InfraCore

Essential Contracting Solutions
He Toki Taukari Whakaea

# Financial Statements

# InfraCore Limited

# 2022/23

## Financial Statements Index

INFRACORE LIMITED

# ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2023

## INTEREST REGISTER

The Company is required to maintain an interest register in which the particulars of certain transactions and matters involving the Directors must be recorded. The interest register is available for inspection at the operational office.

### Information used by directors

During the financial year, there were no notices received from directors of InfraCore Limited as, or any subsidiary, requesting to use information received in their capacity as a director which would not otherwise have been available to them.

### Indemnification and insurance of directors and officers

The Company has arranged policies of the Directors' and Officers' Liability Insurance and separate Director's and Officers' defence costs insurance.

## SEVERANCE PAYMENTS

For the year ended 30 June 2023 the Company made two severance payments to two employees totalling $25,000 (2022: two severance payments to two employees of $35,000).

## DONATIONS

No donations were made by the company during the year (2022: nil).

## EMPLOYEE REMUNERATION

The following numbers of employees, who were not directors, received remuneration and benefits which exceeded $100,000 value for the 2023 financial year: ten (2022: seven).

| | Actual 2023 | Actual 2022 |
|---|---|---|
| Remuneration | | |
| $100,000 - $109,999 | 6 | 1 |
| $110,000 - $119,999 | - | 1 |
| $130,000 - $139,999 | 1 | 1 |
| $140,000 - $149,999 | - | 1 |
| $150,000 - $159,999 | - | - |
| $160,000 - $169,999 | - | 1 |
| $170,000 - $179,999 | 2 | 1 |
| $220,000 - $229,999 | 1 | - |
| $300,000 - $309,999 | - | 1 |

INFRACORE LIMITED

# STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2023

The Directors of InfraCore Limited accept responsibility for:

- the preparation of the Company's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting and non-financial reporting;
- the accuracy of any end-of-year performance information prepared by the Company, whether or not that information is included in the annual report.

In the Directors opinion:

- The financial statements and statement of service performance fairly reflect the financial position of the Company as at 30 June 2023 and its operations for the year ended on that date.

**Director**
21st June 2024

**Director**
21st June 2024

INFRACORE LIMITED

# ENTITY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2023

**Date of Incorporation**
27 July 2015

**Company Number**
5758268

**IRD Number**
117-357-767

**Nature of Business**
The business of the company is the constructing, maintaining and managing infrastructure and facility assets. Providing high quality cost effective services in the following areas: three waters, city cleaning, parks operations, civil works, and supply of nursery products.

**Business Location**
70 Vaughan Road and Queens Drive, Government Gardens, Rotorua

**Registered Office**
1061 Haupapa Street, Rotorua

**Directors**
John McRae – Chair
Vivienne Scott
Brent Whibley
Tupara Morrison
Geoffrey Rolleston
Christiaan Van Florenstein Mulder

**Auditor**
BDO Rotorua Limited, on behalf of the Auditor-General

**Banker**
BNZ Bank, Rotorua

**Solicitor**
Holland Beckett, Rotorua

**Shareholder**

| | | |
|---|---|---|
| Rotorua District Council | 100% shareholder | 2,366,081 Ordinary Shares |

# STATEMENT OF SERVICE PEFORMANCE – 2023

FOR THE YEAR ENDED 30 JUNE 2023

**How we did in 2023**

2023 was another challenging year for the Company. With only 4 of the 10 performance measures achieved. Inflationary pressures and skill shortages are the primary contributing factor to not achieving the measures.

A lot of success has been achieved throughout the year. A key aspect of the Company's development was to strengthen from within. This was achieved by the redesign of the staff values, the development of a Well Being calendar (based upon the principals of Te Whare Tapa Whā), increasing the number of staff in external qualifications and the further development of our people leaders.

Although the original focus for 2023 was to look at sustainable growth, the current economic environment has demonstrated that it is in the best interest of the company and the Group to push pause on this. 2024 will see the Company focus in delivering exceptional low cost service to its Shareholder and the wider community, consolidating the organisational development that has been achieved in 2023. It will also put the Company in a stable position to easily transition once the economic situation improves.

In 2023 there were four new service performance measures that were agreed with the shareholder. These were measures number 2, 6, 7, and 9. It was agreed with the shareholder that these provided more valued information on the performance of the company. Through this process some of the measure from 2022 were removed, these were 2, 6, 7, and 8.

| | Performance measure | Target for FY23 | Status |
|---|---|---|---|
| 1 | To achieve financial budget | To achieve financial budget allowing any future surpluses to be used to clear long term debt and enhance business capability. | **Not Achieved**<br>Budget was set to $77k and a loss of $430k was achieved as per profit and loss on page 12 of this report. |
| 2 | To work in partnership with RLC to grow the InfraCore capability into new commercially sustainable work streams. | To secure additional revenue streams within the financial year that increases EBITDA compared to budget. This will be measured upon project completion, and monitored on a monthly basis. | **Not Achieved**<br>Due to resourcing constraints, the core focus of the Company needed to be fulfilling SLA's with RLC and no there was no ability to tender for additional work streams.<br><br>This is a new measure for 2023 and not comparable to any measure in 2022. |

| | Performance measure | Target for FY23 | Status |
|---|---|---|---|
| 3 | Consolidated KPI scoring Parks and Open Spaces | 83% | **Unable to be measured**<br><br>RLC did not conduct either site audits or contract performance measurements consistently throughout the financial year to provide an annual result.<br><br>An average of all Individual asset audits completed over the year would indicate InfraCore meet the contract specifications |
| 4 | Consolidated KPI Utilities | 83% | **Not Achieved**<br>Annual average 75%<br><br>Utilities KPI's were impacted in four areas of the scoring matrix.<br><br>1: Staff vacancies throughout the year meant that the water reactive team could not get to the increased volume of jobs within the two day KPI timeframe. Incoming jobs over the weekend also impacted monthly scoring.<br><br>2: RLC queries on job cards were greater than 10 per month Jan through to June, This counts as a fail of the job card KPI.<br><br>3: Planned maintenance Jan through June did not match the annual plan originally submitted. Although maintenance was on target for the year this was still measured as a failure.<br><br>4: Reinstatements impacted by availability of hot mix and concrete in small quantities |

| | Performance measure | Target for FY23 | Status |
|---|---|---|---|
| 5 | Targeting full employee engagement with Health and Safety | 80% | **Not Achieved**<br>65% - this was based upon the number of service-delivery staff recorded as attending monthly toolbox talks. |
| 6 | Employee net promoter score percentage increase on a year on year basis. Assists with overall retention and satisfaction.<br>*How likely are you to recommend our business as a place to work for your whānau and friends?* | Increase by 20% | **Not Achieved**<br>The initial baseline was set in the 2022/23 year with the staff engagement survey that was completed in November 2022. The initial results were 82.9%. A follow up was not completed by the end of the financial year.<br><br>This is a new measure for 2023 and not comparable to any measure in 2022. |
| 7 | Annualised turnover target | 47% | **Achieved**<br>Annualised turnover 42%<br><br>This is a new measure for 2023 and not comparable to any measure in 2022. |
| 8 | Number of employees engaged in external qualifications supported by InfraCore as a percentage of total headcount. | 25% | **Achieved**<br>There were 32 of 124 staff engaged in external qualifications.<br><br>This is a new measure for 2023 and not comparable to any measure in 2022. |
| 9 | Commitment to Rotorua Reorua. Increased cultural awareness within our organisation. | 2x Initiatives | **Achieved**<br>2 initiatives were rolled out through the year - values refresh and a wellbeing calendar (based upon the principals of Te Whare Tapa Whā). |

There were a number of measures in 2023 that were removed or modified from the 2022 measures. Management and the Board wanted to refocus the attention on the 2023 year to the culture and its people and have more refined and meaningful measures in place. Changing the focus from outward to inward, the measures needed to mirror that. Measure 7 & 8 from 2022 were changed from the external focus to 7 & 9 in 2023 concentrating on our people. Measure 2 was modified at the request of the shareholder.

## STATEMENT OF SERVICE PEFORMANCE – 2022

FOR THE YEAR ENDED 30 JUNE 2022

### How we did in 2022

2022 was a challenging year for the business with the operational constraints as a result of the pandemic. InfraCore were able to repay $950,000 of debt, with a further $950,000 forgiven by Rotorua Lakes Council. This has left InfraCore with remaining shareholder debt of $910,000.

We have achieved 7 of the 10 performance targets. Those we have not achieved have operational plans in place to ensure achievement for the following financial year. Operationally, due to staff turnover, the Utilities KPI scoring was negatively impacted. As with many other businesses around NZ, InfraCore is struggling with attracting and retaining talent with an extremely tight labour market. This directly correlates to the work completed.

InfraCore continues to work with agencies for social outcomes such as MSD and Department of Corrections. These partnerships are another way for InfraCore to fill vacancies within the business while contributing to the wider community.

As we move to 2023 and beyond, InfraCore will be looking for opportunities to build capability and capacity enabling growth across the organisation.

| | Performance measure | Target for FY22 | Status |
|---|---|---|---|
| 1 | To achieve financial budget | To achieve financial budget allowing any future surpluses to be used to enhance business. | **Achieved**<br>Budget was set to $56k and a surplus of $729k was achieved. |
| 2 | To secure additional revenue within this financial year that upon completion has a positive contribution to margin. | To secure additional revenue streams within the financial year that increases EBITDA compared to budget. This will be measured upon project completion, and monitored on a monthly basis. | **Achieved**<br>There were a total of 14 projects during the year, with 4 projects still in progress. Of the 10 projects that were completed, they contributed to $68k of profit to the bottom line. |
| 3 | Consolidated KPI scoring Parks and Open Spaces | 80% | **Achieved**<br>Annual average 85% |
| 4 | Consolidated KPI Utilities | 80% | **Not Achieved**<br>Annual average 71% |
| 5 | Targeting full employee engagement with Health and Safety | 90% | **Achieved**<br>95% this was based upon employee attendance in the health and safety committee |

| | | | |
|---|---|---|---|
| | | | representative meetings |
| 6 | Individual performance plan in place per employee | 100% | **Achieved**<br>100%. All InfraCore employees have individual performance plans that are set with their managers. We have a performance management process that is followed, with annual and 6 monthly reviews. |
| 7 | Develop and document social enterprise project of work | 1 | **Achieved**<br>Finalised contract with MSD to employ 10 people into full time roles, complete with training and career pathways.<br><br>Open day with Corrections held to detail InfraCore activities and career opportunities within InfraCore. 6 people have successfully been employed through this. |
| 8 | Understand the satisfaction level of the beneficiaries of the social enterprise's activities from a community stakeholder perspective (Engagement survey or written comms *note 1) | 80% | **Achieved**<br>100% based upon 2 feedback datasets from corrections and MSD |
| 9 | Partner with Te Arawa (contributing towards Te Arawa Vision 2050) and Mana Whenua through collaboration with a Te Arawa Iwi and Hapū entities. | 1 entity | **Achieved**<br>1 FTE employed as an HR Intern, appointed in conjunction with Ngāti Whakaue Distributions and Initiatives team. Internship complete April 2022. Experience gained across all areas of HR management, with high focus on recruitment. Positive experience. |
| 10 | Development and implementation of InfraCore reorua strategy. Commitment to Rotorua Reorua. Increased cultural awareness within our organisation. | Development of InfraCore reorua strategy and implementation of Y1 initiatives. | **Not Achieved**<br>As part of a review process it was established that we needed a dedicated resource to implement this effectively. This will be recruited for in the 2022/23 year. |

**Note1: Engagement survey to be undertaken post-employment for each beneficiary to measure their satisfaction in accordance with** Noya, A. (2015), "Social Entrepreneurship - Social Impact Measurement for Social Enterprises", *OECD Employment Policy Papers*, No. 10, OECD Publishing, Paris, https://doi.org/10.1787/5jrtpbx7tw37-en.

INFRACORE LIMITED

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2023

| | Notes | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|---|
| **Revenue** | | | |
| Operating revenue | 2 | 13,242 | 12,583 |
| Other revenue | 3 | 1,182 | 2,393 |
| **Total Revenue** | | **14,424** | **14,976** |
| | | | |
| **Expenses** | | | |
| Personnel costs | 4 | 9,102 | 8,634 |
| Depreciation and amortisation expense | 12/13 | 480 | 381 |
| Director remuneration | 5 | 105 | 105 |
| Finance costs | 6 | 36 | 15 |
| Other expenses | 7 | 5,131 | 5,112 |
| **Total Expenses** | | **14,854** | **14,247** |
| | | | |
| **Surplus/deficit before tax** | | **(430)** | **729** |
| Income tax expense | 11 | - | - |
| **Surplus/deficit after tax** | | **(430)** | **729** |
| Other comprehensive revenue and expense | | - | - |
| **Total comprehensive revenue and expense** | | **(430)** | **729** |

*NOTE: The accompanying notes form an integrated part of these financial statements*

INFRACORE LIMITED

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

| | Notes | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 8 | 396 | 314 |
| Receivables | 9 | 2,159 | 2,052 |
| Prepayments | | 166 | 164 |
| Inventories | 10 | 653 | 628 |
| **Total current assets** | | **3,374** | **3,158** |
| | | | |
| **Non-current assets** | | | |
| Intangible Assets | 12 | 9 | 10 |
| Plant and equipment | 13 | 1,882 | 2,254 |
| **Total non-current assets** | | **1,891** | **2,264** |
| **Total assets** | | **5,265** | **5,422** |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Payables under exchange transactions | 14 | 638 | 722 |
| Goods and services tax | | 371 | 95 |
| Accruals | 15 | 32 | 17 |
| Employee entitlements | 16 | 679 | 612 |
| Borrowings | 17 | - | 1 |
| **Total current liabilities** | | **1,720** | **1,447** |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | 17 | 910 | 910 |
| **Total non-current liabilities** | | **910** | **910** |
| **Total Liabilities** | | **2,630** | **2,357** |
| **Net Assets** | | **2,635** | **3,065** |
| | | | |
| **Equity** | | | |
| Retained earnings | 18 | 269 | 699 |
| Share capital | 18 | 2,366 | 2,366 |
| **Total equity** | | **2,636** | **3,065** |

The Board of Directors of InfraCore Limited authorise these financial statements for issue on 21st June 2024

*NOTE: The accompanying notes form an integrated part of these financial statements*

INFRACORE LIMITED

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2023

| | Notes | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|---|
| **Balance at 1 July** | | 3,065 | 2,336 |
| Surplus/(deficit) | | (430) | 729 |
| **Balance at 30 June** | 18 | **2,635** | **3,065** |

*NOTE: The accompanying notes form an integrated part of these financial statements*

INFRACORE LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2023

| | Notes | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from revenue | | 14,249 | 13,953 |
| Payment to suppliers and employees | | (14,256) | (13,467) |
| Directors fees | | (105) | (105) |
| Goods and services tax | | 276 | (54) |
| *Net cash flow from operating activities* | 19 | **164** | **327** |
| **Cash flows from investing activities** | | | |
| Receipts from sale of property, plant and equipment | | 62 | - |
| Payments to acquire property, plant and equipment | | (101) | (583) |
| Payments to acquire Intangible Assets | | (6) | (10) |
| *Net cash flow from investing activities* | | **(45)** | **(593)** |
| **Cash flows from financing activities** | | | |
| Interest on loans/CARL facility | | (36) | (15) |
| Loan Repayments | | (1) | (955) |
| *Net cash flow from financing activities* | | **(37)** | **(970)** |
| **Net (decrease)/increase in bank accounts and cash** | | **82** | **(1,236)** |
| Cash and cash equivalents at the beginning of the year | | 314 | 1,550 |
| **Cash and cash equivalents at the end of the year** | 8 | **396** | **314** |

*NOTE: The accompanying notes form an integrated part of these financial statements*

INFRACORE LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

## 1. STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2023

**Reporting Entity**

InfraCore Limited ('the Company') is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The Company is fully owned by the Rotorua Lakes Council and is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002.

The Company has designated itself as a public benefit entity (PBE) for financial reporting purposes. This was determined because the majority of the services performed are on behalf of the Rotorua Lake Council to maintain the water infrastructure, parks and open spaces for the Rotorua District.

The financial statements of the Company are for the year ended 30 June 2023. The financial statements were authorised for issue by the directors on 21st June 2024.

**BASIS OF PREPARATION**

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

**Statement of compliance**

The Company is a reporting entity for the purposes of the Financial Reporting Act 2013. These financial statements comply with the Financial Reporting Act 2013, the Companies Act 1993, and Section 69 of the Local Government Act 2002.

These financial statements have been prepared in accordance with Tier 2 PBE accounting standards reduced disclosure regime (PBE Standards RDR).

The entity is eligible and has elected to report in accordance with Tier 2 PBE Standards RDR on the basis that the entity has no public accountability and has expenses >$2m and <$30m.

The Company was required under section 67(5) of the Local Government Act 2002 to complete its audited financial statements and service performance information 3 months after the end of financial year. This timeframe was not met due to resourcing constraints.

**Measurement base**

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

**Functional and presentation currency**

The financial statements are presented in New Zealand dollars and all values are rounded in thousands. The functional currency of the Company is New Zealand dollars.

**Changes in accounting policies**

The Company adopted PBE IPSAS 41 Financial Instruments with a transition date of 1 July 2022.

PBE IPSAS 41 introduces new recognition and measurement requirements for financial assets and restricts the ability to measure financial assets at amortised cost to only those assets that are held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In addition, measurement of financial assets at fair value through other comprehensive revenue and expense is also restricted.

PBE IPSAS 41 has had no material impact on the Company's measurement and recognition of financial instruments.

## SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies which materially affect the measurement of financial results and financial position have been adopted in the preparation of the financial statements.

INFRACORE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

**Revenue**

Revenue is measured at the fair value of the consideration received or receivable.

**Revenue from exchange transactions**

Revenue from sale of goods is recognised when the goods are sold to the customer when risks and rewards of ownership transfer.
Revenue from sales of services is recognised by reference to the stage of completion of the service delivered at balance date as a percentage of the total services to be provided.

Interest income is recognised using the effective interest method.

**Employee entitlements**

Liabilities for accumulating short-term entitlements are measured at nominal value based on unused entitlement accumulated at current rate of pay at balance date.

**Goods & Services Tax**

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

The net amount of GST recoverable from, or payable to, the Inland Revenue Department is presented in the statement of financial position. The net GST paid to, or received from the Inland Revenue Department, including GST relating to the investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

**Income tax**

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

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

Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

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

**Inventory**

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

**Plant & equipment**
Property plant and equipment consists of:

*Additions*
The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.
*Disposal*
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are recognised in surplus or deficit.

*Subsequent costs*
Costs incurred subsequent to initial recognition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

*Depreciation*
Depreciation is provided on diminishing value on all plant and equipment at rates that will write-off the cost of the assets to their set residual values over their useful lives.

The useful lives and associated depreciation rates of major classes of assets have been set as follows:

*Diminishing Value Depreciation Range*

| | |
|---|---|
| Motor vehicles | 10% - 30% |
| Plant and equipment | 7% - 67% |

**Impairment of non-financial assets**
The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

For the purpose 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.

Impairment losses are recognised in surplus or deficit. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Intangible Assets**
***Intangible Assets Under Development – Software Licenses***

*Initial Recognition*
Costs directly attributable to the development of computer software are capitalised as intangible assets only when technical feasibility of the project is demonstrated, the Company has an intention and ability to complete and use the software and the costs can be measured reliably. Such costs include purchases of materials and services and payroll-related costs of employees directly involved in the project. Research costs are recognised as an expense when incurred.

Acquired computer software licences are initially capitalised at cost, which includes the purchase price (net of any discounts and rebates) and other directly attributable cost of preparing the asset for its intended use.

*Subsequent Recognition*
Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of three years. The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each

balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

**Financial Instruments**

*Recognition and initial measurement*

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. At initial recognition, an entity may measure short term receivables and payables at the original invoice amount if the effect of discounting is immaterial.

*Classification and subsequent measurement financial assets*

On initial recognition, a financial asset is classified as measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its management model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the management model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at Fair Value Through Surplus or Deficit (FVTSD):

• it is held within a management model whose objective is to hold assets to collect contractual cash flows; and

• its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost: These assets are subsequently measured at amortised cost using the effective interest method less expected credit losses. For trade receivables the Trust uses the simplified ECL model.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost. Financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in surplus or deficit. Any gain or loss on derecognition is also recognised in surplus of deficit.

*Derecognition Financial assets*

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in surplus or deficit.

*Offsetting*

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

INFRACORE LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

*Impairment of non-derivative financial assets*
Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company considers a financial asset to be in default when:
• the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
• the financial asset is more than 90 days past due. The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB or higher per Standard & Poors.

**Critical accounting estimates and assumptions**
In preparing these financial statements the company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**Useful lives of property, plant and equipment**
At balance date, the Company reviews the useful life of its buildings and infrastructural assets. Assessing the appropriateness of useful life and residual value estimates requires the Company to consider a number of factors, such as the physical condition of the assets, expected period of use of the assets by the Company, and expected disposal proceeds from the future sale of the assets.

An incorrect estimate of the useful life will impact on the depreciation expense recognised in the profit and loss, and the carrying amount of the assets in the statement of financial position. The Company will minimise the risk of this estimation uncertainty by physical inspections of assets, and asset replacement of programmes in line with useful life expectations.

**Statement of Service Performance**
In compiling the Statement of Service Performance management has made judgements in relation to which outcomes and outputs best reflect the achievement of our vision. The Company has grouped achievements by the nature of the projects invested in to reflect the foundations current focus areas.

INFRACORE LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

## 2. RLC REVENUE

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| **Exchange revenue** | | |
| Rotorua Lakes Council – Services Revenue | 13,128 | 12,445 |
| Rotorua Lakes Council – Nursery Revenue | 114 | 138 |
| **Total operating revenue** | **13,242** | **12,583** |

## 3. OTHER REVENUE

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| **Exchange revenue** | | |
| Trading and Sundry Income | 1,152 | 1,366 |
| **Non-exchange revenue** | | |
| Government Grants – Apprentice Wage Subsidy | 30 | 77 |
| Loan Forgiveness | - | 950 |
| **Total other revenue** | **1,182** | **2,393** |

## 4. PERSONNEL COSTS

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| Salaries and wages | 8,562 | 8,055 |
| Employer superannuation contributions | 233 | 239 |
| Other employee related costs | 307 | 340 |
| **Total personnel costs** | **9,102** | **8,634** |

INFRACORE LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

## 5. DIRECTORS REMUNERATION

Directors' remuneration was paid as follows:

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| John McRae | 30 | 30 |
| Brent Whibley | 15 | 15 |
| Vivienne Scott | 15 | 15 |
| Christiaan Van Florenstein Mulder | 15 | 15 |
| Geoffrey Rolleston | 15 | 15 |
| Tupara Morrison | 15 | 15 |
| **Total remuneration** | **105** | **105** |

No other benefits have been provided by the Company to a Director or in any other capacity. No loans have been made by the Company to a Director nor has the Company guaranteed any debts incurred by a Director.

## 6. FINANCE COSTS

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| Interest on loans | 36 | 15 |
| **Total finance costs** | **36** | **15** |

## 7. OTHER EXPENSES

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| Audit New Zealand (Financial Statement Audit) | 40 | 39 |
| Administration and overhead | 2,161 | 2,039 |
| Inventories consumed | 1,209 | 1,423 |
| Maintenance | 239 | 226 |
| Telecommunication | 105 | 99 |
| Insurance | 67 | 63 |
| Consultancy | 104 | 22 |
| Bank charges | 4 | 4 |
| Travel and accommodation | 13 | 3 |
| Legal | 32 | 53 |
| Loss / (gain) on disposal | 3 | 2 |
| Contractors | 1,021 | 1,003 |
| Other expenses | 133 | 139 |
| **Total other expenses** | **5,131** | **5,114** |

INFRACORE LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

## 8. CASH AND CASH EQUIVALENTS

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| Cash and cash equivalents | 396 | 314 |
| **Total cash and cash equivalents** | **396** | **314** |
| **Net cash and cash equivalents for the purposes of the statement of cash flows** | **396** | **314** |

## 9. RECEIVABLES AND PREPAYMENTS

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| Receivables from exchange transactions | 2,159 | 2,052 |
| **Total receivables** | **2,159** | **2,216** |

In previous years prepayments have been classified with receivables. In order to better distinguish between financial assets and non financial assets, prepayments of $164k have been reclassified to the face of the Statement of Financial Position.

## 10. INVENTORIES

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| **Held for distribution inventories** | | |
| Inventories held for use in the provision of goods and services | 332 | 297 |
| **Commercial inventories** | | |
| Inventories held for sale | 321 | 331 |
| **Total inventories** | **653** | **628** |

No inventory is pledged as security for liabilities (2021: $nil).

Inventories held for use in the provision of goods and services recognised as an expense for the year are $576k. The expense has been included in the "Inventories consumed" line item in Note 7. Write-down in the period was $14k.

Inventories held for sale recognised as an expense for the year was $144k. Write-down for the period was $5k.

INFRACORE LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

## 11. INCOME TAX

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| **Components of tax expense** | | |
| Current tax | - | - |
| Deferred tax expense | - | - |
| **Tax expense** | - | - |
| | | |
| **Relationship between income tax expense and accounting surplus** | | |
| Surplus/(Deficit) for the year | (430) | 729 |
| Tax at 28% | (77) | 204 |
| **Plus/(less) tax effects of:** | | |
| Group loss offset | - | (127) |
| Losses brought forward | - | (101) |
| Loss to carry forward | 94 | - |
| Permanent differences | - | - |
| Deferred tax asset/(liability) not recognised | (17) | 24 |
| **Tax expense** | - | - |

A deferred tax liability movement has not been recognised in relation to temporary differences of $60,352 (2022 deferred tax asset: $86,512).

INFRACORE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

### 12. PLANT, AND EQUIPMENT

Movements for each class of plant and equipment are as follows:

| | Equipment $000 | Motor vehicle $000 | Total $000 |
|---|---|---|---|
| *As at June 2023* | | | |
| Opening Cost | 1,789 | 2,767 | 4,556 |
| Additions | 75 | 87 | 162 |
| Disposals | (2) | (215) | (217) |
| Closing Cost | 1,862 | 2,639 | 4,501 |
| | | | |
| Opening accumulated depreciation | (586) | (1,716) | (2,302) |
| Depreciation expense | (283) | (190) | (473) |
| Depreciation recovered | 2 | 154 | 156 |
| Closing accumulated depreciation | (867) | (1,752) | (2,619) |
| | | | |
| Opening book value 1 July 2022 | 1,203 | 1,051 | 2,254 |
| **Book value 30 June 2023** | **995** | **887** | **1,882** |
| | | | |
| *As at June 2022* | | | |
| Opening Cost | 1,375 | 2,598 | 3,974 |
| Additions | 414 | 169 | 584 |
| Disposals | (1) | (1) | (2) |
| Closing Cost | 1,789 | 2,767 | 4,556 |
| | | | |
| Opening accumulated depreciation | (447) | (1,543) | (1,990) |
| Depreciation expense | (139) | (173) | (313) |
| Depreciation recovered | - | - | - |
| Closing accumulated depreciation | (586) | (1,716) | (2,302) |
| | | | |
| Opening book value 1 July 2021 | 929 | 1,055 | 1,984 |
| **Book value 30 June 2022** | **1,203** | **1,051** | **2,254** |

There are no restrictions over the title of property, plant and equipment. There are no items of property, plant and equipment that are pledged as security for liabilities.

The Company has reviewed the useful lives of plant and equipment and as a result of this review a number of items of plant and equipment have had their useful lives revised to better reflect the rate at which the benefits of those assets are consumed. The impact of this change in estimates has resulted in an increase in the depreciation charge for the year of $131k. The impact on future periods is estimated to be $170k. The change in the estimate of these rates has been applied prospectively for the 2023 reporting period and will continue to be reviewed to ensure the useful lives of assets held are being appropriately reflected for financial reporting purposes.

INFRACORE LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

## 13. PAYABLES

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| **Payables under exchange transactions** | | |
| Creditors | 638 | 722 |
| **Total payables under exchange transactions** | **638** | **722** |
| **Payables under non exchange transactions** | | |
| GST | 371 | 95 |
| **Total payables under non exchange transactions** | **371** | **95** |
| **Total payables** | **1,009** | **817** |

## 14. ACCRUALS

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| **Current portion** | | |
| Income in advance | - | 5 |
| ACC Accredited Employers Programme | 32 | 12 |
| *Total current portion* | 32 | 17 |
| **Total accruals** | **32** | **17** |

## 15. EMPLOYEE ENTITLEMENTS

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| **Current portion** | | |
| Annual leave and payroll accrual | 675 | 602 |
| Long service leave and retirement gratuities | 4 | 10 |
| **Total employee entitlements** | **679** | **612** |

## 16. BORROWINGS

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| **Non-current portion** | | |
| Loan from Rotorua Lakes Council | 910 | 910 |
| *Total non-current portion* | 910 | 910 |
| **Total borrowings** | **910** | **911** |

As at 30 June 2023, the effective rate of interest was 5.86% (2022: 3.61%).

INFRACORE LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

## 17. Equity

### (a) Share Capital

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| Opening Balance – Number of shares (2,366,081) | 2,366 | 2,366 |
| **Total Share Capital** | **2,366** | **2,366** |

All shares are fully paid and there are no unpaid shares. There have been no shares issued or recalled during the period (2022: nil). All shares rank equally and are held by the parent entity Rotorua Lakes Council.

### (b) Retained Earnings

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| Balance at 1 July | 699 | (30) |
| Surplus/(deficit) | (430) | 729 |
| **Total Retained Earnings** | **269** | **699** |
| **Total Equity** | **2,635** | **3,065** |

INFRACORE LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

## 18. RELATED PARTY TRANSACTIONS

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the Company would have adopted in dealing with the party at arm's length in the same circumstances.

Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions of such transactions.

The Company entered into transactions with Rotorua Lakes Council:

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| The company paid administration and overhead costs to Rotorua Lakes Council (excl. GST) | 670 | 468 |
| Forgiveness of Loan from Rotorua Lakes Council | - | 950 |
| Received sales from Rotorua Lakes Council (excl. GST) | 13,242 | 12,583 |
| Accounts payable to Rotorua Lakes Council | (245) | (35) |
| Accounts receivable from Rotorua Lakes Council | 1,724 | 1,550 |
| Loan Repayment to Rotorua Lakes Council | - | (950) |
| Paid Interest to Rotorua Lakes Council | (36) | (15) |
| Holiday's Act recalculation costs transferred to Rotorua Lakes Council | - | 109 |

### Transactions with key management personnel:

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| **Senior management team including chief executive** | | |
| Full time equivalent members | 4 | 5 |
| Remuneration | 800 | 1,005 |
| **Directors** | | |
| Full time equivalent members | 6 | 6 |
| Remuneration | 105 | 105 |
| **Total full time equivalent personnel** | **10** | **11** |
| **Total key management personnel remuneration** | **905** | **1,110** |

INFRACORE LIMITED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

## 19. CONTINGENT LIABILITIES

At balance date contingent liabilities have been estimated at nil (2022: nil).

## 20. COMMITMENTS

| | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|
| **Commitment Type** | | |
| Commitment to lease 20-40 Queens Drive per annum | 666 | 760 |
| Commitment to lease 64-70 Vaughan Road | 1,463 | 1,670 |
| | 2,129 | 2,430 |
| Not later than one year | 301 | 301 |
| Later than one year and not later than five years | 1,828 | 2,129 |
| | 2,129 | 2,430 |

## 21. EVENTS AFTER BALANCE DATE

There was one significant event after balance date which amounted to the value of $10,000. This was an employment related matter (2022: $nil).

## 22. FINANCIAL INSTRUMENTS

The carrying amount of financial instruments in each of the financial instrument categories are:

| | Note | Actual 2023 $000 | Actual 2022 $000 |
|---|---|---|---|
| **Financial assets at amortised cost** | | | |
| Cash and cash equivalents | 8 | 396 | 314 |
| Accounts Receivable | 9 | 2,160 | 2,052 |
| *Total financial assets at amortised cost* | | **2,556** | **2,366** |
| **Financial liabilities at amortised cost** | | | |
| Accounts Payables | 14 | 638 | 722 |
| Borrowings | 17 | 910 | 911 |
| *Total financial liabilities at amortised cost* | | **1,548** | **1,633** |

## 23. CAPITAL MANAGEMENT

The Company's capital is its equity, which comprise shareholders' funds. Equity is represented by net assets.

The objective of managing the Company's equity is to ensure that the Company effectively achieves its goals and objectives for which it has been established while remaining a going concern.

INFRACORE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

### 24. GOING CONCERN

The company has obtained a letter of comfort from the 100% shareholder, Rotorua Lakes Council (RLC) regarding their on-going relationship with InfraCore Limited and that RLC will ensure that InfraCore Limited is adequately resourced in the short and medium term. This is in reference to supplying cashflow if and when necessary in a mutually acceptable transaction.

Based on this letter and the 2024 break even budget, the company believes that the going concern basis of preparation is applicable to the entity.

At 30 June 2023 the company's assets exceed their liabilities by $2,818,000 (2022: $3,044,000).

### 25. REPORTING AGAINST FINANCIAL FORECASTS AS SET OUT IN STATEMENT OF INTENT

| | **Target 2023 $000** | **Actual 2023 $000** | **Variance 2023 $000** |
|---|---|---|---|
| Revenue from Rotorua Lakes Council | 12,160 | 12,512 | 352 |
| Revenue from other sources | 2,238 | 731 | (1,507) |
| Project Revenue | 3,300 | 607 | (2,693) |
| Nursery Revenue | 678 | 574 | (104) |
| *Total Revenue* | *18,376* | *14,424* | *(3,852)* |
| | | | |
| Direct costs | 3,699 | 2,421 | (1,278) |
| Staff costs | 10,836 | 8,970 | (1,866) |
| Training and development | 354 | 76 | (278) |
| Overhead costs | 2,961 | 2,871 | (90) |
| *Total Expenses* | *17,850* | *14,337* | *(3,513)* |
| **EBITA** | **525** | **87** | **(439)** |
| | | | |
| Depreciation and amortisation | 435 | 480 | (45) |
| Interest expense | 13 | 36 | 23 |
| **Net Profit Before Tax** | **77** | **(430)** | **(508)** |

INFRACORE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

**Explanation of major variances against financial forecast**

***Revenue***

*Revenue from Rotorua Lakes Council* – This is predominately from additional recoverable work related to the Lakefront, storm damage clean up and city beautification.

*Revenue from other sources* – The 2023 target included the establishment of a training academy. This was to be funded by grants and the primary purpose was to develop the workforce for InfraCore and the wider community in useful skills applicable and create job pathways. Due to resourcing constraints, this project was put on hold.

*Project Revenue* – Staff resourcing constraints meant the organisation had to focus on core deliverables and did not have capacity to do additional work streams.

*Nursery Revenue* – Reduction from Rotorua Lakes Council purchased plants and reduced opening hours of the nursery due to staffing limitations.

***Expenses***

*Direct Costs* – With the Company not achieving any additional project work, there was no outlay of costs that associate with those projects.

*Staff Costs* – Recruitment of vacancies has been a significant challenge for the organisation along with the planned academy not being implemented.

*Training and Development* –

*Overhead Costs* – significant increases in the motor vehicle costs due to fuel prices and repair work to the aged fleet.

**INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDER OF INFRACORE LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2023**

The Auditor-General is the auditor of InfraCore Limited (the company). The Auditor-General has appointed me, Stephen Graham, using the staff and resources of BDO Rotorua Limited, to carry out the audit of the financial statements and performance information of the company on his behalf.

**Opinion**

We have audited:

- the financial statements of the company on pages 12 to 31, that comprise the statement of financial position as at 30 June 2023, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 5 to 11.

In our opinion:

- the financial statements of the company:
    - o present fairly, in all material respects:
        - its financial position as at 30 June 2023; and
        - its financial performance and cash flows for the year then ended; and
    - o comply with generally accepted accounting practice in New Zealand in accordance with PBE Standards Reduced Disclosure Regime; and
- the performance information of the company presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended *30 June 2023*.

Our audit was completed on 5 July 2024. This is the date at which our opinion is expressed.

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

**Basis for our opinion**

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

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

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

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

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

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

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

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

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

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

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

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

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

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

**Independence**

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)* issued by the New Zealand Auditing and Assurance Standards Board.

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

**Stephen Graham**
**BDO Rotorua Limited**
**On behalf of the Auditor-General**
**Rotorua, New Zealand**