



**THE SOUTHERN TRUST INCORPORATED
FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED
31 DECEMBER, 2017**

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DIRECTORY

As at 31 December, 2017

PRINCIPAL BUSINESS: Administration of Gaming Machines

DATE OF ESTABLISHMENT: 16 January 1998

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TRUSTEES: Evan Moore
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SOLICITORS: Wilkinson Rodgers

BANKERS: Bank of New Zealand

AUDITORS: PricewaterhouseCoopers

**STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE PERIOD ENDED 31 DECEMBER, 2017**

	Note	31-Dec 2017	01-Jan 2017
Gaming Revenue		30,032,390	28,225,598
Gaming Expenses			
Gaming Machine Duty		6,907,450	6,491,888
Electronic Monitoring, Gaming Fees & Levies		1,456,299	1,327,703
Venue Costs		4,788,525	4,498,410
Depreciation Costs	1	962,765	1,508,993
Other Direct Gaming Costs		1,162,486	1,082,931
Total Gaming Expenses		15,277,525	14,909,925
Gross Gaming Surplus		14,754,865	13,315,673
Other income		1,960	36,194
Gain on sale of gaming machines and fixed assets		135,676	264,661
Total Other Income		137,636	300,855
Administration		585,746	603,327
Employment		1,553,609	1,507,795
Non Gaming Depreciation		64,045	26,106
		2,203,400	2,137,228
Surplus Available for Distribution		12,689,101	11,479,300
Authorised Purpose Distributions for the period		12,095,546	11,414,475
Refunds Received		193,646	211,981
		11,901,900	11,202,494
Surplus for the period from continuing operations		787,201	276,806
Surplus For The Period		787,201	276,806
Other comprehensive revenue and expense for the period		-	-
Total comprehensive revenue and expense for the period		787,201	276,806

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


**STATEMENT OF CHANGES IN NET ASSETS/EQUITY
FOR THE PERIOD ENDED 31 DECEMBER, 2017**

	31-Dec 2017	01-Jan 2017
Community Equity Opening Balance	2,923,590	2,646,784
Total Comprehensive Revenue and Expense Comprising: Net Surplus after Authorised Purpose Distributions	787,201	276,806
Community Equity Closing Balance	<u>3,710,791</u>	<u>2,923,590</u>

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

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER, 2017**

	Note	31-Dec 2017	01-Jan 2017
ASSETS			
Current Assets			
Cash and cash equivalents	4	961,981	1,221,005
Receivables from exchange transactions		773,932	825,374
Prepayments		305,124	279,228
		2,041,037	2,325,607
Non-Current Assets			
Property, Plant and Equipment	5	3,632,683	2,543,669
		3,632,683	2,543,669
TOTAL ASSETS		5,673,720	4,869,276
LIABILITIES			
Current Liabilities			
Payables from exchange transactions		374,448	350,973
Gaming Duty		769,466	731,916
Goods and Services Tax		535,367	466,699
Employment Taxes and Leave		168,368	165,538
Multi-Year Grants		115,280	115,280
		1,962,929	1,830,406
Non-Current Liabilities			
Multi-Year Grants		-	115,280
TOTAL LIABILITIES		1,962,929	1,945,686
NET ASSETS/EQUITY			
Community Equity	3	3,710,791	2,923,590
TOTAL NET ASSETS/EQUITY		3,710,791	2,923,590
TOTAL NET ASSETS/EQUITY AND LIABILITIES		5,673,720	4,869,276


Trustee


Trustee

Date 21 March 2018

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

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER, 2017**

	31-Dec 2017 \$	01-Jan 2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Trade and Other Debtors	30,119,808	28,166,028
Trustee Distributions to Authorized Purposes	(11,986,556)	(11,317,773)
Taxes Paid - Duty & Problem Gambling Levy	(7,319,224)	(6,806,481)
Payments to Trade Creditors, Others & Employees	(8,979,583)	(8,742,553)
Interest and Insurance Received	1,960	36,194
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>1,836,405</u>	<u>1,335,415</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Property, Plant and Equipment	(2,484,589)	(2,398,837)
Proceeds from sale of fixed assets	389,160	349,828
Proceeds from Disposal of Interest in Associate	-	-
NET CASH FLOWS (TO) INVESTING ACTIVITIES	<u>(2,095,429)</u>	<u>(2,049,009)</u>
NET INCREASE/(DECREASE) IN CASH HELD	(259,024)	(713,594)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>1,221,005</u>	<u>1,934,599</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>961,981</u>	<u>1,221,005</u>
	Dec-31 2017 \$	Jan-1 2017 \$
RECONCILIATION OF OPERATING CASH FLOW OPERATING RESULT		
Total Comprehensive Revenue and Expense	787,201	276,806
Items not involving Cash Flow		
Gain on Sale of Fixed Assets	(135,676)	(264,661)
Depreciation	1,026,810	1,535,099
Impact of changes in Working Capital		
Accounts receivable	51,442	(59,051)
Accounts payable	132,524	(127,087)
Prepayments	(25,896)	(25,691)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>1,836,405</u>	<u>1,335,415</u>

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

Notes to the Financial Statements

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.

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, 2018.

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 2 January 2017 to 31 December 2017, and the comparative information covering the 52 week period commencing 3 January 2016 to 1 January 2017. 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 are discussed below.

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.

Critical Estimates and Judgements

The preparation of financial statements requires the use of accounting estimates and assumptions which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Trust's accounting policies. The estimate that has a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year is detailed below.

During the period the estimated total useful life of certain items of plant and equipment were revised. The net effect of the changes in the current financial year was a decrease in depreciation expense of \$853,427.

Effects on future periods are impracticable to estimate due to the unknown nature and timing of future capital expenditures.

Changes in Accounting Policies

There have been no changes in accounting policies for the year.

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:

	31-Dec 2017	01-Jan 2017	
Motor vehicles	25%	26%	straight line
Computer equipment	25%	33-48%	straight line
Gaming machines			straight line
Cabinets	20%	33%	straight line
Electronic games	33%	50%	straight line
Ancillary gaming machine equipment			straight line
IT equipment	25%	48%	straight line
Furniture	33%	100%	straight line
Security equipment	33%	100%	straight line
Signage	33%	24-33%	straight line
Monitoring equipment	33%	33%	straight line
Note & coin counters	33%	33%	straight line
Office furniture and fittings	10-25%	12-33%	straight line

During the period the estimate of useful lives of certain items of plant and equipment were revised.

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 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.

The Trust will first apply this standard in the financial period beginning 3 January, 2022. The impact of implementation is not reasonably known.

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 31 December, 2017 grants of \$145,904, (Jan 2017 \$230,560) had been approved but not yet paid.

2.2 Amounts paid for grants net of refunds for the reporting period ended 31 December, 2017 were \$11,901,900, (Jan 2017 \$11,202,494).

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

	31 DECEMBER, 2017	1 JANUARY, 2017
	\$	\$
Cash and cash equivalents comprise the following:		
Petty Cash	162	329
Main Account	825,372	374,159
Investment Account - Call Account	136,447	846,517
	<u>961,981</u>	<u>1,221,005</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 3 January 2016	220,347	139,276	481,426	19,187,457	1,877,473	14,334	21,920,313
Additions at cost	180,214	4,889	3,224	1,856,425	354,085	0	2,398,837
Disposals	(113,722)	0	(7,498)	(2,125,684)	(174,872)	0	(2,421,776)
Balance as at 1 January 2017	286,839	144,165	477,152	18,918,198	2,056,686	14,334	21,897,374
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)	0	(7,498)	(2,051,524)	(163,868)	0	(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	2,078,160	285,803	0	2,543,669

	Motor Vehicles	Office Equipment	Computer Equipment	Gaming Machines	Gaming Machine Ancillary Equipment	Leasehold Improvement	Total
Cost	\$	\$	\$	\$	\$	\$	\$
Balance as at 1 January 2017	286,839	144,165	477,152	18,918,198	2,056,686	14,334	21,897,374
Additions at cost	45,000	6,822	19,410	1,979,392	318,649	-	2,369,273
Disposals	(34,639)	-	-	(3,315,131)	(282,587)	-	(3,632,357)
Balance as at 31 December 2017	297,200	150,987	496,562	17,582,459	2,092,748	14,334	20,634,290
Accumulated Depreciation							
Balance as at 1 January 2017	119,170	136,329	472,951	16,840,038	1,770,883	14,334	19,353,705
Current period depreciation	56,165	4,548	3,331	790,100	172,666	-	1,026,810
Disposals	(34,639)	-	-	(3,079,486)	(264,783)	-	(3,378,908)
Balance as at 31 December 2017	140,696	140,877	476,282	14,550,652	1,678,766	14,334	17,001,607
Net book value at 31 December 2017	156,504	10,110	20,280	3,031,807	413,982	-	3,632,683

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 31 December, 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			
31 December, 2017	961,981	(9,620)	9,620
1 January, 2017	1,221,005	(12,210)	12,210

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 \$773,932 (Jan 2017 \$825,374).

The key concentration of credit risk arises from the funds on deposit with the Bank of New Zealand \$961,819 (Jan 2017 \$1,220,676). The Bank of New Zealand has a credit rating of AA-

[Standard & Poor's], A1 [Moody's] and AA- [Fitch] (BNZ Disclosure Statement December 2017).

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
	\$	\$	\$	\$
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>
31 December, 2017				
Trade & Other Payables	1,847,649	1,847,649	-	-
Multi-Year Grants	115,280	115,280	-	-
	<u>1,962,929</u>	<u>1,962,929</u>	<u>-</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**

	31 December, 2017	1 January, 2017
	\$	\$
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	180,693	288,108
Payable later than five years	-	-
ii. Capital Commitments		
The Trust has capital commitments of \$46,367 (Jan 2017: \$45,000) relating to equipment purchases		

9. **AUDIT FEES**

The amount paid for audit fees for the reporting period ended 31 December, 2017 was \$27,720, (Jan 2017 \$28,770).

10. **CONTINGENCIES**

The Trust has contingent liabilities relating to capital expenditure purchase obligations dependent upon DIA licensing requirements of \$198,212 (Jan 2017 \$668,445)

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 \$60,000 (Jan 2017 \$42,600).

Related Party	Nature of Relationship	Date of Grant	Amount
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.	22 June, 2017	\$60,000

During the period the Southern Trust paid Wilkinson Rodgers lawyers \$1,968 for professional services. Evan Moore (Trustee) is a consultant to this firm.

Salaries and other short term employee benefits of \$518,308 for four full-time equivalent employees (Jan 2017 \$485,445) were paid to key management personnel during the period. No amounts in 2017 were expensed for termination, post-employment or other long term benefits (Jan 2017 \$nil).

Trustees fees of \$63,124 (Jan 2017 \$78,736) were paid to four trustees during the year.

12. **EVENTS OCCURRING AFTER THE REPORTING PERIOD**

No events occurring after the reporting period (2017 nil).



Independent auditor's report

To the trustees of The Southern Trust Incorporated

The financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive revenue and expense for the 52 week period then ended;
- the statement of changes in net assets/equity for the 52 week period then ended;
- the statement of cash flows for the 52 week 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 31 December 2017, its financial performance and its cash flows for the 52 week 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 areas of agreed upon procedures over prospective financial information. The provision of these other services has not impaired our independence as auditor of the Trust.

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://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/>

This description forms part of our auditor's report.

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
21 March 2018

Dunedin