and disposal of property, plant and equipment.

'Financial activities' are those activities relating to changes in the debt capital structure of the Group.

(u) **New and amended standards**

The following new accounting standards and interpretations have been issued that are not mandatory for June 2018 reporting periods and have not been early adopted by the Group.

Financial Instruments

PBE IFRS9 Financial Instruments replaces PBE IPSAS 29 Financial Instruments Recognition and Measurement. PBE IFRS9 is effective for annual periods beginning on or after 1 January 2021, with early adoption permitted. The main changes under this standards are;

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which may result in earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks.

The Group has not yet assessed the effects of the new standard.

Service Performance Reporting

PBE FRS48 Service Performance Reporting establishes principles and requirements for presenting service performance and information that is useful for accountability and decision making purposes. These high level requirements provide flexibility for entities to determine how best to "tell their story". The effective date is annual periods beginning on or after 1 January 2021, with early adoption permitted. The Group has not yet assessed the effects of the new standard.

(v) **Comparative balances**

Comparative balances have been restated in line with current year reporting. Refer to Note 30. for the details of adjustments made.

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

| | Group 2018 \$000's | Group 2017(restated) \$000's |
|---|--------------------------|------------------------------------|
| 2. Revenue Received | | |
| <u>Enliven Services</u> | | |
| Residential - Government Subsidies | 22,715 | 20,134 |
| Residential - Private Fees | 7,632 | 6,064 |
| Residential - Other Income | 860 | 711 |
| Enliven Community Programmes | 209 | 191 |
| | <u>31,416</u> | <u>27,100</u> |
| <u>Family Works</u> | | |
| Counselling and Therapeutic Groups | 64 | 69 |
| Specialist Children / Youth Services | 619 | 606 |
| Client Services | 1,153 | 930 |
| Community Development | 112 | 117 |
| Other | 162 | 167 |
| | <u>2,110</u> | <u>1,889</u> |
| Other Activities | 996 | 1,117 |
| Legacies / Bequests | 138 | 43 |
| Interest Income | 74 | 26 |
| Rental & Estate Income | 279 | 270 |
| Retirement Village Income | 527 | 594 |
| | <u>2,014</u> | <u>2,050</u> |
| Movement in fair value of Investment Properties | 225 | 101 |
| Total Operating Income for year | <u>35,765</u> | <u>31,140</u> |
| Revenue from exchange transactions | | |
| Income from services | 32,764 | 28,332 |
| Sale of Goods | 1,093 | 1,040 |
| Interest Income | 74 | 26 |
| Other Investment Income | 806 | 864 |
| Movement in fair value of Investment Properties | 225 | 101 |
| | <u>34,962</u> | <u>30,363</u> |
| Revenue from non-exchange transactions | | |
| Donations received in cash | 342 | 381 |
| Grants | 323 | 353 |
| Bequests | 138 | 43 |
| | <u>803</u> | <u>777</u> |
| Total Operating Income for year | <u>35,765</u> | <u>31,140</u> |
| 3. Expenditure | | |
| <u>Enliven Services</u> | | |
| Residential | 29,723 | 25,126 |
| Enliven Community Programmes | 236 | 222 |
| | <u>29,959</u> | <u>25,348</u> |
| <u>Family Works</u> | | |
| Counselling and Therapeutic Groups | 113 | 130 |
| Specialist Children / Youth Services | 789 | 777 |
| Client Services | 1,674 | 1,379 |
| Community Development | 180 | 199 |
| Other | 366 | 357 |
| | <u>3,122</u> | <u>2,842</u> |
| Other Activities | 2,658 | 3,027 |
| Total Costs of Services | <u>35,739</u> | <u>31,217</u> |

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

4. Fair value gains (losses) through the Statement of Comprehensive Revenue and Expense

| | Group 2018 \$000's | Group 2017 \$000's |
|--|--------------------------|--------------------------|
| Gain in the value of Investment Property | 225 | 219 |
| Write down of Investment Property | - | (118) |
| | <u>225</u> | <u>101</u> |

The net gain of \$225K in Investment Property reflects the movements resulting from 30 June 2018 valuation undertaken by registered valuers Telfer Young of commercial and other investment properties (2017 \$101K).

5. Reconciliation of Surplus with Cash Flows from Operating Activity

| | Group 2018 \$000's | Group 2017(restated) \$000's |
|--|--------------------------|------------------------------------|
| Surplus (Deficit) for Year | (95) | (2,589) |
| Add non-cash items: | | |
| Depreciation/amortisation | 1,354 | 1,319 |
| Loss on Disposal of Assets | 108 | 19 |
| Retirement Village Income accrued | (527) | 349 |
| Fair value losses / (gains) on Investment Properties | (225) | (101) |
| Movement in obligation to purchase Unit Titles | - | 15 |
| (Gains) on sale of Biological Assets | - | (155) |
| Fair value losses on JV Investments | 121 | 2,512 |
| | <u>831</u> | <u>3,958</u> |
| Changes in Working Capital | | |
| Decrease / (Increase) in Receivables | (83) | (515) |
| Decrease / (Increase) in Inventory | (18) | (41) |
| Increase / (Decrease) in Accounts Payable & Accruals | 278 | 1,085 |
| Increase / (Decrease) in Employee Entitlements | 64 | 225 |
| | <u>241</u> | <u>754</u> |
| Net Cash Flow from Operating Activities | <u>977</u> | <u>2,123</u> |

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

6. Current Assets - Cash and Cash Equivalents & Short term deposits

| | Group 2018 \$000's | Group 2017 \$000's |
|--------------------------|--------------------------|--------------------------|
| Cash at bank and in hand | 1,963 | 2,685 |
| Short-term deposits | 2,126 | 1,017 |

Cash at bank, except current accounts, earn interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Short-term deposits are made for varying periods of three and six months, depending on the immediate cash requirements of Presbyterian Support Otago Incorporated.

7. Current Assets - Inventories

| | Group 2018 \$000's | Group 2017 \$000's |
|----------------------------------|--------------------------|--------------------------|
| Merchandise and work in progress | 147 | 129 |

8. Current Assets - Receivables

| | Group 2018 \$000's | Group 2017 \$000's |
|---------------------------------|--------------------------|--------------------------|
| Trade Receivables | 1,996 | 1,916 |
| Receivable owing by residents | 63 | 55 |
| Funds held on behalf of clients | 386 | 360 |
| | <u>2,445</u> | <u>2,331</u> |

Trade receivables are non-interest bearing and are generally on 14-30 day terms. No allowance for impairment loss has been made as it is believed all receivables are collectable. Other receivables relate to prepayments and village outgoings and the loan to residents is a non-interest bearing loan relating to the deferred settlement of a Wanaka Retirement Village occupation right agreement. The receivable owing by residents relates to the resident of a unit where occupation right agreements have yet to be issued. Under the previous agreements this amount was charged to residents and will be recovered on subsequent issuing of an occupation right agreement to a new resident.

Details regarding the credit risk of current receivables are disclosed in Note 19.

9. Non-Current Assets - Investment Properties

| | Group 2018 \$000's | Group 2017 \$000's |
|---|--------------------------|--------------------------|
| Opening balance as at 1 July | 3,351 | 3,540 |
| Additions | - | - |
| Disposals/Write downs | - | (408) |
| Net gain / (loss) from fair value adjustments | 225 | 219 |
| Closing balance as at 30 June | <u>3,576</u> | <u>3,351</u> |

Investment properties are carried at fair value, \$3,576K (2017 \$3,351K) and therefore not depreciated, which has been determined based on valuations performed by a qualified independent external valuer Telfer Young as at 30 June 2018. The 2017 valuation was performed by Telfer Young. Revaluations take place annually.

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

The following valuation methodology and assumptions were adopted and are consistent with prior years.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

In determining fair value the following methodology and assumptions were adopted and are consistent with previous years,

* Market Approach (Comparison to other property sales)

* Income Approach (Capitalisation of income)

At June 2018, the Group has no unprovided contractual obligations to purchase, construct or develop the investment properties and no unprovided contractual obligations for future repairs, maintenance or enhancements. (2017 Nil)

The following amounts have been recognised in the Statement of Comprehensive Revenue and Expense:

| | Group 2018 \$000's | Group 2017 \$000's |
|--|--------------------------|--------------------------|
| Rental Income from Investment Properties | 224 | 221 |
| Direct operating expenses arising from investment properties that generate rental income | 80 | 90 |

10. Non-Current Assets - Investments in Joint Venture

| | Group 2018 \$000's | Group 2017 \$000's |
|---|--------------------------|--------------------------|
| Opening balance as at 1 July | - | 2,362 |
| Additions / (Disposals) | 250 | 150 |
| Share of Net surplus / (deficit) | (18) | (312) |
| Share of Operating Property Revaluation | - | (2,303) |
| Impairment expense | (103) | - |
| Unrecognised losses | - | 103 |
| Closing balance as at 30 June | <u>129</u> | <u>-</u> |

The Group holds joint control over the following jointly controlled entities, which are accounted for using the equity method.

| | | Current Assets \$000's | Non-current Assets \$000's | Current Liabilities \$000's | Non-Current Liabilities \$000's | Revenues \$000's | Op Property Revaln's & Expenses \$000's |
|--|-------------|------------------------------|----------------------------------|-----------------------------------|---------------------------------------|---------------------|---|
| Aspiring Enliven Care Centre Limited Partnership | 2018 | 201 | 6,333 | 62 | 6,214 | 433 | 469 |
| | 2017 | 156 | 6,294 | 9 | 6,647 | 6 | 4,924 |

Investment is by way of a 50% share of the limited partnership, Aspiring Enliven Care Centre Limited Partnership and is accounted for using the equity method. Aspiring Enliven Care Centre Limited Partnership is a private entity and there is no quoted market price available. As of 30 June 2017 the Operating Property of the partnership was valued by qualified, independent, external valuers Telfer Young under the same methodology as used for valuing other Operating Property as described in note 12 below. The net value of investment in the partnership is \$129K (2017 negative \$103K). This negative net investment has arisen following the revaluation of the facility. The negative investment was excluded from these financial statements in 2017.

The Group has given a guarantee to Westpac NZ Limited for 50% of the borrowings of the Joint Venture which equals \$2.5 million as at 30 June 2018 (2017 \$2.5 million).

There are no capital commitments relating to the Group's share in the joint venture (2017 Nil).

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

11. Non-Current Assets - Intangible Assets

| | Group 2018 \$000's | Group 2017 \$000's |
|--|-----------------------|-----------------------|
| Computer Software | | |
| Gross carrying amount | | |
| Opening Balance | 512 | 419 |
| Additions | 48 | 93 |
| Closing Balance | <u>560</u> | <u>512</u> |
| Accumulated amortisation and impairment | | |
| Opening Balance | (316) | (271) |
| Current year amortisation | (69) | (45) |
| Closing Balance | <u>(385)</u> | <u>(316)</u> |
| Carrying amount | <u>175</u> | <u>196</u> |

12. Non-Current Assets - Property, Plant and Equipment

| Group 2018 | Land \$000's | Buildings \$000's | Furniture & Fittings \$000's | Plant & Equipment \$000's | Other \$000's | Work in Progress \$000's | Total \$000's |
|--|-----------------|----------------------|------------------------------------|---------------------------------|------------------|--------------------------------|------------------|
| Gross carrying amount | | | | | | | |
| Balance 1 July 2017 | 9,705 | 44,581 | 3,722 | 5,929 | 1,400 | 62 | 65,399 |
| Additions | - | - | 189 | 185 | 86 | 144 | 604 |
| Revaluation movements | 186 | - | - | - | - | - | 186 |
| Disposals | - | (38) | (7) | (83) | (40) | (71) | (239) |
| Transfers | - | - | - | - | - | - | - |
| Balance 30 June 2018 | <u>9,891</u> | <u>44,543</u> | <u>3,904</u> | <u>6,031</u> | <u>1,446</u> | <u>135</u> | <u>65,950</u> |
| Accumulated depreciation and impairment | | | | | | | |
| Balance 1 July 2017 | - | (19) | (2,789) | (4,434) | (1,066) | - | (8,308) |
| Current year depreciation | - | (827) | (100) | (263) | (95) | - | (1,285) |
| Depreciation written back on disposal | - | 13 | 4 | 72 | 40 | - | 129 |
| Revaluation adjustment | - | - | - | - | - | - | - |
| Balance 30 June 2018 | <u>-</u> | <u>(833)</u> | <u>(2,885)</u> | <u>(4,625)</u> | <u>(1,121)</u> | <u>-</u> | <u>(9,464)</u> |
| Carrying amount 30 June 2018 | <u>9,891</u> | <u>43,710</u> | <u>1,019</u> | <u>1,406</u> | <u>325</u> | <u>135</u> | <u>56,486</u> |
| Group 2017 | | | | | | | |
| | Land \$000's | Buildings \$000's | Furniture & Fittings \$000's | Plant & Equipment \$000's | Other \$000's | Work in Progress \$000's | Total \$000's |
| Gross carrying amount | | | | | | | |
| Balance 1 July 2016 | 8,019 | 39,995 | 3,586 | 5,720 | 1,519 | 159 | 58,998 |
| Additions | 315 | 16 | 139 | 264 | 97 | 1,367 | 2,198 |
| Revaluation movements | 1,371 | 3,062 | - | - | - | - | 4,433 |
| Disposals | - | - | (3) | (55) | (216) | - | (274) |
| Transfers | - | 1,508 | - | - | - | (1,464) | 44 |
| Balance 30 June 2017 | <u>9,705</u> | <u>44,581</u> | <u>3,722</u> | <u>5,929</u> | <u>1,400</u> | <u>62</u> | <u>65,399</u> |
| Accumulated depreciation and impairment | | | | | | | |
| Balance 1 July 2016 | - | (1,640) | (2,696) | (4,230) | (1,166) | - | (9,732) |
| Current year depreciation | - | (821) | (95) | (256) | (101) | - | (1,273) |
| Depreciation written back on disposal | - | - | 2 | 52 | 201 | - | 255 |
| Revaluation adjustment | - | 2,442 | - | - | - | - | 2,442 |
| Balance 30 June 2017 | <u>-</u> | <u>(19)</u> | <u>(2,789)</u> | <u>(4,434)</u> | <u>(1,066)</u> | <u>-</u> | <u>(8,308)</u> |
| Carrying amount 30 June 2017 | <u>9,705</u> | <u>44,562</u> | <u>933</u> | <u>1,495</u> | <u>334</u> | <u>62</u> | <u>57,091</u> |

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

The latest valuation of Residential Facilities and Retirement Villages, including Land and Buildings was the valuation by qualified, independent, external valuers Telfer Young as at 30 June 2017. Telfer Young are appropriately qualified and experienced in valuing rest homes and retirement village properties in New Zealand. The movement in value of these assets has been put through the Operating Property Revaluation Reserve.

The fair values for retirement villages are based on a discounted cash flow model applied to the expected future cash flows generated by the properties. The valuation calculates the expected cash flows for a 50 year period, based on occupancy turnover of 6 years which is extrapolated at a nominal growth rate of 3.25% and discounted to present value at discount rates ranging between 11% and 14.5%.

The valuation is adjusted for cash flows relating to refundable occupation right agreements, resident's share of capital gains and deferred income, which are already recognised separately on the balance sheet and also reflected in the cash flow model.

Resident's interests are secured by a first charge in favour of the Statutory Supervisor, Covenant Trustee Services Limited over the land and buildings owned by the Group.

It is the Board's opinion that Fair Value is the most appropriate basis to value Presbyterian Support Otago's residential businesses of which Land, Buildings and Plant are major components. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

Any current year acquisitions are included at cost.

Assets pledged as security

Freehold land and buildings with a carrying amount of \$50,058K (2017 \$50,058K) have been pledged to secure borrowings of the Group (see note 16). The Group is not permitted to pledge these assets as security for other borrowings.

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

13. Current Liabilities - Accounts Payable and Accruals

| | Group 2018 \$000's | Group 2017 \$000's |
|--------------------------|--------------------------|--------------------------|
| Trade Creditors | 880 | 751 |
| Accruals | 1,621 | 1,422 |
| Amounts owing to clients | 386 | 356 |
| GST Payable | 288 | 256 |
| | <u>3,175</u> | <u>2,785</u> |

Trade creditors are non-interest bearing and are normally settled on the 20th of month following invoice.

14. Current Liabilities - Employee Entitlements

| | Group 2018 \$000's | Group 2017 \$000's |
|--------------------|--------------------------|--------------------------|
| Annual leave | 1,825 | 1,412 |
| Time in Lieu leave | 381 | 372 |
| Wages and salaries | 158 | 520 |
| Long Service Leave | 70 | 66 |
| | <u>2,434</u> | <u>2,370</u> |

Movements in Provisions

| | Annual Leave | Time in Lieu Leave | Wages & Salaries | Long Service Leave | Total |
|------------------------------------|-----------------|-----------------------|---------------------|-----------------------|--------------|
| Carrying amount as at 1 July 2017 | 1,412 | 372 | 520 | 66 | 2,370 |
| Net movement for period | 413 | 9 | (362) | 4 | 64 |
| Carrying amount as at 30 June 2018 | <u>1,825</u> | <u>381</u> | <u>158</u> | <u>70</u> | <u>2,434</u> |

Nature of Provisions

Annual Leave

This provision represents the present value of annual leave accrued by employees at 30 June. The value is calculated based on either number of hours or days accrued multiplied by the respective employees pay rate as of the reporting date. The value of leave when taken can vary depending on the actual pay rate of the employee at the time of taking any accrued leave.

Time in Lieu leave

This provision represents the present value of time earned in lieu of taking, in general, Public Holidays. The value is calculated in the same manner as Annual Leave. The value of leave when taken can vary depending on the actual pay rate of the employee at the time of taking any accrued leave.

Wages and Salaries

This provision represents an estimate of wages and salaries outstanding as at the reporting date. It is calculated based on the closest actual pay period to the year end adjusted for number of days remaining.

Long Service Leave

This provision represents management's estimate of liability for long service leave yet to vest to employees. This liability is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotions and inflation have been taken into account.

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

15. Current Liabilities - Retirement Village Deferred Income

| | Group 2018 \$000's | Group 2017(restated) \$000's |
|---|--------------------------|------------------------------------|
| Deferred Income - Wanaka Retirement Village | 494 | 443 |
| Deferred Income - Ranui Court | 168 | 160 |
| Deferred Income - Columba Court | 24 | 23 |
| | <u>686</u> | <u>626</u> |

Retirement village deferred income reflects the policy that income is recognised on a straight line basis over the estimated average period of occupancy which ranges between 6.6 and 7.5 years. The village contribution legally accrues over four years. Deferred income is therefore the balance of contractual income that has not been recognised in the Statement of Comprehensive Revenue and Expense.

16. Borrowings

| | Group 2018 \$000's | Group 2017 \$000's |
|--------------------|--------------------------|--------------------------|
| <u>Current</u> | | |
| Secured bank loan | 335 | 326 |
| <u>Non-Current</u> | | |
| Secured bank loan | 1,686 | 2,020 |
| | <u>2,021</u> | <u>2,346</u> |

Terms and conditions

Presbyterian Support Otago Incorporated has a financing arrangement with Westpac NZ Limited, the purpose of this facility is to provide funding for the redevelopment of Iona Kirkness hospital unit.

The facility is secured against all present and acquired property of the Group and is comprised as follows;

| | |
|---|--|
| Term Loan | Term of 4 years and 10 months from 6 August 2015. Maturity Date is 31 May 2020. Of the total outstanding at balance date \$692K is under a fixed interest rate agreement until 15 April 2020 of 4.5%, the balance of the term loan of \$1,329K is floating. (2017 \$1,546K) As of 30 June 2018 this facility has a drawn down balance of \$2,021K (2017 \$2,346K). |
| Overdraft Facility - \$150K limit, floating interest rate tied to the Westpac NZ special lending rate | As at 30 June 2018 this facility has a drawn down balance of nil (2017 nil). |

The following covenants are requirements of the Term Loan with Westpac.

- (i) Equity Ratio - an equity ratio of not less than 60% of tangible assets must be maintained.
- (ii) Interest Cover Ratio - net earnings before funding costs and depreciation must be not less than 2.0 times its funding costs.
- (iii) Management and other reports are to be provided as and when requested by Westpac NZ Limited.

There have been no breaches of the covenants with Westpac NZ Limited during the year to June 2018 (2017 nil).

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

17. Current refundable portion - Occupation Right Agreements

| | Group 2018 \$000's | Group 2017(restated) \$000's |
|--|--------------------------|------------------------------------|
| Refundable amounts held - per contract | 11,073 | 10,920 |
| <i>Movements in Provisions</i> | | |
| Carrying amount as at 1 July | 10,920 | 8,671 |
| New refundable amounts received | 2,185 | 3,325 |
| Refundable amounts paid out | (1,632) | (1,549) |
| Change in termination amount due | (400) | (179) |
| Revaluation adjustment | - | 652 |
| Carrying amount as at 30 June | <u>11,073</u> | <u>10,920</u> |

The Group operates three Retirement Villages, namely Wanaka Retirement Village, Ranui Court and Columba Court, under Occupation Right Agreements (ORA).

The refundable portion of an ORA relates to the amount owing to the resident if the agreement was terminated and this liability is partially extinguished as the termination payment owing to the Group increases.

The liability relating to the holders of ORA's is non-interest bearing. This liability is disclosed as all being due within one year whereas there will be a component that will be due after a longer period. Due to the level of estimate involved in determining a different maturity profile the total refundable is therefore treated as all due within one year.

18. Obligations to Purchase Unit Titles

| | Group 2018 \$000's | Group 2017 \$000's |
|---------------------------|--------------------------|--------------------------|
| Obligations - Ranui Court | 250 | 250 |

The obligation to purchase unit titles relates to original contracts at Ranui Court. Under this original contract the title is held by the resident and the Group has an obligation to purchase the title upon termination. These contracts are being replaced with Occupation Right Agreements. As of June 2018 there is one remaining unit title contract (2017, one contract).

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

19. Financial Instruments

Categories of Financial Instruments

| | Group 2018 \$000's | Group 2017(restated) \$000's |
|--|--------------------------|------------------------------------|
| Loans and Receivables - including cash and cash equivalents, short term deposits | 6,534 | 6,033 |
| Financial Liabilities at Amortised Cost | 16,519 | 16,301 |

Classification and fair values of Financial Instruments

The carrying amount approximates the fair value of the Group's financial assets and financial liabilities.

Financial Risk Management

Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

(i) Market Risk - cash flow and fair value interest rate risk.

Presbyterian Support Otago has interest bearing assets in the form of short to medium term cash deposits. However the majority of the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's main interest rate risk arises from term borrowings. Currently all the Group's borrowings are at floating floating rates of interest. Borrowings issued at floating rates expose the Group to market fluctuations in the prevailing interest rates.

Group - 2018

| | Effective Interest Rate % | Financial Instrument Maturities \$000's | | | | Total |
|-------------------------------------|---------------------------|---|-------------|-------------|--------------|--------|
| | | Current | 1 - 2 years | 2 - 5 years | Over 5 years | |
| Assets | | | | | | |
| Cash and Bank | 0.37% | 1,963 | - | - | - | 1,963 |
| Short term deposits | 3.16% | 2,126 | - | - | - | 2,126 |
| Receivables | 0.00% | 2,445 | - | - | - | 2,445 |
| | | 6,534 | - | - | - | 6,534 |
| Liabilities | | | | | | |
| Term Advance | 4.43% | - | 1,686 | - | - | 1,686 |
| Short Term Advance | 4.43% | 335 | - | - | - | 335 |
| Refundable portion - ORA's | 0.00% | 11,073 | - | - | - | 11,073 |
| Obligations to purchase Unit Titles | 0.00% | 250 | - | - | - | 250 |
| Accounts Payable and Accruals | 0.00% | 3,175 | - | - | - | 3,175 |
| | | 14,833 | 1,686 | - | - | 16,519 |

Group - 2017

| | Effective Interest Rate % | Financial Instrument Maturities \$000's | | | | Total |
|-------------------------------------|---------------------------|---|-------------|-------------|--------------|--------|
| | | Current | 1 - 2 years | 2 - 5 years | Over 5 years | |
| Assets | | | | | | |
| Cash and Bank | 0.35% | 2,685 | - | - | - | 2,685 |
| Short term deposits | 3.53% | 1,017 | - | - | - | 1,017 |
| Receivables | 0.00% | 2,331 | - | - | - | 2,331 |
| | | 6,033 | - | - | - | 6,033 |
| Liabilities | | | | | | |
| Term Advance | 4.50% | - | - | 2,020 | - | 2,020 |
| Short Term Advance | 4.50% | 326 | - | - | - | 326 |
| Refundable portion - ORA's | 0.00% | 10,920 | - | - | - | 10,920 |
| Obligations to purchase Unit Titles | 0.00% | 250 | - | - | - | 250 |
| Accounts Payable and Accruals | 0.00% | 2,785 | - | - | - | 2,785 |
| | | 14,281 | - | 2,020 | - | 16,301 |

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

Sensitivity

Cash Investments - the impact on profit and loss of a 100 basis point shift in interest rates would be an increase or decrease of \$23K for the Group (2017 - \$16K) with everything else being held constant.

Term Borrowings - the impact on profit and loss of a 100 basis point shift in interest rates would be an increase or decrease of \$22K for the Group (2017 - \$25K) with everything else being held constant.

The above calculations are based on the balances of investments and borrowings as at balance date.

(ii) Credit Risk

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum exposure to credit risk relates to bank and receivables which total, \$6,534K (2017 - \$6,033K).

Financial instruments which potentially subject Presbyterian Support Otago Incorporated to concentrations of credit risk consist principally of cash, short term deposits, receivables and investments. Presbyterian Support Otago Incorporated places its cash and short term investments with high credit rated financial institutions. As a minimum the Group has a requirement that monies will only be held with institutions that at least hold a AA credit rating with Standard and Poors. Apart from the Ministry of Health there are no major concentrations of credit risk with respect to receivables due to the large customer base. There are no collateral securities to support financial investments due to the quality of the receivables and investments dealt with.

The largest number of trade receivables from exchange transactions are in relation to residents of the Group's aged care facilities. To enable efficient control of these debtors standard policy is for direct debit authority to be given to the Group by the debtor. Monthly monitoring of debtor balances is carried out along with active debtor recovery policies.

The aging of trade receivables from exchange transactions is presented below.

| | 2018 \$000's | 2017 \$000's |
|-----------------------|-----------------|-----------------|
| Not past due | 1,901 | 1,802 |
| Past due 1 - 30 days | 47 | 68 |
| Past due 31 - 60 days | 22 | 1 |
| Past due 61 days + | 26 | 45 |
| | <u>1,996</u> | <u>1,916</u> |

(iii) Liquidity Risk

The Group has a responsibility to manage liquidity risk. This is achieved through an appropriate liquidity risk framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

Capital Risk Management

Presbyterian Support Otago Incorporated's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to continue its mission and vision. In order to maintain or adjust the capital structure, the Group carries minimum levels of debt and may realise surplus assets to fund essential developments.

The capital of the Group is split into General and Restricted reserves. General Reserves are derived from net operating surpluses and are available for the general use of the Group. Restricted Reserves are derived from bequests and gifts have a defined purpose or use. The Revaluation Reserve is derived from the revaluation of property.

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

20. Related Party Disclosure

Ultimate parent and subsidiary

Presbyterian Support Otago Incorporated is the ultimate parent of the Group which is the 100% shareholder of the only subsidiary PSO Retirement Villages Limited. As at balance date there is an advance between the parent and subsidiary with a balance of \$7,507K (2017 \$7,252K). There is no security held by PSO Retirement Villages Limited for this amount due from the parent entity. This advance incurs interest at the rate of 4.5% per annum and is repayable on demand. However the Company is not seeking repayment within one year.

The following transactions were carried out with related parties:

| | Group 2018 \$000's | Number of individuals | Group 2017 \$000's | Number of individuals |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| (a) Key Management Personnel compensation. | | | | |
| Short-term employee benefits | 698 | 5 | 747 | 6 |
| Members of governing body | - | 13 | - | 12 |
| (b) Purchase and Sales of Services. | | | | |
| (i) Purchase of services from Anderson Lloyd - an entity connected with a Trustee | | | | |
| | 13 | | 3 | |
| Services were purchased from Anderson Lloyd, an entity that a Board Member of Presbyterian Support Otago Incorporated is a Partner of. | | | | |
| (ii) Rents received from Landward Management Limited - an entity connected with a Trustee | | | | |
| | 26 | | 26 | |
| Rental income was received from Landward Management Limited, an entity that a Board Member of Presbyterian Support Otago Incorporated is a Director of. | | | | |
| (c) Year-end balances arising from the purchase of services. | | | | |
| Payables to Related Parties | 2 | | - | |
| (d) Transactions with Joint Venture | | | | |

The Group includes transactions with the Aspiring Enliven Care Centre Limited Partnership which is 50% owned by Presbyterian Support Otago Incorporated. For details of the transactions refer to note 10.

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued for the Year ended 30 June 2018

21. Auditor Remuneration

The following remuneration was incurred with the Group's auditors

| | Group 2018 \$000's | Group 2017 \$000's |
|----------------|--------------------------|--------------------------|
| Audit Services | 32 | 29 |
| | <u>32</u> | <u>29</u> |

22. Operating Lease Commitments - Group as Lessee

| | Group 2018 \$000's | Group 2017 \$000's |
|--|--------------------------|--------------------------|
| Non cancellable operating lease rental commitments are payable as follows: | | |
| Not later than one year | 28 | 64 |
| Later than one year but not later than five years | 4 | 4 |
| Later than five years | - | - |
| | <u>32</u> | <u>68</u> |

The Group leases various offices, retail outlets and warehouse under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. These range from 2 years, with 2 lots of 3 year renewals, to 4 years, with 2 lots of 4 year renewals.

23. Capital Expenditure Commitments

The Group has no capital commitments as at 30 June 2018. (2017 - Nil)

24. Contingent Liabilities and Assets

There are no known outstanding contingent liabilities or assets affecting the Group, (2017 - Nil).

25. Government Grants

| | Group 2018 \$000's | Group 2017 \$000's |
|---|--------------------------|--------------------------|
| Government Grants recognised in the Income Statement | 41 | 57 |

There are no unfulfilled conditions relating to the government grants recognised in these financial statements.

26. Grants Acknowledgment

| | Group 2018 \$000's | Group 2017 \$000's |
|--|--------------------------|--------------------------|
| Community Organisation Grants Scheme | 7 | 9 |
| Department of Internal Affairs - Lottery Community | 8 | 16 |
| Dunedin City Council - Rates Relief Grant | 24 | 25 |
| Dunedin City Council - Community Grant Scheme | 3 | 3 |
| Otago Community Trust - Social Services Grant | 75 | 50 |
| Otago Community Trust - Building Capability | - | 5 |
| Otago Community Trust - Youth Conference Scholarship | 1 | - |
| Community Trust of Maniatoto | - | - |
| Central Lakes Trust | 65 | 62 |
| Otago Masonic Charitable Trust | - | 1 |

Presbyterian Support Otago gratefully acknowledges the above organisations for grant contributions.

Presbyterian Support Otago Incorporated

Notes to the Consolidated Financial Statements - continued

for the Year ended 30 June 2018

27. Operating Leases - Group as lessor

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

| | Group 2018 \$000's | Group 2017 \$000's |
|---|--------------------------|--------------------------|
| Not later than one year | 100 | 15 |
| Later than one year but not later than five years | 185 | - |
| Later than five years | - | - |
| | <u>285</u> | <u>15</u> |

The Group leases various offices and residential properties under non-cancellable operating lease agreements and monthly tenancy agreements. The leases have varying terms, escalation clauses and renewal rights. The parent leases the land and buildings of Wanaka Retirement Village to PSO Retirement Villages Limited. The term of the lease is for 5 years with 6 rights of renewal of 5 years each.

28. Events occurring after Balance Date

There are no events that have occurred after balance date that require disclosure.

29. Reserves

General Reserves

This reserve represents the accumulation of the Group's net accumulated earnings over time. It is adjusted for transfers required to the other reserve categories.

Operating Property Revaluation Reserve

The Operating Property Revaluation Reserve is the accumulation of changes in the valuation of Operating Property. Operating Property is revalued on a three year cycle and was last revalued as of 30 June 2017.

Investment Property Revaluation Reserve

The Investment Property Revaluation Reserve is the accumulation of changes in the valuation of Investment Property. Investment Property is revalued annually. These annual changes in value are shown as transfers within the Consolidated Statement of Changes in Net Assets / Equity.

Restricted Reserves

Restricted Reserves are special purpose reserves for an identified purpose in the activities of the organisation. These reserves are broken down into Endowment and Special Reserves. Endowment Reserves relate to monies either bequeathed or gifted to the organisation that have a stated purpose. Expenditure against these activities is then allocated to the reserves until fully utilised. Special Reserves are funds that generally have been donated to a particular service or that have been fundraised for a particular facility. As with Endowment Reserves expenditure is then allocated against the reserves as it is incurred. The transfers within the Consolidated Statement of Changes in Net Assets / Equity reflect the annual income and expenditure of Restricted Reserves.

30. Prior period adjustment

The value for the refundable portion - occupation right agreements has been adjusted within the opening balances for 1 July 2016. This restatement results from the determination that the value of the refundable portion - occupation right agreements should increase in line with the associated property, in comparison to the amount previous reported based on the existing residents entry price and impacts the amount of revenue recognised and the amount of deferred revenue. The correction of the error has resulted in the restatement of each of the financial statement line items as follows:

Adjustments to the Statement of Financial Position

| | 2017 | Increase/ (decrease) | 2017 (restated) | 30 June 2016 | Increase/ (decrease) | 1 July 2016 (restated) |
|---|---------------|-------------------------|--------------------|-----------------|-------------------------|---------------------------|
| Refundable Portion of Occupation Right Agreements | 10,268 | 652 | 10,920 | 8,671 | 150 | 8,821 |
| Retirement Village Deferred Income | 555 | 73 | 628 | 686 | (86) | 600 |
| Total Liabilities | <u>10,823</u> | <u>725</u> | <u>11,548</u> | <u>9,357</u> | <u>64</u> | <u>9,421</u> |
| Retained Earnings | 24,692 | (660) | 24,032 | 26,621 | (65) | 26,556 |
| Total Equity | <u>24,692</u> | <u>(660)</u> | <u>24,032</u> | <u>26,621</u> | <u>(65)</u> | <u>26,556</u> |

Adjustments to the Statement of Comprehensive Revenue and Expense

| | 2017 | Increase/ (decrease) | 2017 (restated) |
|---|--------------|-------------------------|--------------------|
| Other Investment Income | 705 | 159 | 864 |
| General Operating Costs | 1,279 | 819 | 2,098 |
| Surplus / (deficit) | (574) | (660) | (1,234) |
| Total comprehensive revenue and expense | <u>(574)</u> | <u>(660)</u> | <u>(1,234)</u> |



Independent auditor's report

To the members of Presbyterian Support Otago Incorporated

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 30 June 2018;
- the consolidated statement of comprehensive revenue and expense for the year then ended;
- the consolidated statement of changes in net assets/equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a statement of accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Presbyterian Support Otago Incorporated (the "Society"), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2018, its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated 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 Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Responsibilities of the Board for the consolidated financial statements

The Board is responsible, on behalf of the Society for the preparation and fair presentation of the consolidated financial statements in accordance with Public Benefit Entity Standards, and for such internal control as the Board determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board is responsible for assessing the Group'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 Board either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 conducted in accordance with ISAs NZ and ISAs 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 users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Society's members, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Robert Harris.

For and on behalf of:

A handwritten signature in blue ink, appearing to read 'Robert Harris', is written over a horizontal line.

Chartered Accountants
9 October 2018

Dunedin