



**THE SOUTHERN TRUST INCORPORATED
FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED
1 JANUARY, 2017**

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DIRECTORY

As at 1 January, 2017

PRINCIPAL BUSINESS: Administration of Gaming Machines

DATE OF ESTABLISHMENT: 16 January 1998

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TRUSTEES: Evan Moore
Karen Shea
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SOLICITORS: Wilkinson Rodgers

BANKERS: Bank of New Zealand

AUDITORS: PricewaterhouseCoopers

**STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE PERIOD ENDED 1 JANUARY, 2017**

	01-Jan 2017	03-Jan 2016
Gaming Revenue	28,225,598	27,418,086
Gaming Expenses		
Gaming Machine Duty	6,491,888	6,282,548
Electronic Monitoring, Gaming Fees & Levies	1,327,703	1,070,961
Venue Costs	4,498,410	4,377,361
Depreciation Costs	1,508,993	1,429,658
Other Direct Gaming Costs	1,082,931	1,532,752
Total Gaming Expenses	14,909,925	14,693,280
Gross Gaming Surplus	13,315,673	12,724,806
Other income	36,194	274,628
Gain on sale of gaming machines and fixed assets	264,661	361,018
Total Other Income	300,855	635,646
Administration	603,327	551,862
Employment	1,507,795	1,462,039
Non Gaming Depreciation	26,106	27,913
	2,137,228	2,041,814
Surplus Available for Distribution	11,479,300	11,318,638
Authorised Purpose Distributions for the year	11,414,475	11,382,404
Refunds Received	211,981	228,083
	11,202,494	11,154,321
Surplus for the year from continuing operations	276,806	164,317
Surplus For The Year	276,806	164,317
Other comprehensive revenue and expense for the year	-	-
Total comprehensive revenue and expense for the year	276,806	164,317

The above statements should be read in conjunction with the accompanying notes

**STATEMENT OF CHANGES IN NET ASSETS/EQUITY
FOR THE PERIOD ENDED 1 JANUARY, 2017**

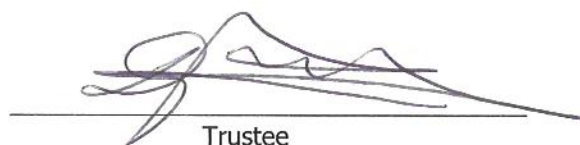
	01-Jan 2017	03-Jan 2016
Community Equity Opening Balance	2,646,784	2,482,467
Total Comprehensive Revenue and Expense Comprising: Net Surplus/(Deficit) after Authorised Purpose Distributions	276,806	164,317
Community Equity Closing Balance	<u>2,923,590</u>	<u>2,646,784</u>

**STATEMENT OF FINANCIAL POSITION
AS AT 1 JANUARY, 2017**

	Note	01-Jan 2017	03-Jan 2016
ASSETS			
Current Assets			
Cash and cash equivalents	4	1,221,005	1,934,599
Receivables from exchange transactions		825,374	765,804
Prepayments		279,228	253,536
		2,325,607	2,953,939
Non-Current Assets			
Property, Plant and Equipment	5	2,543,669	1,765,096
		2,543,669	1,765,096
TOTAL ASSETS		4,869,276	4,719,035
LIABILITIES			
Current Liabilities			
Payables from exchange transactions		350,973	478,059
Gaming Duty		731,916	622,987
Goods and Services Tax		466,699	467,212
Employment Taxes and Leave		165,538	158,153
Multi-Year Grants		115,280	115,280
		1,830,406	1,841,691
Non-Current Liabilities			
Multi-Year Grants		115,280	230,560
TOTAL LIABILITIES		1,945,686	2,072,251
NET ASSETS/EQUITY			
Community Equity	3	2,923,590	2,646,784
TOTAL NET ASSETS/EQUITY		2,923,590	2,646,784
TOTAL NET ASSETS/EQUITY AND LIABILITIES		4,869,276	4,719,035



Trustee



Trustee

Date 21 March 2017

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 1 JANUARY, 2017**

	01-Jan 2017 \$	03-Jan 2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Trade and Other Debtors	28,166,028	27,087,646
Trustee Distributions to Authorized Purposes	(11,317,773)	(11,198,971)
Taxes Paid - Duty & Problem Gambling Levy	(6,806,481)	(6,661,190)
Payments to Trade Creditors, Others & Employees	(8,742,553)	(8,291,592)
Interest and Insurance Received	36,194	274,358
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>1,335,415</u>	<u>1,210,251</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Property, Plant and Equipment	(2,398,837)	(1,324,821)
Proceeds from sale of fixed assets	349,828	481,764
Proceeds from Disposal of Interest in Associate	-	6,170
NET CASH FLOWS (TO) INVESTING ACTIVITIES	<u>(2,049,009)</u>	<u>(836,887)</u>
NET INCREASE/(DECREASE) IN CASH HELD	(713,594)	373,364
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,934,599</u>	<u>1,561,235</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>1,221,005</u>	<u>1,934,599</u>

	Jan-1 2017 \$	Jan-3 2016 \$
RECONCILIATION OF OPERATING CASH FLOW OPERATING RESULT		
Total Other Comprehensive Income/(Loss)	276,806	164,317
Items not involving Cash Flow		
Share of net surplus of associates		(270)
Gain on Sale of Fixed Assets	(264,661)	(361,018)
Depreciation	1,535,099	1,457,571
Impact of changes in Working Capital		
Accounts receivable	(59,051)	(332,237)
Accounts payable	(127,087)	252,257
Prepayments	(25,691)	29,630
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>1,335,415</u>	<u>1,210,251</u>

1. Reporting Entity

The Southern Trust (the "Trust") is a charitable trust, registered in New Zealand under the Charitable Trusts Act 1957, and domiciled in New Zealand, and is a public benefit entity for the purposes of financial reporting in accordance with the Financial Reporting Act 2013. The Trust's registered office and principle place of business is 245 Stuart Street, Dunedin, New Zealand.

This is the Trust's first set of financial statements presented in accordance with Public Benefit Entity Standards. ("PBE Standards")

The Trust is involved in the gaming industry, and its principal trading activities are the ownership and operation of gaming machines, and the distribution of surpluses arising from these activities to community groups either within the region from which the surpluses originated, or to organisations which provide services nationally in accordance with the standards and practices set out by the Gambling Act of 2003 and the associated regulations.

Basis of Preparation

The financial statements of the Trust have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with PBE Standards as appropriate for Tier 1 not-for-profit public benefit entities.

These financial statements were authorised for issue by the Trustees 21 March, 2017.

No other bodies have the power to amend the financial statements after the date of issuance.

The financial statements have been prepared on the historical cost basis. Cost is based on the amount of cash and cash equivalents paid on the fair value or the other consideration given to acquire an asset at the time of its acquisition or construction.

The financial statements are presented in New Zealand currency, rounded to the nearest whole dollar which is the functional currency.

There has been no change in the functional currency of the Trust.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the current reporting period which covers the 52 week period commencing 4 January 2016 to 1 January 2017, and the comparative information covering the 52 week period commencing 1 January 2015 to 3 January 2016. The Trust changed reporting periods in 2015, so that fiscal periods now end on a Sunday to reflect the weekly reporting cycle used by the electronic gaming machines. As a result the fiscal period 2015 ended on Sunday 3 January 2016, rather than Thursday, 31 December 2015.

The preparation of financial statements in conformity with PBE Standards requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of which form the basis of judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of PBE Standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are discussed in note 14.

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

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

Changes in Accounting Policies

These are the Trusts first financial statements prepared in accordance with Tier 1 PBE accounting standards. The key impacts on the current and prior period financial statements relate to terminology changes. Given, that the Trust reported in accordance with New Zealand equivalents to International Financial Reporting Standards for Public Benefit Entities (NZ IFRS PBE) and other New Zealand standards and pronouncements that have authoritative support within New Zealand to be applied for not-for-profit public benefit entities that applied NZ IFRS PBE previously, there are no material measurement or recognition changes.

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of these financial statements:

Property, Plant and Equipment

Property, plant and equipment comprise gaming machines, ancillary gaming machine equipment, motor vehicles, computer equipment and furniture and fittings.

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate when it is probable that the future economic benefits embodied within the item will flow to the Trust and the cost of the item can be measured reliably.

All other costs are recognised in surplus or deficit in the statement of comprehensive revenue and expense.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives as follows:

Motor vehicles	26%	straight line
Computer equipment	33% - 48%	straight line
Gaming machines		
Cabinets	33%	straight line
Electronic games	50%	straight line
Ancillary gaming machine equipment		
IT equipment	48%	straight line
Furniture	100%	straight line
Security equipment	100%	straight line
Signage	24%-33%	straight line
Monitoring equipment	33%	straight line
Note & coin counters	33%	straight line
Office furniture and fittings	12%-33%	straight line

Gains and losses on disposal of fixed assets are taken into account in determining the operating result for the period.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or installation of non-current assets are capitalised as part of the cost of those assets. Other borrowing costs are expensed.

Intangibles

Gaming machine licences are intangible assets that are renewable annually. For this reason, expenditure on the acquisition or renewal of gaming machine licences is expensed in surplus or deficit in the statement of comprehensive revenue and expenses, and is not carried forward to future accounting periods as an Intangible Asset.

Receivables

Trade and other receivables are recorded at the actual amounts due, less any provision for doubtful debts (impairment losses). An estimate of doubtful debts is made when collection of the full amount due is no longer probable. Bad debts are written off against the allowance account when these are deemed no longer collectible.

Changes in the carrying amount of the allowance account are recognised in surplus or deficit in the statement of comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and current and short term deposit accounts held by external banking institutions.

Bank overdrafts that are repayable on demand and which form an integral part of cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment of non-financial assets

Impairment of cash generating assets

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is written down.

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

If the recoverable amount of an asset, or cash generating unit, is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount, and an impairment loss is recognised immediately in surplus or deficit in the statement of comprehensive revenue and expense, unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset previously. A reversal of impairment loss is recognised immediately in surplus or deficit in the statement of comprehensive revenue and expense.

Impairment of non-cash generating assets

For non-financial non-cash-generating assets, the Trust assesses at each reporting date whether there is an indication that a non-cash-generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Trust estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash-generating asset's fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount. An impairment loss is recognised immediately in surplus or deficit in the statement of comprehensive revenue and expense.

In assessing value in use, the Trust has adopted the depreciated replacement cost approach. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

In determining fair value less costs to sell, the price of the asset in a binding agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributed to the disposal of the asset, is used. If there is no binding agreement, but the asset is traded on an active market, fair value less cost to sell is the asset's market price less cost of disposal. If there is no binding sale agreement or active market for an asset, the Trust determines fair value less cost to sell based on the best available information.

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

Cash generating assets are assets held with the primary objective of generating a commercial return and a Cash Generating Unit (CGU) is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent

of the cash inflows from other assets or groups of assets. The most significant CGU's for the Trust have been identified as gaming machines.

Non cash generating assets are assets other than cash-generating assets.

Income Tax

The Trust is not liable for income tax on income derived for charitable purposes. All income is non-taxable and therefore no income tax is recognised.

Payables

Trade and other payables are recognised when the Trust becomes obliged to make future payments resulting from the purchase of goods and services, or from the approval of community grants.

Provisions

A provision is recognised on the face of the statement of financial position when the Trust has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as borrowing costs.

Revenue Recognition

- *Revenue from Gaming Machines*

Revenue from the operation of gaming machines is recognised when it is probable and can be reliably measured.

- *Interest Revenue*

Interest revenue is recognised on a time proportionate basis taking into account the effective yield on the financial asset.

Expenses

- *Operating lease payments*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are recognised in the statement of comprehensive revenue and expense on a straight-line basis over the term of the lease. Lease incentives received are recognised in surplus or deficit, in the statement of comprehensive income and expense as an integral part of the total lease expense.

■ *Finance lease payments*

Finance leases, which transfer to the Trust substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge and the reduction of any outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised exclusive of GST, except for receivables and payables, which are reported inclusive of GST.

Cash flows are included in the cash flow statement on an exclusive basis.

Commitments and contingencies are disclosed exclusive of the amounts of GST receivable or payable.

Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

Distributions to Authorised Purposes

All grant applications are assessed against the Trust's Grants Policy. Only grants that comply with the policy will be considered by the Net Proceeds Committee. Non multi-year grant distributions are expensed at the time payment is made and will have been approved by the Net Proceeds Committee and all required conditions in respect of the application will have been met. Multi-year grant distributions are expensed at the time of approval by the Net Proceeds Committee and after all substantive conditions have been satisfied.

Standards Issued but not yet Effective

PBE IFRS 9 *Financial Instruments*

This standard is based upon the for-profit standard NZ IFRS 9 *Financial Instruments* and has an effective date of 1 January 2021. However, the standard gives PBEs the opportunity to early adopt. PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* will continue to be available until an international project on financial instruments has been completed.

Consistent with NZ IFRS 9, PBE IFRS 9 simplifies the model for classifying and recognising financial instruments to align hedge accounting more closely with common risk management practices. Additionally this standard allows changes in credit risk in respect of liabilities designated at fair value through profit or loss to be presented within other comprehensive income and introduces a new impairment model moving away from an incurred credit loss model to an expected credit loss model.

2. **AUTHORISED PURPOSE (GRANTS)**

2.1 Grants are expensed in the period in which payment is made with the exception of multi-year grants which are expensed when approved and any outstanding documentation has been received. At the 1 January, 2017 grants of \$230,560, (2016 \$345,480) had been approved but not yet paid.

2.2 Amounts paid for grants net of refunds for the reporting period ended 1 January, 2017 were \$11,202,494, (2016 \$11,154,321).

3. **COMMUNITY EQUITY**

The Trust, as a result of discussions with the Department of Internal Affairs (DIA), will describe Trust Capital: Trustees Income Account, in the statement of financial position as Community Equity. This Community Equity will represent undistributed community funds.

4. **CASH AND CASH EQUIVALENTS**

	1 JANUARY, 2017	3 JANUARY, 2016
	\$	\$
Cash and cash equivalents comprise the following:		
Petty Cash	329	500
Main Account	374,159	242,582
Investment Account - Call Account	846,517	1,691,517
	<u>1,221,005</u>	<u>1,934,599</u>

5. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles	Office Equipment	Computer Equipment	Gaming Machines	Gaming Machine Ancillary Equipment	Leasehold Improvement	Total
Cost	\$	\$	\$	\$	\$	\$	\$
Balance as at 1 January 2015	220,347	140,567	482,349	20,939,147	1,980,540	14,334	23,777,284
Additions at cost	-	1,044	4,468	1,156,370	162,940	-	1,324,822
Disposals	-	(2,334)	(5,391)	(2,908,060)	(266,006)	-	(3,181,791)
Balance as at 3 January 2016	220,347	139,276	481,426	19,187,458	1,877,473	14,334	21,920,314
Accumulated Depreciation							
Balance as at 1 January 2015	204,701	132,886	468,550	19,163,131	1,777,854	11,571	21,758,693
Current period depreciation	13,437	2,949	9,048	1,225,976	203,683	2,478	1,457,571
Disposals	-	(2,331)	(5,391)	(2,792,849)	(260,476)	-	(3,061,047)
Balance as at 3 January 2016	218,138	133,504	472,207	17,596,258	1,721,062	14,049	20,155,218
Net book value at 3 January 2016	2,209	5,772	9,219	1,591,200	156,411	285	1,765,096

	Motor Vehicles	Office Equipment	Computer Equipment	Gaming Machines	Gaming Machine Ancillary Equipment	Leasehold Improvement	Total
Cost	\$	\$	\$	\$	\$	\$	\$
Balance as at 3 January 2016	220,347	139,276	481,426	19,187,458	1,877,473	14,334	21,920,314
Additions at cost	180,214	4,889	3,224	1,856,425	354,085	-	2,398,837
Disposals	(113,722)	-	(7,498)	(2,125,684)	(174,872)	-	(2,421,776)
Balance as at 1 January 2017	286,839	144,165	477,152	18,918,199	2,056,686	14,334	21,897,375
Accumulated Depreciation							
Balance as at 3 January 2016	218,138	133,504	472,207	17,596,258	1,721,062	14,049	20,155,218
Current period depreciation	14,754	2,825	8,242	1,295,304	213,689	285	1,535,099
Disposals	(113,722)	-	(7,498)	(2,051,524)	(163,868)	-	(2,336,612)
Balance as at 1 January 2017	119,170	136,329	472,951	16,840,038	1,770,883	14,334	19,353,705
Net book value at 1 January 2017	167,669	7,836	4,201	2,078,161	285,803	-	2,543,670

6. OVERDRAFT FACILITY AND SECURITIES HELD

The Trust has an overdraft facility in place with the BNZ which was not utilised during the financial period ended 1 January, 2017. The BNZ has a registered first and only general security agreement over the assets and undertakings of the Trust.

7. FINANCIAL RISK FACTORS

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

Risk management is carried out by the Trustees and management.

a. Market Risk – Cash Flow and Fair Value Interest Rate Risk

The Trust is exposed to interest rate risk as it holds on-call investments in cash.

Funds on-call expose the Trust to cash flow interest rate risk.

The Trust has an agreed borrowing facility with its bankers and any borrowing is subject to terms and conditions of the Market Connect overdraft facility which includes a registered first and only general security agreement.

Interest Rate Sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates on cash and cash equivalents on floating and short term deposits. It assumes all other variables remain constant during the period.

Financial Assets	Carrying Amount	-1%	1%
Cash and cash equivalents			
1 January, 2017	1,221,005	(12,210)	12,210
3 January, 2016	1,934,599	(19,346)	19,346

b. Credit Risk

Credit risk arises from cash and cash equivalents and accounts receivables. Credit risk is the risk that a counter-party will default on its contractual obligations resulting in financial loss for the Trust.

Funds on-call or short term deposit are held with reputable banks. Accounts receivable primarily consist of a maximum of one week's net proceeds from any one venue operator.

The maximum amount of credit risk is the amount due from debtors which amounted to 825,374 (2016 \$ 765,804).

The key concentration of credit risk arises from the funds on deposit with the Bank of New Zealand \$ 1,220,676 (2016 \$ 1,934,099). The Bank of New Zealand has a credit rating of AA- [Standard & Poor's], Aa3 [Moody's] and AA- [Fitch] (BNZ Disclosure Statement September 2016).

There are no other concentrations of credit risk and no financial asset is past due.

The Trust does not hold any collateral for their assets.

c. Liquidity Risk

The Trust manages its liquidity to ensure it is able to meet its obligations as they fall due.

Ultimate responsibility for liquidity risk management rests with the Trustees, who have provided management with a framework for the Trust's medium and long term financial management.

Liquidity risk is managed with the use of monthly forecasts.

The analysis of financial liabilities is shown below:

	Carrying Amount	Less Than 1 Year	1-5 Years	Greater Than 5 Years
	\$	\$	\$	\$
3 January, 2016				
Trade & Other Payables	1,726,411	1,726,411	-	-
Multi-Year Grants	345,840	115,280	230,560	-
	<u>2,072,251</u>	<u>1,841,691</u>	<u>230,560</u>	<u>-</u>
1 January, 2017				
Trade & Other Payables	1,715,126	1,715,126	-	-
Multi-Year Grants	230,560	115,280	115,280	-
	<u>1,945,686</u>	<u>1,830,406</u>	<u>115,280</u>	<u>-</u>

d. **Capital Risk Management**

The Trust's objectives when managing capital are to safeguard the Trust's ability to continue as a going concern in order to provide grants to the community while maintaining an optimal capital structure to reduce the cost of operations.

The Trust's strategy is to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently. The Trust's equity is largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

8. COMMITMENTS

	1 January, 2017	3 January, 2016
	\$	\$
i. Non-Cancellable Operating Lease Commitments		
Payable no later than one year	107,415	107,415
Payable later than one year, not later than five years	288,108	394,051
Payable later than five years	-	-

ii. Capital Commitments

The Trust has capital commitments of \$45,000 (2016: \$0) relating to vehicle purchases

9. AUDIT FEES

The amount paid for audit fees for the reporting period ended 1 January, 2017 was \$30,345, (2016 \$28,500).

10. CONTINGENCIES

The Trust has contingent liabilities relating to capital expenditure purchase obligations dependent upon DIA licensing requirements of \$668,445 (2016 \$0)

11. TRANSACTIONS WITH RELATED PARTIES

The Southern Trust maintains a register of Trustees and key management personnel interests.

The value of grant distributions to organisations listed on the register was \$42,600 (2016 \$15,800).

Related Party	Nature of Relationship	Date of Grant	Amount
Dunedin Prison Charitable Trust	Stewart Harvey was an officer until 9 June 2016. Paul Pedofski was an officer until 12 August 2016.	18 February, 2016	\$5,000
Surf Life Saving New Zealand Inc	Peter Haslemore is a member of the St Clair Surf Living Saving Club which is affiliated with Surf Life Saving New Zealand Inc.	21 April, 2016	\$37,600

During the period the Southern Trust Paid Wilkinson Rodgers lawyers \$4,868 for professional services. Evan Moore (Trustee) is a consultant to this firm.

Salaries and other short term employee benefits of \$485,445 for four full-time equivalent employees (2016 \$490,736) were paid to key management personnel during the period. No amounts in 2016 were expensed for termination, post-employment or other long term benefits (2015 \$nil).

Trustees fees of \$78,376 (2015 \$92,500) were paid to five trustees during the year.

12. EXERCISE OF JUDGEMENT AND ESTIMATION

The Trustee's believe that there are no significant judgements or estimates made in the preparation of these financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

13. EVENTS OCCURRING AFTER THE REPORTING PERIOD

No events occurring after the reporting period (2016 nil).



Independent auditor's report

To the trustees of The Southern Trust Incorporated

The Southern Trust Incorporated's financial statements comprise:

- the statement of financial position as at 1 January 2017;
- the statement of comprehensive revenue and expense for the period then ended;
- the statement of changes in net assets/equity for the period then ended;
- the statement of cash flows for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the financial statements of The Southern Trust Incorporated (the "Trust"), present fairly, in all material respects, the financial position of the Trust as at 1 January 2017, its financial performance and its cash flows for the period then ended in accordance with Public Benefit Entity Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Trust in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Trust in the area of agreed upon procedures over prospective financial information. The provision of these services has not impaired our independence as auditors of the Trust.

Information other than the financial statements and auditor's report

The Trustees are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

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



Responsibilities of the Trustees for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page8.aspx

Who we report to

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

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

For and on behalf of:

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

Chartered Accountants
22 March 2017

Dunedin