IHC New Zealand Incorporated Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

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Index | Page

IHC New Zealand Incorporated

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2018

	Notes	Services 2018 $000	Property 2018 $000	Community Programmes 2018 $000	Group 2018 $000	Group 2017 $000
Revenue						
Government Contracts	2	264,974	-	-	264,974	249,559
Fees Charged for Services	2	24,271	-	-	24,271	26,253
Rent Received	2	-	27,042	-	27,042	11,557
Fundraising Revenue		-	-	8,491	8,491	8,482
Legacies Received	2	-	-	2,435	2,435	2,070
Interest Received	2	138	38	168	344	491
Other Revenue		728	-	12	740	1,304
	2	**290,111**	**27,080**	**11,106**	**328,297**	**299,716**
Expenses						
Personnel	3	235,901	3,319	2,658	241,878	227,389
Accommodation	3	26,724	16,684	319	43,727	37,628
Transport & Travel		4,868	338	247	5,453	5,427
Administration		4,026	1,980	1,443	7,449	7,193
Fundraising Expenses		-	-	2,290	2,290	1,604
Service Development Projects		-	-	1,771	1,771	1,676
Interest		21	8,926	-	8,947	3,604
Depreciation & Impairment	3	5,221	7,264	-	12,485	12,047
		276,761	**38,511**	**8,728**	**324,000**	**296,568**
Internal Rent and Other		(16,260)	16,168	33	(59)	(10)
Net Operating Surplus		**(2,910)**	**4,737**	**2,411**	**4,238**	**3,138**
NON OPERATING						
Revenue						
Gain on Sale of Properties	2	-	4,421	-	4,421	3,433
Government Grants	2	-	2,952	-	2,952	574
	2	**-**	**7,373**	**-**	**7,373**	**4,007**
Expenses						
Net change in Fair Value of Interest Rate Swaps used for Hedging		-	4,074	-	4,074	6,343
		-	**4,074**	**-**	**4,074**	**6,343**
Net Non Operating Surplus		**-**	**3,299**	**-**	**3,299**	**(2,336)**
TOTAL COMPREHENSIVE REVENUE & EXPENSE FOR THE YEAR		**(2,910)**	**8,036**	**2,411**	**7,537**	**802**

The accompanying notes form part of these accounts

IHC New Zealand Incorporated

Statement of Changes in Accumulated Funds

For the year ended 30 June 2018

	Group 2018 $000	Group 2017 $000
ACCUMULATED FUNDS AT 1 JULY	**184,326**	**183,524**
Total Comprehensive Revenue & Expense for the year	7,537	802
ACCUMULATED FUNDS AT 30 JUNE	**191,863**	**184,326**

The accompanying notes form part of these accounts

IHC New Zealand Incorporated

Statement of Financial Position

As at 30 June 2018

	Notes	Group 2018 $000	Group 2017 $000
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	10,952	13,542
Trade and other exchange receivables	5	22,835	14,952
		33,787	**28,494**
Non Current Assets			
Property, Plant & Equipment	6	398,770	393,796
Other assets	8	4,797	2,610
		403,567	**396,406**
TOTAL ASSETS		**437,354**	**424,900**
LIABILITIES			
Current Liabilities			
Trade and other payables	7	24,492	27,224
Borrowings	8, 9	18,292	8,034
Employee Benefits and Other Liabilities	10	30,947	28,066
		73,731	**63,324**
Non Current Liabilities			
Borrowings	8, 9	148,920	158,349
Derivative Liabilities	8, 9	11,782	7,708
Shared Home Ownership Scheme	11	2,461	3,064
Employee Benefits and Other Liabilities	10	8,597	8,129
		171,760	**177,250**
TOTAL LIABILITIES		**245,491**	**240,574**
NET ASSETS		**191,863**	**184,326**
ACCUMULATED FUNDS		**191,863**	**184,326**

On behalf of the Board of Governance

NEIL TAYLOR, Board Chair

RALPH JONES, Chief Executive
Wellington, 22 August 2018

The accompanying notes form part of these accounts

IHC New Zealand Incorporated

Cash Flow Statement

For the year ended 30 June 2018

	Notes	Group 2018 $000	Group 2017 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Operations		319,701	297,217
Payments to Suppliers & Employees		(302,010)	(277,085)
Interest Received		344	491
Interest Paid		(8,176)	(2,865)
NET CASH INFLOW FROM OPERATING ACTIVITIES	12	**9,859**	**17,758**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from the Sale of Property, Plant & Equipment		7,409	5,392
Purchase of Property, Plant & Equipment	6	(20,078)	(166,472)
Government Grants received		2,952	574
Movement of Investments		(2,187)	(126)
Changes in Shared Home Ownership Scheme deposits		(603)	63
NET CASH OUTFLOW USED IN INVESTING ACTIVITIES		**(12,507)**	**(160,569)**
CASH FLOW FROM FINANCING ACTIVITIES			
Net Drawdown of Borrowings		58	130,189
NET CASH INFLOW USED IN FINANCING ACTIVITIES		**58**	**130,189**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(2,590)**	**(12,622)**
Add Opening Cash & Cash Equivalents Brought Forward		13,542	26,164
Ending Cash & Cash Equivalents Carried Forward		10,952	13,542

The accompanying notes form part of these accounts

NOTES TO THE FINANCIAL STATEMENTS

Note 1: About these financial statements

Reporting Entity
IHC New Zealand Incorporated (IHC) is an incorporated society domiciled in New Zealand registered under the Incorporated Societies Act 1908 and the Charities Act 2005. IHC is governed by a Board of Governance ("the Board").

IHC advocates for the rights, inclusion and welfare of all people with intellectual disabilities in New Zealand and supports them to live satisfying lives in the community. IHC and its controlled entities ("the Group") has a long history of providing good quality housing that prioritises people with disabilities, older people and those on low incomes.

Basis of Preparation
The consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. They comply with Public Benefit Entity ("PBE") Standards as appropriate for Tier 1 not-for-profit public benefit entities. The Group is a Tier 1 reporting entity as it has total expenditure greater than $30 million in the two preceding reporting periods.

The consolidated financial statements have been prepared on the historical cost basis except for Investments, the Shared Home Ownership Scheme Liability, and Interest Rate Swaps which are measured at fair value. The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. Any impairment loss is recognised in the Statement of Comprehensive Revenue and Expense.

These financial statements are presented in New Zealand dollars and are rounded to the nearest thousand. The financial statements have been prepared exclusive of GST, unless the Group is unable to claim GST input tax credits.

The Group is exempt from income tax under section CW 42(1) (a) of the Income Tax Act 2007. The Entities have been granted tax exempt status and are registered as charities under the Charities Act 2005.

Use of Judgements and Estimates
The preparation of the Groups financial statements requires the Board and Management to make judgements and estimates that affect the reported amounts of income, expenditure, assets, liabilities and the accompanying disclosures. The judgements and estimates used are continually evaluated. Management have identified the following judgements it has had to make as having the most significant effect on amounts recognised in the financial statements.

a) Operating lease commitments
The Group has entered into leases for commercial property, residential property and other equipment ("leased assets"). Management has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the leased assets, that it does not transfer all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

b) Fair value measurement of financial instruments
The fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The Group receives valuations prepared by a New Zealand registered Trading Bank. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. See Note 8 and Note 9 for further disclosures.

c) Provisions
Provisions are measured at Management's best estimate of the expenditure required to settle the obligation, and are discounted to present value as at reporting date where the effect is material. See Note 7 for further disclosures.

d) Impairment
As at each balance date, all assets are assessed for impairment by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include technological, economic and political factors and future expectations, as the primary objective is to provide services for community or social benefit rather than financial return. If an impairment trigger exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

In addition to the items noted above further information of judgements and estimates can be found within:

- Note 9 – Fair value measurement of interest rate swaps used for hedging
- Note 10 – Employee Benefits and Other Liabilities
- Note 11 – Shared Home Ownership Scheme – fair value of liability

Summary of Significant Accounting Policies
Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note are outlined below.

a) Basis of Consolidation
The consolidated financial statements comprise of the financial statements of the Group and its controlled entities as at 30 June 2018. Controlled entities are all those entities over which IHC has the power to govern the financial and operating policies so as to obtain benefit from their activities.

The financial statements of the controlled entities are prepared for the same reporting period as IHC, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Controlled entities are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date which control is lost. As at 30 June 2018 the Group consists of:

- IHC New Zealand Incorporated (IHC)
- IDEA Services Limited (IDEA Services),
- Accessible Properties New Zealand Limited (Accessible Properties),
- AP Holdings Tauranga Limited (APHT Ltd),
- AP Holdings Tauranga 2016 Limited Partnership (APHT LP),
- AP Properties Tauranga Limited (APPT Ltd); and
- AP Properties Tauranga 2016 Limited Partnership (APPT LP).

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The acquisition method involves recognising at acquisition date the identifiable assets acquired, the liabilities assumed and any non-controlling interest, separate from goodwill. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. The cost of an acquisition is measured as the aggregate of the consideration transferred and the amount of any non-controlling interests.

Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognised in surplus or deficit immediately. Transaction costs are expensed as incurred, except if related to the issue of debt securities.

b) Accounting standards issues but not yet effective

The consolidated financial statements have been prepared on a going concern basis. Management have reviewed the Group's future obligations and assessed the Group's ability to meet its obligations as they fall due having regard to both financial and non-financial considerations. The accounting policies adopted in these financial statements are consistent with those of the previous financial year. There are no new, revised or amended standards applied in the current period that have a significant impact on the Group's financial statements.

The following standards and amendments have been issued but are not yet effective:

- PBE IFRS 9 relating to financial instruments, which introduces a new classification model for financial assets; a new more forward-looking impairment model based on expected credit losses; a more flexible hedge accounting model that allows hedge accounting to apply to a wider range of risk management strategies; and additional disclosure requirements around impairment and hedge accounting. The Group will apply this standard in the year ending 30 June 2019. It is expected that there will be no significant impact on the financial statements from applying this amendment.
- PBE IPSAS 34-38 relating to interest held in other entities, which are effective for the year ending 30 June 2020. It is expected that there will be no significant impact on the financial statements from applying this amendment.
- PBE IPSAS 39 relating to employee benefits, which is effective for the year ending 30 June 2020. It is expected that there will be no significant impact on the financial statements from applying this standard.
- PBE FRS 48 related to service performance reporting will apply to all reporting periods starting on or after 1 January 2021. This will require additional reporting disclosures within the Group's financial statements.

Note 2: Revenue

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties. The specific recognition criteria below must also be met before revenue is recognised.

Revenue from Exchange Contracts
Revenue from contracts with the Ministry of Health, Ministry of Social Development and Ministry for Children – Oranga Tamariki is taken to the Statement of Comprehensive Revenue and Expense when the requirements under the agreements with the purchasers of services have been met.

Rental income arising from the Ministry of Social Development and other tenants is accounted for on a straight-line basis over the lease term and included in revenue in the Statement of Comprehensive Revenue and Expense due to its operating nature.

Interest income is recognised in the Statement of Comprehensive Revenue and Expense as it is earned. Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts the estimated future cash receipts through the expected life of the financial asset to that assets net carrying amount.

Revenue from Non-Exchange Contracts
Non-exchange transactions are those where the Group receives value from another entity without giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised when the Group obtains control of the transferred asset (cash, goods, services or property), and

- It is probable that the economic benefits or service potential related to the asset will flow to the Group and can be measured reliable; and
- The transfer is free from conditions that require the asset to refunded or returned if the conditions are not fulfilled.

Revenue from Legacies, the Annual Appeal, and other fundraising is considered to be recognised when the cash is receipted and controlled by the Group.

Grant revenue is recognised as revenue in the Statement of Comprehensive Revenue and Expense when there is reasonable certainty that the grant will be received, and only to the extent which conditions associated with the transfer have been met.

Other revenue and expenses includes fair value gains and losses on financial instruments at fair value through surplus or deficit, realised gains and losses on the sale of property, plant and equipment held at cost, and income derived from non-core business activities such as shop sales, one off conferences and career force training grants.

Revenue included the following:

	Group 2018 $000	Group 2017 $000
Revenue from exchange transactions		
Government contracts		
Ministry of Health	235,098	218,323
Ministry of Social Development	28,446	28,636
Ministry for Children - Oranga Tamariki	282	1,381
Capital & Coast District Health Board	1,148	1,219
	264,974	249,559
Fees charged for services	24,271	26,253
Workshop and services events sales	173	154
Less cost of sales	(30)	(23)
	143	131
Other revenue	1,051	1,520
Rent received	27,042	11,557
Interest received	344	491
Gain on sale of assets	4,421	3,433
	322,246	**292,944**
Revenue from non-exchange transactions (transfers)		
Donations and other fundraising revenue	7,768	7,866
Grants (operating)	269	269
Grants (non-operating)		
Social Housing Unit Growth Fund	-	574
Ministry of Social Development	2,952	-
Legacies received	2,435	2,070
	13,424	**10,779**
Total Revenue	**335,670**	**303,723**
Operating revenue	**328,297**	**299,716**
Non-operating revenue	**7,373**	**4,007**
	335,670	**303,723**

Government Contracts

In the current year the Group received 79% (2017: 82%) of services revenue through purchasing agreements with the Ministry of Health (MOH), Ministry of Social Development (MSD), Ministry for Children – Oranga Tamariki (MCOT) and Capital & Coast District Health Board. The Group is reliant on government contract revenue to carry out operations.

Residential services and a part of vocational services were purchased during the year by the MOH.

Vocational support services (Vocational Opportunities Support Programme and Ongoing Resourcing Scheme) and social housing services were purchased during the year by the MSD.

Children and young persons services were purchased during the year by the MCOT. The funding received has been expended in the provision of the Shared Care Services.

The Group has secured grants totalling $30.0 million (2017: $30.0 million) for the development of new social housing units of which $29.3 million (2017: 29.3 million) has been received. The total anticipated project expenditure is $68.2 million (2017 $68.2 million). These grants represent 40% to 50% of the total costs of the projects. The Group has recognised nil of this in the current financial year (2017: $574,000). It is expected the remaining funds will be received prior to 30 June 2019.

The Group has an agreement with the Ministry of Social Development for grants up to $15.7 million for the development of social housing contingent on the identification of qualifying projects. The total anticipated project expenditure is up to $31.4 million. These grants represent 50% of the total costs of the projects. The Group has recognised $3.0 million of this in the current financial year (2017: nil).

Property Division Operating Revenue

The Group's Property Division operating surplus includes inter-group rent received from its controlled entity, IDEA Services. The Property Division charges IDEA Services market rents on residential homes, vocational bases and administration buildings. The revenue is used by the Property Division for property maintenance, debt servicing, and for the Group's capital expenditure programme.

Community Programmes

Community Programmes comprises revenue from fundraising activities that is used to cover fundraising costs and services not funded by Government such as Advocacy, Self-Advocacy, the IHC Library and specific service development projects.

	Group 2018 $000	Group 2017 $000
Fundraising activities		
Fundraising revenue	11,140	10,910
Fundraising investment & marketing expenses	(2,156)	(1,517)
Fundraising administration expenses	(1,875)	(1,943)
Net surplus from fundraising activities	**7,109**	**7,450**

Note 3: Expenses

Expenses included the following:

	Group 2018 $000	Group 2017 $000
Personnel costs		
Salaries and wages	225,413	208,458
Contract caregiver payments	1,657	4,553
Accident insurance and death & disablement	5,210	4,918
KiwiSaver employer contribution	4,900	4,495
Staff travel reimbursements	1,111	1,197
Other employee costs	3,587	3,768
	241,878	**227,389**
Accommodation costs		
Repairs and maintenance costs	12,553	8,463
Rental and operating lease costs	7,775	8,232
Utilities and other costs	23,399	20,933
	43,727	**37,628**
Depreciation, amortisation & impairment		
Freehold buildings	6,787	5,297
Leasehold improvements	82	88
Motor vehicles	2,559	2,529
Plant & equipment	2,106	3,419
Furniture & fittings	749	714
Intangibles	202	-
	12,485	**12,047**
Administration costs include:		
Auditors remuneration:		
Auditing services	84	74
Payroll services	11	10
Pay equity data assurance engagement	30	-
Movements in provision for doubtful debts	25	4

Note 4: Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits that are able to be converted to cash with an original maturity of three months or less.

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value and for accounting are classified as loans and receivables.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

	Group 2018 $000	Group 2017 $000
Cash and cash equivalents		
Cash at bank	10,952	13,542
	10,952	**13,542**

Note 5: Trade and other exchange receivables

Receivables from exchange transactions which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for any uncollectible amounts.

Exchange transactions for accounting are classified as loans and receivables.

	Group 2018 $000	Group 2017 $000
Trade and other exchange receivables		
Trade receivables	1,974	786
Contract revenue	14,417	11,552
Prepayments and other debtors	6,444	2,614
	22,835	**14,952**

Doubtful Debts
An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. Collectability of receivables is reviewed on an ongoing basis. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired.

Properties subject to social housing transfer transactions
In 2017 the Group acquired 1,138 properties in Tauranga, along with related tenancy and property management services, from Housing New Zealand. The contractual agreement for the purchase of these properties allowed for a warranty from the purchaser. This covered properties that had structural damage or had been adversely impacted by methamphetamine. The Group was entitled to make claims on or before 31 March 2018 with remediation work to be completed before June 2019.

The Group has made claims under this provision totalling $6.6 million (2017: nil) for reimbursement of expenditure incurred on repairs and maintenance, of which $1.6 million (2017: nil) is recognised in other debtors.

Note 6: Property, Plant & Equipment and Intangible Assets

Initial recognition
Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Measurement subsequent to initial recognition
Subsequent expenditure that increases the economic benefits derived from the asset are recognised in the carrying value of the item of property plant and equipment.

Subsequent expenditure that does not increase the economic benefits derived from the asset, such as repairs and maintenance costs, are expensed and recognised in net surplus / (deficit).

Depreciation
Depreciation of property, plant and equipment, other than freehold land, is calculated on a straight-line basis over the estimated useful life of the asset.

The estimated useful lives are as follows:

Freehold Buildings	40 years
Leasehold Improvements	10 years
Furniture and Fittings	5 years
Plant and Equipment	5-10 years
Motor Vehicles	5 years

Freehold Land and Buildings
The Group holds freehold land and buildings in Hamilton and Tauranga that are subject to encumbrance limiting use to pensioner or community housing.

Intangible Assets
The intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

The amortisation of intangible assets is allocated to Service Development Projects from the date that assets are available for use. Amortisation is calculated to write off the cost of intangible assets, less their estimated residual value, using the straight-line method over their estimated useful lives. The estimated useful life for software is 3 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Work in Progress
Work in progress is recognised at cost.

On completion the property will be held by the same entity (i.e. is not developed for sale). Borrowing costs incurred during construction are recognised in the net surplus / (deficit) in the period in which they are incurred.

De-recognition
An item of property plant & equipment is de-recognised upon disposal or when no future economic benefit, or service potential is expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition is included in the net surplus / (deficit) in the period the item is de-recognised. Gain or loss on de-recognition is calculated as the difference between the net disposal proceeds and the carrying amount of the item.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds (if any) and the carrying amount of the asset and are recognised in surplus or deficit when the asset is de-recognised.

	Group 2018 $000								
	Freehold land	Freehold buildings	Leasehold improvements	Plant and equipment	Furniture and fittings	Intangibles	Motor vehicles	Work in progress	Total
At 1 July 2017 net of accumulated depreciation and impairment	153,974	216,115	314	9,383	1,913	-	7,883	4,214	393,796
Additions	2,408	6,736	2	3,391	934	1,138	1,197	4,272	20,078
Transfers	-	-	-	(953)	-	953	-	-	-
Disposals	(842)	(1,671)	-	-	-	-	(106)	-	(2,619)
Depreciation, amortisation and impairment	-	(6,787)	(82)	(2,106)	(749)	(202)	(2,559)	-	(12,485)
At 30 June 2018 net of accumulated depreciation, amortisation and impairment	**155,540**	**214,393**	**234**	**9,715**	**2,098**	**1,889**	**6,415**	**8,486**	**398,770**
At 30 June 2018									
Cost	155,540	271,458	2,892	18,679	9,949	2,091	24,673	8,486	493,768
Accumulated depreciation, amortisation and impairment	-	(57,065)	(2,658)	(8,964)	(7,851)	(202)	(18,258)	-	(94,998)
Net carrying amount	**155,540**	**214,393**	**234**	**9,715**	**2,098**	**1,889**	**6,415**	**8,486**	**398,770**

	Group 2017 $000								
At 1 July 2016 net of accumulated depreciation and impairment	73,499	145,525	394	8,365	1,842	-	7,612	3,575	240,812
Additions	80,977	76,708	8	4,437	785	-	2,918	639	166,472
Disposals	(502)	(821)	-	-	-	-	(118)	-	(1,441)
Depreciation and impairment charged for the year	-	(5,297)	(88)	(3,419)	(714)	-	(2,529)	-	(12,047)
At 30 June 2017 net of accumulated depreciation and impairment	**153,974**	**216,115**	**314**	**9,383**	**1,913**	-	**7,883**	**4,214**	**393,796**
At 30 June 2017									
Cost	153,975	267,718	2,890	16,241	9,015	-	25,841	4,214	479,894
Accumulated depreciation and impairment	-	(51,603)	(2,576)	(6,858)	(7,101)	-	(17,960)	-	(86,098)
Net carrying amount	**153,975**	**216,115**	**314**	**9,383**	**1,914**	-	**7,881**	**4,214**	**393,796**

Shared Home Ownership Scheme
Included in the freehold land and buildings are properties for which licences have been issued under the Shared Home Ownership Scheme. Refer to Note 11 for the licence holders' interest.

Note 7: Trade and other payables

Trade and other payables are stated at cost and for accounting are classified as other financial liabilities.

	Group 2018 $000	Group 2017 $000
Trade and other payables		
Trade liabilities	2,521	2,728
Other liabilities	14,210	17,566
Employee entitlements	7,761	6,930
	24,492	**27,224**

Other liabilities include revenue received in advance and provisions.

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 Management's best estimate of the expenditure required to settle the obligation, and are discounted to present value as at reporting date. The discount rate used to determine the present value reflects current market assessments at the time value of money and risks specific to the liability. The expense relating to any provision is presented in the net surplus / (deficit) for the year.

Personnel costs are expensed as the related service is provided. A liability is recognised for the amount expected to be paid 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.

	Restructuring $000	Other $000
As at 1 July 2017	-	-
Provisions made during the year	647	250
Provisions used during the year	(447)	-
As at 30 June 2018	**200**	**250**
Current	200	250
Non-current	-	-
	200	**250**

Restructuring

During 2018, the Group committed to a plan to restructure components of its subsidiary, IDEA Services, in order to improve the quality of Service User experience. At balance date the Group recognised a provision of $200,000 including consulting fees and employee termination benefits. Estimated costs were based on the terms of the relevant contracts. The restructuring is expected to be completed by June 2019.

Other

The Labour Inspectorate of the Ministry of Business, Innovation and Employment (MBIE) is currently undertaking a programme of compliance audits of a number of New Zealand organisations in respect of the Holidays Act 2003 ("the Holidays Act"). In June 2018 the Group has received the Labour Inspectorates draft report. Its findings indicate the possibility that the Group may not have complied with certain provisions under the Act. The Group has welcomed the Labour Inspectorate's findings and has voluntarily engaged a professional accountancy firm to complete a detailed review to ensure all current and former staff are properly paid in accordance with the Act. A provision totalling $250,000 has been recognised with respect to the work being completed by the accounting firm. No provision for remediation has been recognised as, at this stage, the final outcome of the review, including any possible remediation, cannot be determined with certainty.

Note 8: Borrowings

Borrowings are initially recognised at fair value, including directly attributable transaction costs. Subsequent to initial recognition, term borrowings are measured at amortised cost using the effective interest method and for accounting are classified as other financial liabilities.

	Group 2018 $000	Group 2017 $000
Bank loans - Westpac New Zealand Limited	148,315	148,224
Term loan - Housing Innovation Fund	639	672
Term loan - Hamilton City Council	18,258	17,487
Derivative Liabilities	11,782	7,708
	178,994	**174,091**

	Group 2018 $000	Group 2017 $000
Current Portion:		
Bank loans - Westpac New Zealand Limited	-	8,000
Term loan - Hamilton City Council	18,258	-
Term loan - Housing Innovation Fund	34	34
	18,292	**8,034**
Long Term Loans:		
Bank loans - Westpac New Zealand Limited	148,315	140,224
Term loan - Housing Innovation Fund	605	638
Term loan - Hamilton City Council	-	17,487
Derivative Liabilities	11,782	7,708
	160,702	**166,057**

Multi Option Credit Facilities
The Group has three Multi Option Credit Facilities (MOCLs) with Westpac New Zealand Limited with a total credit limit of $50.5 million (2017: $44.5 million).

Two of the MOCL's (total credit limit $20.0 million) are secured by an Indemnity and Negative Pledge Deed between IHC and IDEA Services Limited and Westpac New Zealand Limited. At 30 June 2018 $8.0 million was owing on these facilities (2017: $8.0 million). These facilities have an expiry date of 30 June 2020 (2017: 30 June 2018).

One of the MOCL's with a credit limit of $30.5 million is secured by a first registered General Security Agreement with Accessible Properties Limited in favour of Westpac New Zealand, together with registered first mortgages over Accessible Properties assets to at least $28.7 million. At 30 June 2018, $20.5 million of this facility was drawn down (2017: $20.5 million) in four tranches. The facility has an expiry date of 30 June 2020 (2017: 30 June 2019).

Of the four tranches, two are hedged with an interest rate swap in order to fix the loans with the right to break each swap after three years. The interest rate applying to each swap is the effective interest rate for each tranche drawn down under the MOCL.

Syndicated Facility Agreement
The Group has entered into a syndicated facilities agreement with Westpac New Zealand Limited with an expiry date of 31 March 2022. The facility is secured by a first ranking mortgage against every property held by APPT LP.

Other assets include $2.0 million contractually held as a debt servicing contingency by Westpac New Zealand Limited under terms of the facility agreement. Funds accumulate interest at market rates.

The Group has entered into an interest rate swap with Westpac Banking Corporation in order to fix the interest rate with the right to break the swap after five years. The interest rate applying to the swap is the effective interest rate.

Interest Rate Swaps	2018 $000	Swap Term	Swap Maturity Date	Interest Rate	2017 $000	Interest Rate
Westpac Tranche 1	8,000	5 years	9 May 2019	6.000%	8,000	6.000%
Westpac Tranche 2	7,000	7 years	2 Sep 2021	6.120%	7,000	6.120%
Westpac Tranche 3	3,000	-	-	3.504%	3,000	5.020%
Westpac Tranche 5	120,811	15 years	31 March 2032	5.546%	120,811	5.546%
	138,811				138,811	

Housing Innovation Fund Term Loan
The Housing Innovation Fund Term Loan is a 25-year loan received in June 2012. The loan interest free for the first 10 years with monthly repayment amounts of $2,800 before the interest commencement date.

Hamilton City Council Loan
The Group purchased a social housing portfolio from the Hamilton City Council (HCC) during the year ended 30 June 2016. The HCC provided an $18.8 million interest free Term Loan to the Company repayable in full on 7 March 2019. This loan has been discounted at 4.41% in order to determine the fair value of the Term Loan on acquisition. The fair value of the

Term Loan as at 30 June 2018 is $18.3 million. Nominal interest expense is charged to the Statement of Comprehensive Revenue and Expense over the term of the loan.

Note 9: Financial risk management

The Group's principal financial instruments, other than derivatives, comprise of loans, cash, short-term deposits, trade debtors and trade creditors arising directly from operations.

The Group uses NZ dollar interest rate swap contracts to manage the risk associated with interest rate fluctuations on floating rate borrowings. Such derivative financial instruments are recognised initially at fair value; attributable transaction costs are recognised in surplus or deficit as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in surplus or deficit. Interest rate swaps are classified for accounting as fair value hedging instruments.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk and credit risk. The Board reviews and agrees policies for managing each of these risks. They are summarised below:

Liquidity Risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable deficits or risking damage to the Group's reputation.

The Group aims to maintain the level of its cash equivalents, other highly marketable investments and available loan facilities at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 60 days. The ratio of investments to outflows was 1.33 at 30 June 2018 (2017: 1.35). The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. At 30 June 2018, the expected cash flows from trade and other receivables maturing within two months were $22.7 million (2017: $15.0 million). This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

		Future contractual cash flows $000					
At 30 June 2018	Carrying amount	Total	2 months or less	2-12 months or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Bank loans	148,315	(176,334)	-	(6,089)	(34,589)	(135,656)	-
Other borrowings	18,897	(19,695)	(6)	(18,828)	(34)	(84)	(743)
Trade payables	2,521	(2,521)	(2,378)	(59)	(84)		
	169,733	(198,550)	(2,384)	(24,976)	(34,707)	(135,740)	(743)
Derivative financial liabilities							
Interest rate swaps used for hedging	11,782	(13,828)	-	(2,764)	(1,833)	(5,355)	(3,876)
	11,782	(13,828)	-	(2,764)	(1,833)	(5,355)	(3,876)

Bank loans, as disclosed in Note 8 contain financial covenants. A future breach of covenant may require the Group to repay the loan earlier than indicated in the above table. The covenant is monitored on a regular basis by management and reported to the Audit Committee of the Board of Governance.

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to its debt obligations.

The Group's policy is to limit the portion of floating rate debt. To achieve this it has entered into fixed interest loans and interest rate swaps to convert floating rate borrowings to fixed rate borrowings.

Management monitor interest rate levels on an ongoing basis and, when appropriate, will lock in fixed rates in consultation with the Audit Committee. As at 30 June 2018, after taking into account the effects of interest rate swaps, approximately 97% of borrowings were at a fixed rate of interest (2017: 99%).

The following sensitivity analysis is based on the interest rate risk exposures at 30 June. This shows the respective differences in annual net surplus/deficit and the equity balance at 30 June had interest rates been one percent higher or lower than the year end market rate.

	Group 2018	Group 2017
Impact on net suplus / (deficit) :	$000	$000
Interest rates +1%		
Variable Interest rate instruments	(245)	(110)
Interest rate swaps	12,925	12,856
Interest rates -1%		
Variable Interest rate instruments	135	60
Interest rate swaps	(14,579)	(14,589)

All derivative financial instruments are held at fair value through surplus or deficit. No difference in interest rate would be directly recorded within equity.

Credit Risk
Credit risk is the risk that a third party will default on its obligations to the Group, resulting in a loss being incurred. The Group is not exposed to material concentrations of credit risk other than its exposure to the government sector. All credit facilities to external parties are provided on normal trade terms.

Wherever possible, all individuals/organisations are assessed for credit worthiness and affordability before they are approved as a trading party. In addition, receivable balances are monitored on an ongoing basis with the result that exposure to bad debts is not significant. The status of trade receivables at reporting date is as follows:

	Neither past due or impaired	Past Due but not impaired (0-60 days)	Past Due but not impaired (60-90 days)	> 90 days	Total
Trade receivables	874	577	523	-	1,974
Contract revenue	14,417	-	-	-	14,417
Other debtors	6,444	-	-	-	6,444
Total	**21,735**	**577**	**523**	**-**	**22,835**

Due to timing of its cash inflows and outflows surplus cash is invested only with counterparties approved by the Audit Committee. Treasury Policy limits the amount of credit exposure to any one institution.

Fair Value Measurement

The Group uses various methods in estimating fair value. Depending on the inputs used in these methods, an asset measured at fair value is categorised as one of the following levels:

- Level 1 – the fair value is calculated using quoted prices in active markets.
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data. The fair value of the financial instruments, as well as the methods used to estimate the fair value, are summarised in the table below.

No Level 1 or 3 financial instruments are held at 30 June 2018 (2017: nil).

The following table shows the valuation techniques used in measuring Level 2 fair values as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Relationship with fair value
Interest rate swaps	Discounted cash flows & market comparison	Floating rate forward curve	Estimated liability decreases as floating rate increases
Shared Home Ownership interest	Comparison technique	Not applicable	Not applicable
Accident compensation	Discounted cash flows & market comparison	Unreported claims	Estimated liability increases as reported claims increase

Note 10: Employee Benefits and Other Liabilities

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised and are measured at the amounts expected to be paid when the liabilities are settled.

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 based

on a projection of historical trends. Expected future payments are discounted using the average bank lending rates.

The liability for ACC is recognised and measured as the present value of expected future payments to be made in respect of employee work injuries up to the reporting date.

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises the costs for a restructuring. If the benefits are not expected to be settled wholly within 12 months of the reporting date they are discounted.

	Group 2018 $000	Group 2017 $000
Current		
Long service leave	1,741	1,186
Annual leave	23,636	21,987
Sick leave	958	928
Accident compensation	568	490
Days in lieu & other	4,044	3,475
	30,947	**28,066**
Non current		
Long service leave	7,623	6,821
Accident compensation	974	1,308
	8,597	**8,129**
Total		
Long service leave	9,364	8,007
Annual leave	23,636	21,987
Sick leave	958	928
Accident compensation	1,542	1,798
Days in lieu & other	4,044	3,475
	39,544	**36,195**

The Group has elected to act as an agent for ACC under the ACC Partnership Programme. Under this programme the Group takes responsibility for claims management of employees' work injuries and may be liable to pay amounts for future expected costs to manage any claim.

This liability is stated at fair value based on an independent actuarial assessment at 31 March 2018. The liability is an estimate with considerable uncertainty around the incurred but not reported, incurred but not enough reported and reopened claims. Due to the normal uncertainty associated with the claims process the actual liability will likely be different.

Note 11: Shared Home Ownership Scheme

The Shared Home Ownership Scheme is a licence to occupy arrangement whereby deposits are received from contributors for a legal interest in the Group property. The deposits are repayable to contributors immediately on termination of the licence in accordance with the Certificate of Deposit and Licence to Occupy issued by the Group. The scheme is administered on behalf of the Depositors by the New Zealand Guardian Trust Company Limited under a Trust Deed dated 3 February 1992. Under the Deed, the Trustee is granted registered first mortgages over property owned by IHC New Zealand Incorporated.

The Shared Home Ownership scheme is stated at market value based on the independent valuation performed on a notional basis by QV Valuations at 31 March 2018. The cost of these licences at 30 June 2018 was $1.1 million (2017: $1.3 million). Accumulated revaluation as at 30 June 2018 was $1.4 million (2017: $1.8 million).

Note 12: Reconciliation of Surplus / (Deficit) with Net Cash Inflow from Operating Activities

	Group 2018 $000	Group 2017 $000
Reported Net Surplus/(Deficit)	**7,537**	**802**
Add non cash items:		
Depreciation & impairment	12,485	12,047
Notional interest	770	739
Net change in Fair Value of Interest Rate Swaps used for Hedging	4,074	6,343
Other non cash items	-	(42)
Add / (less) item classified as investing activities:		
Gain on sale of property, plant & equipment	(4,789)	(3,908)
Government Grants received	(2,952)	(574)
Movements in working capital:		
(Increase) / decrease in accounts receivable	(7,883)	(1,480)
Increase / (decrease) in accounts payable	(207)	(968)
Increase in provisions and other liabilities	824	4,799
	(7,266)	2,351
Net cash inflow from operating activities	**9,859**	**17,758**

Note 13: Leasing and Capital Commitments

Payments made under operating leases are recognised in surplus or deficit 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.

Lease commitments under non-cancellable operating leases:

	Group 2018 $000	Group 2017 $000
Payable:		
Not later than one year	5,132	4,730
Later than one year and not later than five years	5,759	5,976
Later than five years	1,103	289
	11,994	**10,995**

Note 14: Contingent Assets and Liabilities

Crown Retained Interest
In 2017 the Group acquired 1,138 properties in Tauranga, along with related tenancy and property management services, from Housing New Zealand. The contractual agreement for the purchase of these properties makes the properties available to the Ministry of Social Development under a Capacity Contract. The initial term of the Capacity Contract is 25 years with one right of renewal for a further term between 15 and 25 years. A first ranking encumbrance ensuring use as social housing has been placed on each property.

The Group has assessed the encumbrance, Crown Retained Interest and the Capacity Contract as an executory contract defined in PBE IPSAS 19.18 as a contract under which both parties have performed their obligations to an equal extent. Management has re-assessed the current status of performed obligations as at 30 June and determined that the conditions of an executory contract remain satisfied. As such neither the assets nor liabilities with respect to unperformed obligations are recognised within these financial statements.

Holidays Act Review
The Labour Inspectorate of the MBIE is currently undertaking a programme of compliance audits of a number of New Zealand organisations in respect of the Holidays Act 2003 ("the Holidays Act"). See Note 7 for further disclosure.

Capital Commitments
At 30 June 2018 three projects are recognised as construction work in progress. If these projects are completed the Group will incur capital expenditure of approximately $1.3 million.

Ministry of Social Development Grants
As outlined in Note 2, the Group has an agreement with the Ministry of Social Development for grants up to $15.7 million for the development of social housing contingent on the identification of qualifying projects. The total anticipated project expenditure is up to $31.4 million.

Note 15: Transactions with Related Parties

The Group classifies its key management personnel into the following categories:

- Directors (of the governing body)
- Executive Officers

Directors of the governing body receive an annual fee and expenses. Executive officers and operating officers are employees of the Group and are on standard employment contracts. The table below depicts the aggregate remuneration of key management personnel and the number of individuals determined on a full-time equivalent basis, receiving remuneration with each category.

	Group 2018 $000	Number	Group 2017 $000	Number
Board and Directors Fees	301	10	296	10
Executive Management Team	2,044	8	3,109	12
	2,345		**3,405**	

Note 16: Grants Received

Grants of $10,000 or more have been received from the following organisations:

Infinity Foundation
Lion Foundation
New Zealand Lottery Grants Board
Pelorus Trust
Rata Foundation
Frimley Foundation

Grants less than $10,000 that have been received where as part of the conditions of receiving the grant the name of the Trust and grant amount is disclosed:

Reed Charitable Trust $5,000

Note 17: Events Subsequent to Balance Date

The Group has negotiated a $6.0 million vehicle loan facility with Westpac New Zealand Limited.

KPMG

Independent Auditor's Report

To the members of IHC New Zealand Incorporated

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of IHC New Zealand Incorporated (the incorporated society) and its subsidiaries (the group) on pages 2 to 25:

i. present fairly in all material respects the Group's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with Public Benefit Entity Standards (Not For Profit).

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2018;
- the consolidated statements of comprehensive revenue and expense, changes in accumulated funds and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). 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 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 and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to Pay Equity data assurance and payroll processing services. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Use of this independent auditor's report

This independent auditor's report is made solely to the members as a body. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in the independent 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 members as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Board for the consolidated financial statements

The Management Committee, on behalf of the incorporated society, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being Public Benefit Entity Standards (Not For Profit));
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate 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 objective is:

- 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 independent 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 will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these consolidated financial statements is located at the External Reporting Board (XRB) website at:

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

This description forms part of our independent auditor's report.

KPMG

KPMG
Wellington

22 August 2018