Annual Report 2021

INVERCARGILL AIRPORT

Bright lights in the southern skies

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Approval by Directors

The Directors have approved for issue the financial statements of Invercargill Airport Limited for the year ended 30 June 2021.

G Lilly	**J George**
Chairman	Director

For and on behalf of the Board of Directors
2 November 2021

Directory

Directors who held office during the year ended 30 June 2021
G Lilly - Chairman
J Green
J Franklin (until 30 November 2020)
J George (from 1 November 2020)
A Hercus (from 1 November 2020)

Management
Mr N Finnerty - Chief Executive

Registered Office
C/- Invercargill City Council
101 Esk Street
Invercargill 9810

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106 Airport Avenue
Invercargill
Phone (03) 218 6367
Fax (03) 218 6939

Postal Address
PO Box 1203
Invercargill 9840

Auditor
Audit New Zealand
Dunedin

Bankers
Westpac

Solicitors
AWS Legal
151 Spey Street
Invercargill 9810

Statutory Information

Directors' Remuneration

Invercargill Airport Limited	$
G Lilly (Chairman)	49,200
J George	14,350
J Green	24,600
A Hercus	16,400
J Franklin	10,250

There was no remuneration or other benefits paid to Directors during the year for any of the following:

- Compensation for loss of office.
- Guarantees given by the Company for debts incurred by a Director.

Directors' Interests

Except for the related parties disclosures in Note 13 of the notes to the financial statements, during the year, no Directors had an interest in any transaction or proposed transaction with the Company.

Use of Company Information by Directors

No Director of the Company has disclosed, used or acted on information that would not otherwise be available to a Director.

Shareholding by Directors

No Director has an interest in any of the Company shares held, acquired or disposed of during the year.

Directors' and Officers' Indemnity Insurance

The Company has insured all its Directors and Executive Officers against liabilities to other parties that may arise from their positions.

Employees' Remuneration

Two employees of the Company received remuneration and other benefits of $100,000 or greater during the year.

$000	No. of employees
170-180	1
100-110	1

Auditors' Remuneration

Audit fees for the Company totalled $32,503. Details of fees payable are contained in Note 1.

Recommended Dividend

Due to essential capital expenditure commitments the Directors are not recommending the payment of a dividend.

Executive Report

Invercargill Airport Limited Chairman and Chief Executive's Report, 30 June 2021

We are pleased to report on the performance of Invercargill Airport Limited for the financial year that ended on 30 June 2021, the twenty fourth year of trading for the Airport Company.

It has been a very busy and challenging year for the Airport. The priorities for the year were shaped by COVID 19 and focused on firstly stabilising the business during periods of lockdown constraints, and then adapting to a developing growth environment. We are able to report that whilst COVID 19 certainly impacted our business severely at the start of the year, we bounced back very well as confidence in domestic travel returned, and New Zealanders "found" Southland.

Since balance date, the Delta COVID variant has surfaced in New Zealand and on 17 August 2021 New Zealand went into a countrywide lockdown. Whilst much of New Zealand moved down the alert levels, and reopened substantially on 7 September, Auckland and some parts of the North Island have continued in lockdown for an extended period. This has negatively impacted the numbers of people traveling, and the Auckland/Invercargill nonstop jet is still suspended at the time of writing. New Zealand is currently transitioning from a COVID elimination strategy to understanding how to live with COVID in our community, and whilst progressive reopening will take place, we expect domestic air travel volumes to be volatile for some time to come.

Health, safety and compliance has again been our top priority with a focus on reviewing, identifying and mitigating our highest hazards and risks. We are pleased to report that the airport's safety culture is very strong, and we have had no lost time injuries to IAL staff over the year. We have continued strengthening our safety culture and focused on extending that to the community of airport users, with regular User Group Meetings, the introduction of Airport Conditions of Use and the implementation of airside driving standards.

With full aviation security status driven by jet operations being relatively new at the Airport, whilst we have had some minor incidents, we have, with the support of AVSEC, CAA and the Airport Users, continued to grow our understanding through learning and education, and the airport now delivers to a very high standard as evidenced by regular external audit assessment results.

The year saw passenger and aircraft movements start slowly, but then ramp up very quickly as we headed towards the Christmas period. The Invercargill to Auckland direct jet service came back earlier than expected and showed strong demand, growing quickly to four days a week in its new midday time slot. The strength of the flight was confirmed when it was scheduled to remain in place right through the Christmas holiday season, which is traditionally our quietest period. The Christchurch and Wellington flights also came back quickly and by the end of the year flight frequency and capacity levels were above pre COVID levels.

Stewart Island has become a destination of choice for New Zealanders looking to travel and explore. The Island had one of its strongest years ever for visitors, and it continues to develop as a unique New Zealand destination. The existence of very regular and convenient flights from Invercargill by Stewart Island Flights is a critical link to the Island, and a strong feature of the operation of Invercargill Airport.

These developments have contributed to stronger than expected passenger numbers through the Airport in the year under review. We had 303,878 passenger movements, a 4.4% increase over the previous year. This volume growth has helped drive a strong financial performance for the airport company, with revenue growing to $5.1 million, and a pre-tax profit of $526,000 before investment property revaluations, compared to $320,000 for the same period last year. The company had cautiously budgeted for revenues of $4.2 million and a pre-tax loss of $327,000, and so the actual results are encouraging for Invercargill Airport and for the partners we work with, and the communities we serve.

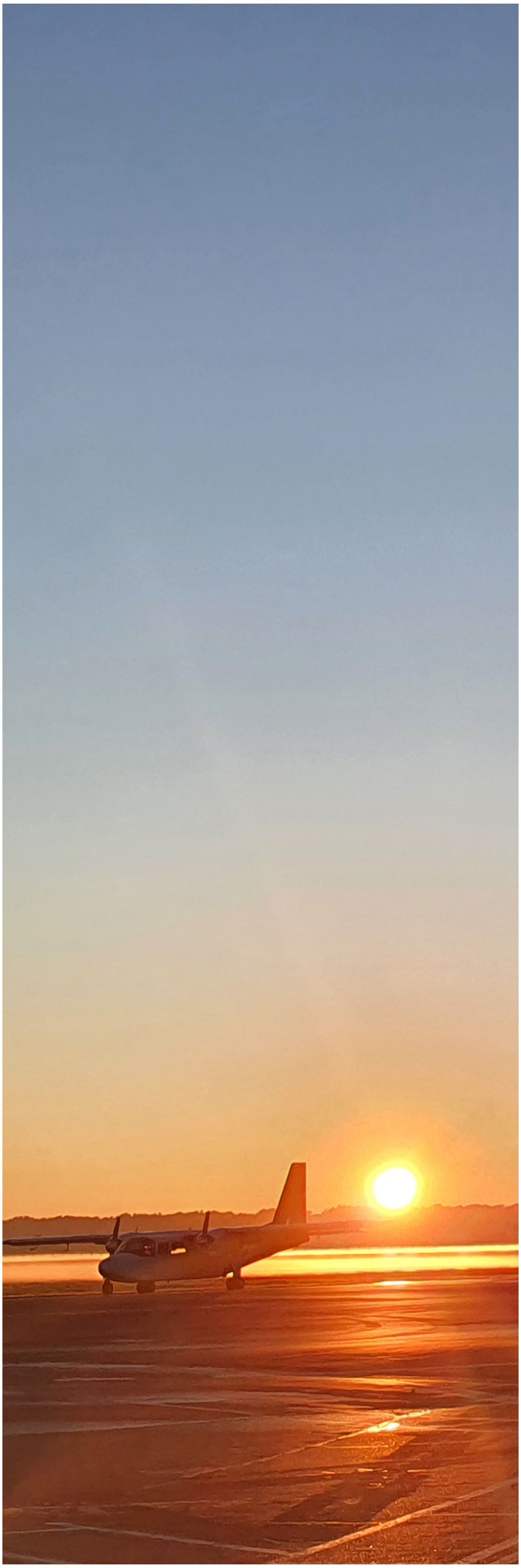
Whilst COVID caused significant uncertainty in our business, and of necessity we focused short term on securing our core capabilities as a full-service regional airport, it also allowed us the opportunity to challenge our current strategic thinking and look at the future opportunities for the airport. We started the complex process of updating our masterplan, with a focus on diversifying the business by growing the range of both aero related and non-aeronautical activities on and around our site. This work will continue on into the 2021/22 year. As part of the process, we also reviewed the capital structure of the business, and funding arrangements we have in place to support our major maintenance and growth projects over the next few years, and the airport company is in a strong position to be able to grow and take the development opportunities available to it.

Operationally we have had a very busy and challenging year, but one in which very good progress has been made on our core operational capabilities. Operating in the COVID world dominated the first part of the year, with operations then stabilising as we adapted to that much changed environment. Flight and passenger numbers steadily grew, with Invercargill having the strongest comeback of any airport in New Zealand. With the A320 nonstop jet service to Auckland moving to a midday turn around, the Airport is particularly busy across that middle of the day period. This challenges our facilities, particularly at the AVSEC passenger screening lane, but the increased throughput has been handled well through good teamwork and co-ordination.

It has become apparent that with volume growth, and the enhanced customer handling requirements driven by Covid and security, we will have to further develop our terminal and related facilities, such as car parking and rental vehicles, more quickly than had previously been contemplated. These requirements are all part of the master plan development work being done. With the Auckland nonstop jet services now a firmly established and growing part of Air New Zealand schedules, and our airport operations, we have reassessed our emergency response capability, and recently committed to purchase a new and significantly upgraded fire appliance. We have chosen to purchase a Panther 6x6 appliance from Rosenbauer in Austria. This is a state of the art, modern vehicle now in use at several New Zealand airports, and it will greatly enhance and strengthen our emergency response capability. The unit is due to be delivered in August 2022.

We initiated several major workstreams and projects during the year, including determining what facilities and resources are needed to better service and support the growing passenger numbers moving through the airport and reviewing all the leases and licences we have across the site to ensure they are up to date and delivering appropriately for both us and our partners. Our runway and taxiways were assessed, an annual process, and this has led to a decision to resurface the runway extensions at both ends that were constructed in 2004. These projects all support the viability and sustainability of Invercargill Airport as a cornerstone and critical infrastructure asset for the city, and for Southland.

With population growth in Invercargill, quite rapidly increasing land values and the limited availability of houses in and around the city, we have seen a record number of proposed subdivisions and property redevelopments in and around our land footprint, and our wider approved noise boundaries. As the key gateway to Southland, and a critical transport link into and out of the province, we are, and need to be, very focused on protecting our airport's operational capabilities and noise boundaries to ensure we can deliver the levels of



service required, both now and into the longer-term future.

We welcomed Jane George and Alastair Hercus to the Board in November 2020, replacing Jason Franklin who left to take up other Board opportunities, and Scott O'Donnell who left late in the previous financial year. We would like to acknowledge, and thank, both Jason and Scott for their strong support of the Airport through particularly uncertain and busy times.

The Board would like to acknowledge and thank the whole IAL team, and our wider community of companies and people that make the airport tick, for their ongoing commitment and support during this strangest of years in the pandemic influenced environment we live and work in today. It has been challenging, with high levels of uncertainty, but everyone has focused on delivering an amazing outcome not only for the airport but for everyone who uses our gateway.

In summary, the continued growth in air travel into and out of Southland, by both residents and visitors, bodes well for our future. The Board would like to acknowledge and thank our shareholders, and the many wider stakeholders who have an interest in, and commitment to, Invercargill Airport, for their continued support of our journey to becoming *New Zealand's leading full service Regional Airport, with a thriving Airport community connecting Southland to the world.*

Grant Lilly
Chair

Nigel Finnerty
Chief Executive

Statement of Financial Position

AS AT JUNE 30, 2021

	NOTE	2021 $000	2020 $000
ASSETS			
Current assets			
Cash and cash equivalents		4,341	3,526
Trade and other receivables	**5**	459	199
Inventories		5	8
Total current assets		**4,805**	**3,733**
Non-current assets			
Property, plant and equipment	**6**	17,839	19,476
Investment property	**7**	5,170	4,200
Construction work in progress		71	52
Total non-current assets		**23,080**	**23,728**
Total assets		**27,885**	**27,461**
LIABILITIES			
Current liabilities			
Trade and other payables	**8**	346	254
Retentions		49	49
Employee benefit liabilities	**9**	124	100
Borrowings	**10**	-	842
Tax payable		370	339
Total current liabilities		**889**	**1,584**
Non-current liabilities			
Deferred tax liability	**11**	825	974
Total non-current liabilities		**825**	**974**
Total liabilities		**1,714**	**2,558**
EQUITY			
Share capital	**12**	15,920	15,920
Retained earnings	**12**	5,721	4,453
Additional paid in capital	**12**	4,530	4,530
Total equity attributable to the equity holders of the company		**26,171**	**24,903**
Equity is attributable to:			
Parent entity	**12**	24,387	23,155
Minority interest	**12**	1,784	1,748
		26,171	**24,903**

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with, the Financial Statements.

Statement of Comprehensive Income

FOR THE YEAR ENDED JUNE 30, 2021

	NOTE	2021 $000	2020 $000
INCOME			
Aircraft movement and terminal charges		3,387	3,318
Ground transportation		699	640
Rental income		736	684
Sundry income		333	200
Change in fair value of investment property		970	-
Total income		**6,125**	**4,842**
EXPENDITURE			
Employee expenses	**2**	1,178	982
Depreciation	**6**	1,772	1,785
Other expenses	**1**	1,684	1,779
Total operating expenditure		**4,634**	**4,546**
Finance income	**3**	5	51
Finance expenses	**3**	-	77
Net finance expense		5	(26)
Operating profit / (loss) before tax		**1,496**	**270**
Income tax expense	**4**	228	145
Profit / (loss) after tax		**1,268**	**125**
Other comprehensive income			
Total other comprehensive income		-	-
Total comprehensive income		1,268	125
Total comprehensive income attributable to:			
Parent entity		1,232	121
Minority interest		36	4
		1,268	125

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with, the Financial Statements.

Statement of Changes in Equity

FOR THE YEAR ENDED JUNE 30, 2021

	NOTE	2021 $000	2020 $000
BALANCE AT 1 JULY		24,903	24,778
Total Comprehensive Income for the year	**12**	1,268	125
BALANCE AT 30 JUNE		**26,171**	**24,903**
Attributable to:			
Parent entity		24,387	23,155
Minority interest		1,784	1,748
BALANCE AT 30 JUNE		**26,171**	**24,903**

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with, the Financial Statements.

Statement of Cash Flows

FOR THE YEAR ENDED JUNE 30, 2021

	2021 $000	2020 $000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	4,787	4,990
Interest received	5	51
Payments to suppliers and employees	(2,752)	(2,550)
Interest paid	-	(77)
Income tax (paid) / refund	10	(3)
Subvention payment	(357)	(589)
Goods and services tax [net]	111	(39)
Net cash from operating activities	**1,804**	**1,783**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(147)	(1,086)
Net cash from investing activities	**(147)**	**(1,086)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	(842)	(380)
Net cash from financing activities	**(842)**	**(380)**
Net (decrease) / increase in cash and cash equivalents	**815**	**317**
Cash and cash equivalents at the beginning of the year	3,526	3,209
Cash and cash equivalents at the end of the year	**4,341**	**3,526**

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with, the Financial Statements.

RECONCILIATION OF NET PROFIT/(LOSS) TO NET CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES

	2021 $000	2020 $000
Reconciliation with reported operating profit		
Net profit after tax	1,268	125
Add/(deduct) non-cash items		
Depreciation	1,772	1,785
Change in fair value of investment property	(970)	50
Increase/(decrease) in deferred taxation	(149)	(208)
Impairment of trade receivables	49	-
Loss of disposal of property, plant and equipment	17	6
	719	**1,633**
Add/(less) movements in working capital:		
(Increase)/decrease in prepayments	5	(5)
(Increase)/ decrease in receivables	(371)	147
(Increase)/ decrease in inventories	3	-
Increase/(decrease) in accounts payable and accruals	38	123
Increase/(decrease) in GST/taxation	142	(240)
	(183)	**25**
Net cash inflow (outflow) from operating activities	**1,804**	**1,783**

RECONCILIATION OF CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the liabilities arising from financing activities can be classified as follows:

	SHORT-TERM BORROWINGS $000	LONG-TERM BORROWINGS $000	TOTAL $000
1 July 2020	842	-	842
Cashflows			
Repayments	(842)	-	(842)
Non-Cash			
Reclassification	-	-	-
30 June 2021	-	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED JUNE 30, 2021

REPORTING ENTITY

Invercargill Airport Limited (the Company) is a company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The Company is 97.20% owned by Invercargill City Holdings Limited. Hokonui Research and Development Ltd, Waihōpai Rūnaka Holdings Ltd, Te Runaka O Awarua Charitable Trust and Oraka-Aparima Runanga Incorporated Society each hold 0.70% of the share capital.

The Company is a Council Controlled Trading Organisation as defined in Section 6(1) of the Local Government Act 2002.

The primary objective of the Company is to operate the Invercargill airport and associated assets. Accordingly, the Company has designated itself as a profit orientated entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements for the year ended 30 June 2021 were approved and authorised for issue by the Board of Directors on 2 November 2021. The entity's directors do not have the right to amend the financial statements after issue.

BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the requirements of the Local Government Act 2002 and the Companies Act 1993.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime (NZ IFRS RDR).

The Company is a Tier 2 for-profit entity and has elected to report in accordance with the NZ IFRS Reduced Disclosure Regime on the basis that it does not have public accountability and is not a large for-profit public sector entity.

The accounting policies that have been applied to these financial statements are based on the External Reporting Board A1, Accounting Standards Framework (For-profit Entities Update).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand ($'000) except when otherwise indicated. The functional currency of the Company is New Zealand dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Income.

REVENUE

Revenue is recognised as the amount of consideration expected to be received in exchange for transferring promised goods or services to a customer.

Aircraft movement and terminal charges are recognised over time as the passenger travels or uses the airport facilities and the Company provides the service to the customer.

Car parking revenue is earned by charging customers a fee for the use of the airport carpark. The revenue earned is recognised over time as the service is used.

Rent and lease income is recognised on a straight line basis over the term of the lease.

Interest income is recognised using the effective interest method.

Sundry income is recognised over time as the Company provides the goods or services to the customer.

GOVERNMENT GRANTS

Government grants related to assets are recognised by deducting the grant in arriving at the carrying amount of the asset when they become receivable, unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation the grant is initially recorded as grants received in advance and then recognised as a deduction to the asset when the conditions of the grant are satisfied.

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

CONSTRUCTION WORK IN PROGRESS

Work in progress includes the cost of direct materials and direct labour used in putting replacement and new systems and plant in their present location and condition. It includes accruals for the proportion of work completed at the end of the period. Construction work in progress is not depreciated.

IMPAIRMENT OF ASSETS

The carrying amounts of the Company's assets, other than investment property, are reviewed at each balance date to determine whether there is any indication that an asset may be impaired. If any such indication exists, the assets recoverable amount is estimated in order to determine the extent of the impairment loss (if any).

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss and any subsequent reversal are recognised in the Statement of Comprehensive Income. If an impairment loss is reversed, the carrying value of the asset is stated at no more than what its carrying value would have been had the earlier impairment not occurred.

GOODS AND SERVICES TAX (GST)

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 ("IRD") is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from, the IRD, including the GST relating to 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.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, the Company makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. These estimates and assumptions may differ from the subsequent actual results. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. The estimates, assumptions and critical judgements in applying accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows. In particular, estimates and assumptions have been used in the following areas:

Determination of the recoverable amount of assets.

There are estimates and judgements made to determine the fair value of investment property. These are discussed in Note 7. The most sensitive assumption on the valuation is that Hangar 1 and 2 will be demolished in the next two years (2020: two years).

For 2020, due to the impact of COVID-19, and its impact on the economy and air travel, an impairment assessment was carried out by Peter Seed of Airbiz, an independent expert, effective 30 June 2020. The following major inputs and assumptions were adopted:

- The forecast free cashflows reflect the charges determined following the 2019 aeronautical pricing consultation with airline customers.
- Expected revenues also reflect expected passenger numbers. There is uncertainty around forecast future passenger movements. The forecasts assume a significant reduction in passengers during the 2021 and 2022 financial years with a recovery back to pre-COVID-19 levels occurring in the 2023 financial year.
- The weighted average cost of capital (WACC) used ranges from 4.51% to 5.91% (average WACC rate of 5.33%) depending on the asset class.

The assessment indicated that the value of property, plant and equipment was not impaired. The assessment is sensitive to the WACC applied. An impairment arises if the WACC for all asset classes is increased by any amount more than 1.85% (resulting average WACC of 7.17%).

As at 30 June 2020, the Company's estimates of passengers, recovery and growth rates remain uncertain and dependent on a number of factors with respect to COVID-19 including restrictions on domestic travel, border controls for international travel, public demand and behaviour with respect to travel and airline scheduling. Material changes in any of these factors might have a material impact on the Company's estimates of income and cashflows used in the valuations and fair value assessments at 30 June 2020.

For 30 June 2021, the directors have assessed that there are no indicators of impairment and no impairment assessment has been performed. This is because the Company exceeded its estimates

for passengers, recovery and growth rates, and its profit exceeded budget.

NEW STANDARDS ADOPTED

There have been no new standards adopted during the financial year.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the period except for those arising from the adoption of the new standards. All accounting policies have been consistently applied throughout the period covered by these financial statements.

COVID-19 PANDEMIC

The COVID-19 pandemic continues to cause widespread economic and social disruption around the world.

The recovery from the 2020 lockdown has been a lot quicker than anticipated due to the strength of domestic travel. Passenger numbers have recovered to pre COVID-19 levels.

The Company contines to monitor the risks and ongoing impacts from COVID-19 on the business. We believe that no significant changes to the preparation of the financial statements are required.

1. OTHER EXPENSES (INCLUDES)

	2021 $000	2020 $000
Director fees	115	115
Net loss/(gain) on sales of property, plant and equipment	17	6
Change in fair value of investment property	-	50
Auditor's remuneration to Audit New Zealand comprises:		
· audit of financial statements	37	28
· cost recovery for the 2020 financial statements audit	13	-

2. EMPLOYEE EXPENSES

	2021 $000	2020 $000
Wages and salaries	1,145	953
Defined contribution expenses	33	29
Total employee expenses	**1,178**	**982**

During 2020 the Company received the Government's 12 week wage subsidy. This has been netted against staff costs. The Company also received the Government's 8 week wage subsidy extension. The wage subsidy extension has been recognised as grants in advance at balance date. There is an obligation to repay the wage subsidy extension if the Company no longer meets the criteria for the subsidy during the 8 week period.

3. FINANCE INCOME AND EXPENSE

	2021 $000	2020 $000
Finance Income		
Interest income on bank deposits	5	51
Total finance income	**5**	**51**
Financial expense		
Interest expense on financial liabilities measured at amortised cost	-	77
Total financial expenses	-	77
Net finance costs	**5**	**(26)**

4. INCOME TAX EXPENSE

Income tax expense in relation to the profit or loss for the period comprises 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 rates 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 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.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

	2021 $000	2020 $000
CURRENT TAX EXPENSE		
Current period	377	353
Total current tax expense	**377**	**353**
DEFERRED TAX EXPENSE		
Origination and reversal of temporary differences	(149)	(205)
Impact from reinstatement of depreciation on buildings	-	(3)
Total deferred tax expense	**(149)**	**(208)**
Total income tax expense	**228**	**145**

RECONCILIATION OF EFFECTIVE TAX RATE	2021 $000	2020 $000
Profit for the year	1,496	270
Permanent differences	-	52
Profit excluding income tax	**1,496**	**322**
Tax at 28%	418	90
Non-taxable income	(238)	-
Deferred tax adjustment	48	55
Under/(over) provided in prior periods	-	-
Total income tax expense	**228**	**145**
Effective Tax Rate	15%	45%

In March 2020, the Government re-introduced the deductibilty of depreciation on buildings for tax purposes for buildings not primarily used for residential accommodation. This amendment applies from 1 April 2020. The impact of this change increases the tax base for these assets, giving rise to a reduced difference between the carrying cost and tax base and results in a reduction in deferrred tax liability and reduction in tax expense. In general, the reduction in deferred tax on buildings only applies to pre-May 2010 buildings, and has therefore not had a significant impact on the accounts.

The current tax expense is calculated on the assumption that tax losses of $nil (2020: $1,262,198) will be transferred from Invercargill City Council by subvention payment of $nil (2020: $353,145) and loss offset of $nil (2020:$908,783).

5. TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method, less any provision for expected credit losses.

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance. The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure at default.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

	2021 $000	2020 $000
Trade receivables	217	71
Less allowance for expected credit losses	(49)	-
Accrued revenue	291	120
Prepayments	-	5
GST receivable	-	3
	459	199

Trade receivables are non-interest bearing and are generally on terms of 30 days. For terms and conditions relating to related party receivables, refer to Note 13.

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance. The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure at default.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

As at 30 June, the ageing analysis of trade receivables is, as follows:

	TOTAL $000	NEITHER PAST DUE NOR IMPAIRED $000	PAST DUE BUT NOT IMPAIRED <30 DAYS $000	PAST DUE BUT NOT IMPAIRED >30DAYS $000
2021	217	55	39	123
2020	71	55	6	10

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is shown at cost, less accumulated depreciation and impairment losses.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2005, the date of transition to NZ IFRS are measured on the basis of deemed cost, being the revalued amount at the date of transition.

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.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income.

Subsequent Costs

Costs incurred subsequent to initial acquisition 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 all property, plant and equipment other than land, at rates that will write off the cost of the assets to their estimated residual values over their useful lives.

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

(a) Buildings	3%-19.2% Straight Line
(b) Furniture and Fittings	9.6%-30% Diminishing Value and 6%-21% Straight Line
(c) Plant	8%-67% Diminishing Value and 6%-67% Straight Line
(d) Crash Fire Vehicle, other vehicles, tractors and mowing equipment	10%-15.6% Diminishing Value
(e) Other Airport Assets	
- Carpark and fencing	1%-21% Straight Line
- Runway, Apron and Taxiway (Base-course and sub-base)	3% Straight Line
- Top Surface (Runway)	8.3% Straight Line
- Top Surface (Apron and Taxiway)	6.7% Straight Line
- Roads, carparks and stop banks	3% Straight Line

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

2021 ($000)	COST	ACCUMULATED DEPRECIATION AND IMPAIRMENT CHARGES	CARRYING AMOUNT	CURRENT YEAR ADDITIONS - COST	CURRENT YEAR DISPOSALS - COST	CURRENT YEAR DISPOSALS - DEPRECIATION	CURRENT YEAR DEPRECIATION	COST	ACCUMULATED DEPRECIATION AND IMPAIRMENT CHARGES	CARRYING AMOUNT
	1 July 2020							30 June 2021		
Land	509	-	509	-	-	-	-	509	-	509
Carpark and fencing	4,284	1,313	2,971	2	18	5	173	4,268	1,481	2,787
Runway, apron and taxiway	14,974	9,148	5,826	-	-	-	829	14,974	9,977	4,997
Terminal and buildings	7,256	1,075	6,181	-	-	-	217	7,256	1,292	5,964
Plant and equipment	1,197	653	544	23	11	10	112	1,209	755	454
Motor vehicles	273	191	82	-	-	-	10	273	201	72
Furniture and fittings	5,210	1,847	3,363	127	5	2	431	5,332	2,276	3,056
Total assets	**33,703**	**14,227**	**19,476**	**152**	**34**	**17**	**1,772**	**33,821**	**15,982**	**17,839**

2020 ($000)	COST	ACCUMULATED DEPRECIATION AND IMPAIRMENT CHARGES	CARRYING AMOUNT	CURRENT YEAR ADDITIONS - COST	CURRENT YEAR DISPOSALS - COST	CURRENT YEAR DISPOSALS - DEPRECIATION	CURRENT YEAR DEPRECIATION	COST	ACCUMULATED DEPRECIATION AND IMPAIRMENT CHARGES	CARRYING AMOUNT
	1 July 2019							30 June 2020		
Land	509	-	509	-	-	-	-	509	-	509
Carpark and fencing	4,029	1,141	2,888	262	7	3	175	4,284	1,313	2,971
Runway, apron and taxiway	14,756	8,320	6,436	218	-	-	828	14,974	9,148	5,826
Terminal and buildings	7,014	858	6,156	242	-	-	217	7,256	1,075	6,181
Plant and equipment	1,152	518	634	47	2	1	136	1,197	653	544
Motor vehicles	273	180	93	-	-	-	11	273	191	82
Furniture and fittings	4,625	1,429	3,196	585	-	-	418	5,210	1,847	3,363
Total assets	**32,358**	**12,446**	**19,912**	**1,354**	**9**	**4**	**1,785**	**33,703**	**14,227**	**19,476**

During the 2020 year the Company received a $500,000 grant from the Provincial Growth Fund. The grant was in recognition that Air New Zealand was to commence a 12 month pilot of scheduled jet services from Auckland to Invercargill on 25 August 2019 and the Company needed to rapidly deliver urgent airside and non-airside upgrades to handle the scheduled jet services including:

- construction of facilities to manage increased freight volumes, specialised loading and security screening for baggage and passengers;
- installation of hardstands suitable for A320 and A321 aircraft;
- security designation changes including enhanced physical security arrangements; and
- increased emergency response support.

The grant funds have been deducted in arriving at the carrying amount of the asset.

There are no unfulfilled conditions but a contingency for repayment exists for a 10 year term from 31 October 2019 if the Company either:

- sells, disposes or transfers the asset , without the Ministry's prior written consent; or
- the asset will no longer be used for the purpose intended.

7. INVESTMENT PROPERTY

Land is held by the Company for long term strategic purposes and is not held for resale.

Investment properties are land and buildings that are not occupied by the Company and is held for long term rental yield, where the Company intends to maximise the return on the land and buildings.

Investment property is measured initially at its cost, including transaction costs. After initial recognition, the Company measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the Statement of Comprehensive Income.

	2021 $000	2020 $000
Balance at 1 July	4,200	4,250
Change in fair value	970	(50)
Balance at 30 June	**5,170**	**4,200**

The Company's investment properties are valued annually at fair value effective 30 June. For 2021 and 2020, all investment properties were valued based on the income approach and comparable sales approach except for two properties being less than 20% of the portfolio value. These two properties are planned to be replaced within the next two years (2020: next two years), hence the open market evidence valuation has been adjusted by management to be valued on a discounted cashflow basis of their remaining expected earnings. The 2021 and 2020 valuations were performed by Robert Todd, an independent valuer from Thayer Todd Valuations Limited. The valuer is an experienced valuer who holds a recognised and relevant professional qualification and has extensive market knowledge in the types of investment properties owned by the Company.

For 2020 due to the impact of COVID-19 and the severe market disruption and lack of transactional data, the valuation of investment properties has been reported on the basis of material uncertainty, meaning less certainty and a higher degree of caution should be applied. The following major inputs and assumptions were adopted:

- An explicit allowance for rent rebates has been calculated. This does not include an allowance for operating expenses.
- The capitalisation rate adopted on rental car tenancies pre COVID-19 has been softened by 50 points to price in the additional risks.
- With the exception of Hangars 1 and 2, yields have been softened by 25 points.
- Hangars 1 and 2 have a remaining useful life of two years.

A material change in tenancy or a tenant's ability to meet lease payments from those used in the valuation model, may be a material impact on the investment property values.

For 2021 there is no uncertainty applied to the valuation and the capitalisation rate has not been adjusted for any COVID-19 impacts. It has has been assumed that Hangars 1 and 2 have a remaining useful life of two years.

8. TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Trade and other payables are non-interest bearing and are normally settled within 30 day terms.

	2021 $000	2020 $000
Trade payables	12	111
Accrued expenses	213	77
GST payable	107	-
Income in advance	14	8
Grants in advance	-	58
Total trade and other payables	**346**	**254**

9. EMPLOYEE BENEFIT LIABILITIES

Short-Term Benefits

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Statement of Comprehensive Income as incurred.

	2021 $000	2020 $000
Annual leave	124	100
	124	100
Comprising:		
Current	124	100
Non-current	-	-
Total employee benefit liabilities	**124**	**100**

10. BORROWINGS

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are included as non-current liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current liabilities.

Borrowing costs are recognised as an expense in the period in which they are incurred.

	2021 $000	2020 $000
Current		
Secured loans (runway overlay) – related party	-	842
Total current borrowings	**-**	**842**

The loans are secured by debenture over the assets of the Company.

The effective interest rate on the runway overlay loan is 7.0% for 2020.

11. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities	BALANCE	Recognised in: PROFIT OR LOSS	EQUITY	BALANCE
	1 July 2020 $000	$000	$000	30 June 2021 $000
Property, plant and equipment	687	(182)	-	505
Investment property	322	34	-	356
Trade payables and accruals	(35)	(1)	-	(36)
Total movements	**974**	**(149)**	**-**	**825**

Recognised deferred tax assets and liabilities	BALANCE	Recognised in: PROFIT OR LOSS	EQUITY	BALANCE
	1 July 2019 $000	$000	$000	30 June 2020 $000
Property, plant and equipment	867	(180)	-	687
Investment property	336	(14)	-	322
Trade payables and accruals	(21)	(14)	-	(35)
Total movements	**1,182**	**(208)**	**-**	**974**

12. EQUITY

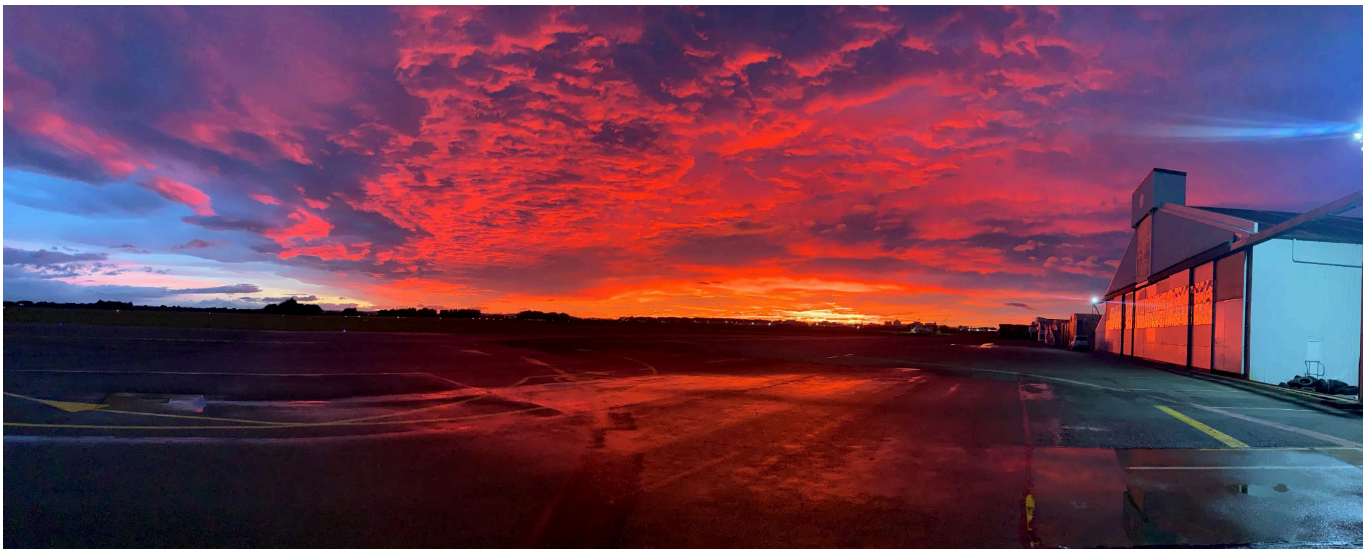
	Attributable to equity holders of the Company					
	SHARE CAPITAL $000	ADDITIONAL PAID IN CAPITAL $000	RETAINED EARNINGS $000	TOTAL $000	MINORITY INTEREST $000	PARENT INTEREST $000
Balance at 1 July 2019	15,920	4,530	4,328	24,778	1,744	23,034
Profit / (loss) after tax	-	-	125	125	4	121
Balance at 30 June 2020	**15,920**	**4,530**	**4,453**	**24,903**	**1,748**	**23,155**
Balance at 1 July 2020	15,920	4,530	4,453	24,903	1,748	23,155
Profit / (loss) after tax	-	-	1,268	1,268	36	1,232
Balance at 30 June 2021	**15,920**	**4,530**	**5,721**	**26,171**	**1,784**	**24,387**

The Company has 3,324,560 ordinary shares issued and fully paid at $1.00, 49,868,679 ordinary shares issued and fully paid at $0.06 and a further 970,000 of redeemable preference shares (RPS) issued at $1.00 but remain uncalled at balance date. All ordinary shares, whether called or uncalled, have equal voting rights and have no par value.

At 30 June 2021 there were 9,595,308 (2020: 9,595,308) RPS on issue. Each share has a par value of $1 and is redeemable by the board of the Company giving a 30 day redemption notice. The RPS carry a preferential dividend entitlement, do not carry voting rights and carry an optional interest entitlement on redemption at a rate equal to 5% above the ninety (90) day Bank Bill Settlement Rate. The RPS rank ahead of the ordinary shares in the event of a liquidation. The redemption is only at the discretion of Invercargill Airport Limited (the issuer). The holders of the RPS do not have the option to demand redemption of the RPS face value. As Invercargill Airport Limited does not have a present obligation to redeem the shares the RPS have been classified as an equity instrument.

On 29 July 2021 the Company issued a redemption notice in relation to the redeemable preference shares (RPS) on issue and the RPS were redeemed on 13 August 2021.

The Company issued a further 6,000,000 ordinary shares at $1.00 on 13 August 2021.



13. RELATED PARTY TRANSACTIONS

The Company is 97.2% owned by Invercargill City Holdings Limited and its ultimate parent is the Invercargill City Council.

	2021 $000	2020 $000
(a) Invercargill City Holdings Limited		
Expenditure		
Provision of services	60	60
Interest paid	-	77
Loans repaid / (drawndown)	842	380
Loans outstanding at balance date by the Company	-	842
(b) Invercargill City Council		
Expenditure		
Provision of services	101	79
Subvention payment	357	589
Loss offset	918	1,513
(c) SouthRoads Limited		
Expenditure		
Provision of services	-	15

No related party transactions have been written off or were forgiven during the 2021 year (2020: nil).

Key management personnel include the Directors and Chief Executive. Short-term employment benefits consists of salaries and does not include any costs for the following, post-employment benefits, other long-term benefits and termination benefits as they are not provided by the Company.

Key management personnel compensation comprises:	2021 $000	2020 $000
Short term employment benefits	177	165
Directors fees	115	115

14. CAPITAL COMMITMENTS AND OPERATING LEASES

	2021 $000	2020 $000
Capital commitments		
Capital expenditure contracted for at balance date but not yet incurred for property, plant and equipment.	1,172	-

Operating leases as lessor

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the Statement of Comprehensive Income over a straight-line basis over the period of the lease.

The Company leases its investment property under operating leases. The majority of these leases have a non-cancellable term of 36 months. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	2021 $000	2020 $000
Non-cancellable operating leases as lessor		
Not later than one year	478	397
Later than one year and not later than five years	1,026	838
Later than five years	147	141
Total non-cancellable operating leases	1,651	1,376

There are no restrictions placed on the Company by any of the leasing arrangements.

Operating leases as lessee

The Company does not have any operating leases where it is the lessee (2020: Nil).

15. CONTINGENCIES

At 30 June 2021 there were 9,595,308 (2020: 9,595,308) redeemable preference shares (RPS) on issue. Each share has a par value of $1 and is redeemable by the board of the Company giving a 30 day redemption notice. The RPS carry a preferential dividend entitlement, do not carry voting rights and carry an optional interest entitlement on redemption at a rate equal to 5% above the ninety (90) day Bank Bill Settlement Rate. The RPS rank ahead of the ordinary shares in the event of a liquidation. The redemption is only at the discretion of the Invercargill Airport Limited (the issuer). The holders of the RPS do not have the option to demand redemption of the RPS face value. As Invercargill Airport Limited does not have a present obligation to redeem the shares the RPS have been classified as an equity instrument.

On 9 June 2021 Invercargill City Holdings Limited agreed not to demand optional interest upon redemption of the RPS.

The RPS were redeemed on 13 August 2021.

There are no other contingent liabilities or assets at 30 June 2021 (2020:Nil).

During the 2020 year the Company received a $500,000 grant from the Provincial Growth Fund. The grant was in recognition that Air New Zealand was to commence a 12 month pilot of scheduled jet services from Auckland to Invercargill on 25 August 2019 and the Company needed to rapidly deliver urgent airside and non-airside upgrades to handle the scheduled jet services.

A contingency for repayment exists for a 10 year term from 31 October 2019 if the Company either:

- sells, disposes or transfers the asset , without the Ministry's prior written consent; or
- the asset will no longer be used for the purpose intended

16. EVENTS AFTER THE BALANCE SHEET DATE

On 29 July 2021 the Company issued a redemption notice in relation to the redeemable preference shares (RPS) on issue and the RPS were redeemed on 13 August 2021.

The Company issued a further 6,000,000 ordinary shares at $1.00 on 13 August 2021.

On 17 August 2021 New Zealand went into Alert Level 4 lockdown following the discovery of community transmission of COVID-19. The Airport's operations ceased during Level 4 and Level 3 restrictions with the exception of essential travel services.

The Company had a reduction in revenue of more than 40% and claimed the wage subsidy from the Ministry of Social Development which mitigated some of the impact of the lockdown. Upon entering Alert Level 2 the Airport was able to resume operations and the flight schedule has built to almost the pre-lockdown schedule with the exception of the Auckland jet which is not expected to resume until Auckland moves to Level 2.

There were no other significant events after balance date.

17. FINANCIAL INSTRUMENTS

- **Receivables**
  Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for expected credit losses.
- **Cash and cash equivalents**
  Cash and cash equivalents comprise cash on hand and on demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value.
- **Trade and Other Payables**
  Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost using the effective interest method.
- **Borrowings**
  Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

  Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability at least 12 months after the balance date.

Statement of Service Performance

FOR THE YEAR ENDED JUNE 30, 2021

The Statement of Service Performance for Invercargill Airport Limited prepared for the year ended 30 June 2021 sets a number of financial performance measures. The targets and the Company's achievement, as reported under International Financial Reporting Standards, in relation to those targets are set out in the following table.

FINANCIAL	**ACTUAL**	**TARGET**
	2021 $000	**2021 $000**
Net Profit before Tax (NPBT)	1,496	(327)
Interest (net)	5	(7)
Net Profit before Interest and Tax (NPBIT)	1,501	(334)
Total Assets	27,885	26,117
EBIT %	5.38%	-1.28%
Passenger numbers	303,878	230,069*
Percentage of Equity to Total Assets		
Total Equity	26,171	24,176
Total Assets	27,885	26,117
TOTAL EQUITY/TOTAL ASSETS	**93.85%**	**92.57%**

*Passenger numbers target was not shown in the Statement of Intent. These are the numbers used for budgeting purposes.

NON FINANCIAL:

Safety

- **ZERO LOST TIME INJURIES FOR STAFF**

  ACHIEVED

  There were no lost-time injuries to IAL employees over the reporting period. During the year our Airport Exposition and Safety Management System was subject to regular review, update and approval by the Civil Aviation Authority (CAA). IAL continues to have a strong focus on Health and Safety across the whole business with regular health and safety and incident review meetings across the year.

- **A RISK REVIEW IS CONDUCTED ANNUALLY**

  ACHIEVED

  Key risks within the business, including risks to health and safety have been identified and continue to be reviewed throughout the year. The Board had an initial review of the business risks in January as part of the Annual Board Work Plan.

  An audit programme is in place with an external safety auditor incorporating regular reviews of IAL operations. Safety Management System (SMS) management reviews occurred quarterly.

  Health and Safety and the Airport's SMS continue to be primary risk focus areas for IAL. A workplace health and safety meeting is held and documented quarterly. We are currently training new workplace health and safety representatives. Health and Safety is a regular focus for consideration in the planning of significant changes and in relation to key projects.

- **COMPLETION RATE FOR PRIORITY 1 (P1) SAFETY AND HEALTH ACTIONS ACHIEVED WITHIN THE DEFINED TIME PERIODS**

  ACHIEVED

  IAL had no P1 incidents during the year.

Environmental

- **NO NOTIFIABLE ENVIRONMENTAL INCIDENTS ON AIRPORT PROPERTY**

  ACHIEVED

  There were no notifiable environmental incidents recorded at the Airport over the year.

Operations

- **RETAIN AERODROME CERTIFICATION VIA ASSESSMENT FROM THE CIVIL AVIATION AUTHORITY**

  ACHIEVED

  Regular programme of audits is undertaken by external auditor, to verify ongoing compliance with exposition. Findings reviewed at SMS management review meetings and captured in our reporting system.

Infrastructure

- **NO SIGNIFICANT DISRUPTION TO AIRPORT OPERATIONS DUE TO INFRASTRUCTURE FAILURE**

  ACHIEVED

  There have been no significant disruptions to airport operations due to IAL owned or managed infrastructure failures. The condition of airside assets, particularly the sealed surfaces, were reviewed during the year with no significant issues identified.

Audit Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Invercargill Airport Limited's financial statements and statement of service performance for the year ended 30 June 2021

The Auditor-General is the auditor of Invercargill Airport Limited (the company). The Auditor-General has appointed me, Chris Genet, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 9 to 29, that comprise the statement of financial position as at 30 June 2021, 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 statement of service performance of the company on pages 30 to 31.

In our opinion:

- the financial statements of the company on pages 9 to 29:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2021; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand's equivalents to International Financial Reporting Standards Reduced Disclosure Regime; and
- the statement of service performance of the company on pages 30 to 31 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 2021.

Our audit was completed on 2 November 2021. 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 statement of service performance, we comment on other 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 statement of service performance

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 statement of service performance 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 statement of service performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of service performance, 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 statement of service performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of service performance, 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 readers, taken on the basis of these financial statements and the statement of service performance.

For the budget information reported in the statement of service performance, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

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 statement of service performance, 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 statement of service performance 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 statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance 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.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 8, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

Our opinion on the financial statements and the statement of service performance does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, 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.

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 issued by the New Zealand Auditing and Assurance Standards Board.

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

C Genet

Chris Genet
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

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