

**Royal New Zealand
Coastguard Incorporated**

Special Purpose Consolidated Financial Statements

For the year ended 30 June 2018



Special Purpose Consolidated Financial Statements

For the year ended 30 June 2018

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For the year ended 30 June 2018

Registered Office

470 Parnell Road
Parnell, Auckland

Nature of Organisation

Marine Search & Rescue, Emergency Relief & Training

Charity Number

CC36138

Independent Auditor

BDO Auckland
Level 4, Building A, BDO Centre
4 Graham Street, Auckland

Bankers

ASB Bank Limited
Westpac New Zealand Limited

Solicitors

Simpson Grierson
Level 27, Lumley Centre
88 Shortland Street, Auckland

Board's Report and Statement of Responsibility

For the year ended 30 June 2018

Board's Report

The Board of Royal New Zealand Coastguard present this Annual Report, being the special purpose financial statements of the Group for the financial year ended 30 June 2018, and the independent auditor's report thereon. The Board has elected to present special purpose consolidated financial statements, consolidating selected controlled entities. Full consolidated financial statements, consolidating all controlled entities will be completed and filed at Charities Services by 31 December 2018. The selected controlled entities as presented in these special purpose consolidated financial statements are consistent with the entities consolidated in previous years.

Statement of Responsibility

The Board is responsible for the maintenance of adequate accounting records and the preparation and integrity of the special purpose consolidated financial statements and related information.

The independent external auditors, BDO Auckland, have audited the special purpose financial statements and their report appears on page 3.

The Board is also responsible for the systems of internal control. These are designed to provide reasonable but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements.


Appropriate systems of internal control have been employed to ensure that all transactions have been executed in accordance with authority and correctly processed and accounted for in the financial records. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Board to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The special purpose consolidated financial statements are prepared on a going concern basis. Nothing has come to the attention of the Board to indicate that the Group will not remain a going concern in the foreseeable future.

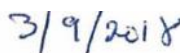
In the opinion of the Board:

The special purpose consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018 and their financial performance and cash flows for the year then ended.

For and on behalf of the Board:



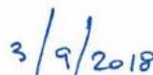
Heny van Tuel, President



Date



Aaron Wallace, Vice-President



Date

INDEPENDENT AUDITOR'S REPORT
To the Members of Royal New Zealand Coastguard Incorporated

Opinion

We have audited the special purpose consolidated financial statements of Royal New Zealand Coastguard Incorporated and its selected controlled entities (the Group), which comprise the Consolidated Statement of Financial Position as at 30 June 2018, and the Consolidated Statement of Comprehensive Revenue and Expense, Consolidated Statement of Changes in Net Assets and Consolidated Statement of Cash Flows for the year then ended, and notes to the special purpose consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special purpose consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2018, and its financial performance and its cash flows for the year then ended in accordance with the listed accounting policies. These are based on Public Benefit Entity Standards Reduced Disclosure Regime ("PBE Standards RDR") issued by the New Zealand Accounting Standards Board, amended as described in the accounting policies as only selected controlled entities have been consolidated.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). 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 are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Royal New Zealand Coastguard Incorporated or its controlled entities. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

Board's responsibility for the Financial Statements

The Board is responsible on behalf of the Group for the preparation and fair presentation of the special purpose consolidated financial statements in accordance with the listed accounting policies, and for such internal control as the Board determine is necessary to enable the preparation of special purpose consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose consolidated financial statements, the Board is responsible on behalf of the Group for assessing the Group'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 Board either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Special Purpose Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose consolidated 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) 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 decisions of users taken on the basis of these special purpose consolidated financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose consolidated financial statements, 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.
- 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 special purpose consolidated financial statements 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the special purpose consolidated financial statements, including the disclosures, and whether the special purpose consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the special purpose consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board 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.

Who we report to

This report is made solely to the Group's Board, 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 Group and its Board, as a body, for our audit work, for this report or for the opinions we have formed.

BDO Auckland.

BDO Auckland
Auckland
New Zealand
03 September 2018

Special Purpose Consolidated Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2018

| | Notes | 2018 | 2017 |
|--|-------|-------------------|-------------------|
| Revenue from exchange transactions | | | |
| Lotteries Revenue | | 2,832,836 | 2,717,521 |
| Examination Fees | | 1,075,096 | 1,107,486 |
| NZSAR VHF Frequency Change Funding | | - | 242,998 |
| Sales of Publications | | 143,727 | 162,765 |
| Sponsorship | | 80,912 | 95,258 |
| Other Operating Revenue | | 116,530 | 127,990 |
| | | 4,249,101 | 4,454,018 |
| Revenue from non-exchange transactions | | | |
| Service Level Agreement Funding | 21 | 2,440,000 | 1,874,000 |
| Lottery Grants Board Funding | 21 | 2,027,471 | 2,284,574 |
| Donations Received | | 1,239,533 | 790,934 |
| Other Grants | | 540,755 | 475,393 |
| | | 6,247,759 | 5,424,901 |
| Total Revenue | | 10,496,860 | 9,878,919 |
| Expenses | | | |
| Grants Expenditure | | 3,830,296 | 3,623,648 |
| Administrative Overheads | | 851,627 | 801,209 |
| Board & Governance Costs | | 91,057 | 253,350 |
| Education Course Costs | | 350,635 | 426,778 |
| Lotteries Costs | | 2,072,836 | 2,134,833 |
| Marketing & Fundraising Costs | | 529,507 | 558,607 |
| National Office Projects | | 178,587 | 158,641 |
| Personnel Costs | | 2,042,119 | 1,976,185 |
| Depreciation & Amortisation | | 85,175 | 126,760 |
| Total Expenses | | 10,031,839 | 10,060,011 |
| (Deficit)/surplus before net finance income | | 465,021 | (181,092) |
| Finance Income | 16 | 125,766 | 81,557 |
| Finance Costs | 16 | - | - |
| Net Finance Income | | 125,766 | 81,557 |
| Net (deficit)/surplus for the year | | 590,787 | (99,535) |
| Other Comprehensive Revenue and Expenses | | - | - |
| Total Comprehensive revenue and expenses for the year | | 590,787 | (99,535) |

Special Purpose Consolidated Statement of Changes in Net Assets/Equity

For the year ended 30 June 2018

| Group | Note | Asset Maintenance Reserve | Course Development Reserve | Accumulated Revenue and Expense | Total Equity |
|------------------------------------|------|---------------------------|----------------------------|---------------------------------|------------------|
| Opening equity 1 July 2016 | | 41,676 | 34,990 | 2,178,614 | 2,255,280 |
| Total Comprehensive Income | | - | - | (99,535) | (99,535) |
| Transfers - Reserves | | (6,505) | 34,530 | (28,025) | - |
| Closing equity 30 June 2017 | | 35,171 | 69,520 | 2,051,054 | 2,155,745 |
| Opening equity 1 July 2017 | | 35,171 | 69,520 | 2,051,054 | 2,155,745 |
| Total Comprehensive Income | | - | - | 590,787 | 590,787 |
| Transfers - Reserves | | (6,504) | 43,080 | (36,576) | - |
| Closing equity 30 June 2018 | | 28,667 | 112,600 | 2,605,265 | 2,746,532 |

Special Purpose Consolidated Statement of Financial Position

For the year ended 30 June 2018

| | Notes | 2018 | 2017 |
|--|-------|-------------------------|-------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and Cash Equivalents | 5 | 1,981,325 | 1,778,105 |
| Investments - Term Deposits | 6 | 849,049 | 1,431,115 |
| Inventories | | 31,875 | 33,355 |
| Prepayments and Other Assets | | 412,715 | 298,092 |
| Receivables from Exchange Transactions | 7 | 297,831 | 262,707 |
| | | <u>3,572,795</u> | <u>3,803,374</u> |
| Non-current assets | | | |
| Investments - Managed Funds | 11 | 1,061,073 | - |
| Intangibles | 9 | 177,696 | 121,666 |
| Property Plant and Equipment | 10 | 210,272 | 200,128 |
| | | <u>1,449,041</u> | <u>321,794</u> |
| TOTAL ASSETS | | <u>5,021,836</u> | <u>4,125,168</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Employee Benefit Liabilities | 13 | 122,153 | 117,222 |
| Income Received in Advance | | 367,399 | 267,475 |
| Non-exchange Liabilities | 14 | 1,232,795 | 915,605 |
| Payables from Exchange Transactions | 12 | 552,957 | 669,121 |
| | | <u>2,275,304</u> | <u>1,969,423</u> |
| TOTAL LIABILITIES | | <u>2,275,304</u> | <u>1,969,423</u> |
| TOTAL NET ASSETS | | <u>2,746,532</u> | <u>2,155,745</u> |
| NET ASSETS/EQUITY | | | |
| Accumulated Funds | | 2,605,265 | 2,051,054 |
| Asset Maintenance Reserve | | 28,667 | 35,171 |
| Course Development Reserve | | 112,600 | 69,520 |
| TOTAL NET ASSETS/EQUITY | | <u>2,746,532</u> | <u>2,155,745</u> |


For and on behalf of the Board:



 Henry van Tuel, President

3/9/2018

 Date



 Aaron Wallace, Vice-President

3/9/2018

 Date

Special Purpose Consolidated Statement of Cash Flows

For the year ended 30 June 2018

| | Notes | 2018 | 2017 |
|--|----------|------------------|------------------|
| CASH FLOWS FROM/(TO) OPERATING ACTIVITIES | | | |
| Receipts from exchange transactions | | 4,291,987 | 4,662,460 |
| Receipts from non-exchange transactions | | 6,635,715 | 5,249,181 |
| Payments to Suppliers | | (8,216,777) | (7,925,530) |
| Payments to Employees | | (2,029,614) | (1,855,224) |
| Net cash inflow/(outflow) from operating activities | | 681,311 | 130,887 |
| CASH FLOWS FROM/(TO) INVESTING ACTIVITIES | | | |
| Interest Received | | 64,681 | 81,557 |
| Proceeds from disposals of property, plant and equipment | | 44,945 | 43,478 |
| Distributions on Investments received | | 30,328 | - |
| Increase/Decrease in term deposits | | 582,066 | (633,443) |
| Purchase of property, plant and equipment | | (98,041) | (72,366) |
| Purchase of intangibles | | (71,754) | - |
| Purchase of investments | | (1,030,316) | - |
| Net cash inflow/(outflow) from investing activities | | (478,091) | (580,773) |
| Net increase/(decrease) in cash and cash equivalents | | 203,220 | (449,886) |
| Cash and cash equivalents at 1 July | | 1,778,105 | 2,227,991 |
| Cash and cash equivalents at 30 June | 5 | 1,981,325 | 1,778,105 |
| Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit) | | | |
| (Deficit)/Surplus | | 590,787 | (99,535) |
| Add/(deduct) non-cash movements | | | |
| Depreciation | | 69,451 | 114,361 |
| Amortisation | | 15,724 | 12,400 |
| Increase/(Decrease) in provisions relating to employee costs | | 4,931 | 36,036 |
| (Gains)/losses on investments | | (61,085) | - |
| | | 29,021 | 162,797 |
| Add/(deduct) movements in working capital | | | |
| Increase/(Decrease) in payables | | (116,165) | 278,809 |
| Increase/(Decrease) in non-exchange liabilities | | 317,190 | (158,398) |
| Increase/(Decrease) in income in advance | | 99,924 | 203,774 |
| Decrease/(Increase) in inventories | | 1,481 | (415) |
| Decrease/(Increase) in prepayments & other assets | | (114,623) | (180,557) |
| Decrease/(Increase) in receivables | | (35,124) | 10,003 |
| | | 152,683 | 153,216 |
| Add/(deduct) items classified as investing | | | |
| Gains/(losses) on sale of property, plant and equipment | | (26,501) | (4,034) |
| Interest Received | | (64,681) | (81,557) |
| | | (91,182) | (85,591) |
| Net cash flows from operating activities | | 681,310 | 130,887 |

These Special Purpose Consolidated Financial Statements should be read in conjunction with the Statement of Accounting Policies, Notes to the Special Purpose Consolidated Financial Statements, and the Auditor's Report.

Statement of Accounting Policies

For the year ended 30 June 2018

1. REPORTING ENTITY

Royal New Zealand Coastguard Incorporated (NZ Coastguard) is a public benefit entity for the purposes of financial reporting in accordance with the Financial Reporting Act 2013.

These special purpose consolidated financial statements for the year ended 30 June 2018 comprise of Royal New Zealand Coastguard Incorporated and its selected 100% controlled entities, Royal New Zealand Coastguard Boating Education Limited (CBE) and Royal New Zealand Coastguard Charitable Trust ("the Trust"), together the "Group". Comparative figures are for the same Group.

2. BASIS OF PREPARATION

a) Statement of compliance

The special purpose consolidated financial statements have been prepared as special purpose financial reports intended for presentation to the Members at the Annual General Meeting.

These financial statements were authorised for issue by the Board on the date stated in the special purpose Statement of Financial Position.

The Group is a public benefit entity for the purpose of financial reporting. As the primary objective of the Group is to provide goods or services for social benefit rather than for making a financial return, the Group is a public benefit entity and the special purpose consolidated financial statements comply with Public Benefit Entity Standards. Under NZ GAAP, the Group is a public benefit not-for-profit entity and is eligible to apply Tier 2 Not-For-Profit PBE IPSAS RDR on the basis that it does not have public accountability and it is not defined as large. These special purpose consolidated financial statements that consolidate the selected controlled entities listed above, have been prepared and distributed for the annual general meeting. Full consolidated financial statements will be prepared at a later date and filed with Charity Services as required by the Charities Act 2005. Therefore, these special purpose consolidated financial statements do not fully comply with NZ GAAP.

The Group has taken advantage of all applicable Reduced Disclosure Regime ("RDR") disclosure concessions.

b) Measurement basis

The special purpose consolidated financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency

The special purpose consolidated financial statements are presented in New Zealand Dollars (\$), which is the functional and presentation currency, rounded to the nearest dollar.

There has been no change in the functional currency of the Group during the year.

d) Changes in accounting policy

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

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the Group's special purpose consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

a) Judgements:

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Operating lease commitments

The Group has entered into a number of vehicle, photocopier and office leases.

The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the assets, that it does not retain all the significant risks and rewards of ownership of these assets and accounts for the contracts as operating leases.

Statement of Accounting Policies

For the year ended 30 June 2018

3. SIGNIFICANT JUDGEMENTS AND ESTIMATES (CONTINUED)

a) Judgements (Continued)

Classification of exchange and non-exchange revenue

The Group has evaluated the nature of the transactions and classified revenue into the following:

Revenue from exchange transactions

Lotteries Revenue
 Examination Fees
 NZSAR VHF Frequency Change Funding
 Sales of Publications
 Sponsorship
 Other Operating Revenue

Revenue from non-exchange transactions

Service Level Agreement Funding
 Lottery Grants Board Funding
 Donations Received
 Other Grants

b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the special purpose consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to determine potential future use and value from disposal:

- The condition of the asset based on the assessment of management employed by the Group
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

The estimated useful lives of the asset classes held by the Group are listed in Note 4(g).

4. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The selected controlled entities are consolidated from the date on which control is transferred and are de-consolidated from the date that control ceases.

CBE and the Trust meet the definition of controlled entities and NZ Coastguard is required to consolidate the financial statements of CBE and the Trust. In preparing the special purpose consolidated financial statements, all inter-entity balances and transactions and unrealised gains and losses arising within the consolidated entity are eliminated in full. The accounting policies of the controlled entities are consistent with the policies adopted by the Group and all entities within the Group have a 30 June reporting date.

b) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The specific recognition criteria described below must also be met before revenue is recognised.

Statement of Accounting Policies

For the year ended 30 June 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Revenue from exchange transactions (Continued)

Lotteries Revenue

Lotteries revenue is recognised once a lottery is drawn.

Examination Fees

Examination and course material fees are recognised upon completion of the course or when the group has met its obligations to supply materials if no examination is involved.

Other Revenue

All other revenue is recognised when the amount of revenue can be measured reliably and it is probable that economic benefits will flow to the Group and measured at the fair value of the consideration received.

ii) Revenue from non-exchange transactions

Grants & Donations

The recognition of non-exchange revenue from Grants and Donations depends on the nature of any stipulations attached to the inflow of resources received, and whether this creates a liability (i.e. present obligation) rather than the recognition of revenue.

Stipulations that are 'conditions' specifically require the Group to return the inflow of resources received if they are not utilised in the way stipulated, resulting in the recognition of a non-exchange liability that is subsequently recognised as non-exchange revenue as and when the 'conditions' are satisfied.

Stipulations that are 'restrictions' do not specifically require the Group to return the inflow of resources received if they are not utilised in the way stipulated, and therefore do not result in the recognition of a non-exchange liability, which results in the immediate recognition of non-exchange revenue.

c) Employee benefits

Short term employee benefits

Short-term employee benefit liabilities including employer contributions to kiwisaver at rates required by legislation are recognised when the Group has a legal or constructive obligation to remunerate employees for services provided within 12 months of reporting date, and is measured on an undiscounted basis and expensed in the period in which employment services are provided.

d) Finance income

Finance income comprises interest income, realised gains and unrealised gains on financial assets. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method.

e) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

The Group also derecognises financial assets and financial liabilities when there has been significant changes to the terms and/or the amount of contractual payments to be received/paid.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Statement of Accounting Policies

For the year ended 30 June 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments (Continued)

The Group classifies financial assets into the following categories: fair value through surplus or deficit; held-to-maturity; loans and receivables and available-for-sale.

The Group classifies financial liabilities into the following categories: fair value through surplus or deficit and amortised cost.

Financial instruments are initially measured at fair value, plus for those financial instruments not subsequently measured at fair value through surplus or deficit, directly attributable transaction costs.

Subsequent measurement is dependent on the classification of the financial instrument, and is specifically detailed in the accounting policies below.

i) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents and receivables.

Cash and cash equivalents represent highly liquid investments that are readily convertible into a known amount of cash with an insignificant risk of changes in value, with maturities of 3 months or less.

ii) Amortised cost financial liabilities

Financial liabilities classified as amortised cost are non-derivative financial liabilities that are not classified as fair value through surplus or deficit financial liabilities.

Financial liabilities classified as amortised cost are subsequently measured at amortised cost using the effective interest method. Financial liabilities classified as amortised cost comprise payables.

iii) Fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include items that are either classified as held for trading or that meet certain conditions and are designated at fair value through surplus or deficit upon initial recognition. The Group's investment in managed funds fall into this category of financial instruments.

f) Impairment of financial assets

A financial asset not subsequently measured at fair value through surplus or deficit is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a counterparty, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a counterparty or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

In addition, for an equity security classified as an available-for-sale financial asset, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

i) Financial assets classified as loans and receivables

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level.

All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Statement of Accounting Policies

For the year ended 30 June 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Impairment of financial assets (continued)

i) Financial assets classified as loans and receivables (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets original effective interest rate. Losses are recognised in surplus or deficit and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised.

When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit.

g) Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. Items of property, plant and equipment are subsequently measured at cost less accumulated depreciation and impairment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in surplus or deficit.

ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

iii) Depreciation

For property, plant and equipment, depreciation is based on the cost of an asset less its residual value and for buildings is based on the revalued amount less its residual value. Significant components of individual assets that have a useful life that is different from the remainder of those assets, those components are depreciated separately.

Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

The estimated useful lives and depreciation rates are:

| | | |
|--|--------------|--------------------------|
| Rescue Vessels & Equipment | 3 - 16 years | 6.5% - 26% straight line |
| Motor Vehicles | 2 - 6 years | 18% - 36% straight line |
| Office Equipment, Leasehold Improvements | 1 - 16 years | 6.5% - 67% straight line |

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

h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits or service potential embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Statement of Accounting Policies

For the year ended 30 June 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Intangible assets (continued)

The amortisation expense on intangible assets with finite lives is recognised in surplus or deficit as the expense category that is consistent with the function of the intangible assets.

The Group does not hold any intangible assets that have an indefinite life.

The amortisation period and amortisation rate for the Groups' intangibles is as follows:

| | | |
|----------|--------------|-------------------------|
| Software | 5 - 10 years | 10% - 20% straight line |
|----------|--------------|-------------------------|

i) Equity

Equity is the community's interest in the Group measured as the difference between total assets and total liabilities. Equity is made up of the following components:

Accumulated comprehensive revenue and expense

Accumulated comprehensive revenue and expense is the Group's accumulated surplus or deficit since the formation of the Group.

Asset maintenance reserve

This is a specific reserve created to fund the ongoing depreciation costs of the rescue vessels, the ongoing depreciation and maintenance costs of the promotional caravan and the ongoing depreciation and maintenance costs of the automatic weather stations.

Course development reserve

This is a specific reserve created to fund the ongoing development of courses.

j) Income Tax

All entities within the Group have charitable status from the Charities Commission and are therefore exempt from income tax.

k) Goods and services tax

All amounts are shown exclusive of goods and services tax (GST), except for receivables and payables that are stated inclusive of GST.

l) Inventories

Inventories are initially measured at cost, except items acquired through non-exchange transactions which are instead measured at fair value as their deemed cost at initial recognition.

Inventories are subsequently measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

m) Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Operating leases

Leases that not finance leases are classified as operating leases.

Operating leases are not recognised in the Group's statement of financial position. Payments made under operating leases are recognised in surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Notes to the Special Purpose Consolidated Financial Statements

For the year ended 30 June 2018

| | 2018 | 2017 |
|-------------------------------------|------------------|------------------|
| 5. CASH AND CASH EQUIVALENTS | | |
| Cash on Hand | 300 | 200 |
| Cash at Bank | 1,981,025 | 1,777,905 |
| | <u>1,981,325</u> | <u>1,778,105</u> |

There are no restrictions over the above cash held by the Group.

6. INVESTMENTS - TERM DEPOSITS

| | Interest rate | Maturity date | | |
|----------------------------------|---------------|---------------|----------------|------------------|
| Westpac New Zealand Limited - 06 | NA | NA | - | 171,148 |
| Westpac New Zealand Limited - 08 | 3.45% | 22/03/2019 | 185,621 | 216,155 |
| Westpac New Zealand Limited - 09 | NA | NA | - | 220,111 |
| Westpac New Zealand Limited - 11 | 3.40% | 15/01/2019 | 327,959 | 315,023 |
| Westpac New Zealand Limited - 12 | 3.50% | 8/08/2018 | 155,469 | - |
| Westpac New Zealand Limited - 13 | 3.43% | 17/10/2018 | 180,000 | - |
| ASB Bank Limited - 78 | NA | NA | - | 508,678 |
| | | | <u>849,049</u> | <u>1,431,115</u> |

7. RECEIVABLES**Receivables from exchange transactions**

| | | |
|--|----------------|----------------|
| Trade debtors | 87,488 | 50,627 |
| Trade debtors - Related Party Balances | 127,195 | 96,623 |
| Sundry debtors | 83,148 | 115,457 |
| | <u>297,831</u> | <u>262,707</u> |

There are no amounts overdue nor impaired as at year end relating to trade receivables from exchange and non-exchange transactions (2017: \$Nil).

Included in Sundry Debtors is \$56,985 (2017: \$47,697) of restricted funds held in trust account in accordance with NZQA static student fee protection trust deed.

Transactions between the Group and Coastguard Regions and Units are considered to be related party transactions. Receipts from related parties during the year totalled \$893,646 (2017: \$869,322). These principally relate to the recovery of costs incurred, or part thereof, of search and rescue equipment purchased by Royal New Zealand Coastguard Incorporated on behalf of Coastguard Regions and Units. The outstanding balances owed are receivable on normal trade terms and accordingly do not attract interest.

8. RELATED PARTY TRANSACTIONS AND BALANCES

The key management personnel, as defined by PBE IPSAS 20 Related Party Disclosures, are the members of the governing body which is comprised of the Board of Royal New Zealand Coastguard Incorporated, the Board of Directors of Royal New Zealand Coastguard Boating Education Limited, and the Trustees of the Royal New Zealand Coastguard Charitable Trust as well as the senior management groups of Royal New Zealand Coastguard Incorporated and Royal New Zealand Coastguard Boating Education Limited respectively.

There are 16 natural persons in Board positions, 3 of which are also Trustees. No remuneration or fees are paid to any of these persons.

The aggregate remuneration of the senior management groups and the number of individuals, determined on a full-time equivalent basis, receiving remuneration is as follows:

| | 2018 | 2017 |
|--|-------------|-----------|
| Number of key management personnel: | 9 | 8 |
| Key management personnel remuneration: | \$1,056,313 | \$889,985 |

During the year the Group paid Bellingham Wallace Limited fees for services rendered totalling \$83,694 (2017: \$103,207). The Group also holds a license to occupy a portion of Bellingham Wallace Limited's leased office space. The total amount paid to Bellingham Wallace Limited during the year under the license to occupy totalled \$75,835 (2017: \$75,835). Aaron Wallace, Vice-President and member of the Board of Royal New Zealand Coastguard Incorporated, and Trustee of Royal New Zealand Coastguard Charitable Trust, is a Director of Bellingham Wallace Limited.

Details of transactions between the Group and Coastguard Regions and Units and closing balances are recorded in notes 7 and 14.

Notes to the Special Purpose Consolidated Financial Statements

For the year ended 30 June 2018

9. INTANGIBLES

| | 2018 | | | 2017 | | |
|--------------------------|----------------|--------------------------|----------------|----------------|--------------------------|----------------|
| | Cost | Accumulated Amortisation | Carrying value | Cost | Accumulated Amortisation | Carrying value |
| Software | 296,403 | 195,876 | 100,527 | 253,154 | 180,153 | 73,001 |
| Capital Work In Progress | 77,169 | - | 77,169 | 48,665 | - | 48,665 |
| | 373,572 | 195,876 | 177,696 | 301,819 | 180,153 | 121,666 |

Reconciliation of intangibles - June 2018

| | Opening balance | Revaluation | Additions | Disposals at BV | Amortisation | Closing balance |
|--------------------------|-----------------|-------------|----------------|-----------------|---------------|-----------------|
| Software | 73,001 | - | 43,249 | - | 15,724 | 100,527 |
| Capital Work In Progress | 48,665 | - | 65,753 | 37,249 | - | 77,169 |
| | 121,666 | - | 109,002 | 37,249 | 15,724 | 177,696 |

10. PROPERTY, PLANT AND EQUIPMENT

| | 2018 | | | 2017 | | |
|--|------------------|--------------------------|----------------|------------------|--------------------------|----------------|
| | Cost | Accumulated depreciation | Carrying value | Cost | Accumulated depreciation | Carrying value |
| Rescue Vessels & Equipment | 769,322 | 713,947 | 55,375 | 1,210,008 | 1,158,284 | 51,724 |
| Motor Vehicles | 155,102 | 120,062 | 35,040 | 130,959 | 123,672 | 7,287 |
| Office Equipment, Leasehold Improvements | 871,504 | 751,647 | 119,857 | 851,629 | 710,512 | 141,117 |
| | 1,795,928 | 1,585,656 | 210,272 | 2,192,596 | 1,992,468 | 200,128 |

Reconciliation of property, plant and equipment - June 2018

| | Opening balance | Revaluation | Additions | Disposals at BV | Depreciation | Closing balance |
|--|-----------------|-------------|---------------|-----------------|---------------|-----------------|
| Rescue Vessels & Equipment | 51,724 | - | 42,502 | 13,375 | 25,475 | 55,376 |
| Motor Vehicles | 7,287 | - | 35,664 | 5,069 | 2,842 | 35,040 |
| Office Equipment, Leasehold Improvements | 141,117 | - | 19,875 | - | 41,135 | 119,857 |
| | 200,128 | - | 98,041 | 18,444 | 69,452 | 210,272 |

11. INVESTMENTS - MANAGED FUNDS**Non-current investments**

| | 2018 | 2017 |
|--|------------------|----------|
| Clarity Funds Management - Dividend Yield Fund | 648,616 | - |
| Clarity Funds Management - Fixed Income Fund | 412,457 | - |
| | 1,061,073 | - |

The above investments are units in independently managed funds that are managed by professional fund managers in accordance with New Zealand Coastguard Charitable Trust's investment strategy.

12. PAYABLES - EXCHANGE TRANSACTIONS

| | 2018 | 2017 |
|------------------|----------------|----------------|
| Accounts payable | 511,809 | 492,656 |
| Other Accruals | 41,148 | 176,465 |
| | 552,957 | 669,121 |

13. EMPLOYEE BENEFIT LIABILITY

| | 2018 | 2017 |
|-------------------------|----------------|----------------|
| Salaries including PAYE | 33,882 | 30,485 |
| Holiday pay | 88,271 | 86,737 |
| | 122,153 | 117,222 |

Notes to the Special Purpose Consolidated Financial Statements

For the year ended 30 June 2018

14. NON-EXCHANGE LIABILITIES

| | | |
|--|------------------|----------------|
| Unspent Grant Funds - Lottery Grants Board (LGB) | 752,730 | 380,200 |
| Unspent Grant Funds - Other | 22,632 | 7,206 |
| Related Party Balances | 457,433 | 528,199 |
| | <u>1,232,795</u> | <u>915,605</u> |

Transactions between the Group and Coastguard Regions and Units are considered to be related party transactions. Payments to related parties during the year totalled \$3,319,641 (2017: \$3,512,507). These principally relate to the distribution of grant income to cover operating costs, rescue vessels, engine replacement and repairs. The outstanding balances owing to the Regions are payable on normal trade terms and accordingly do not attract interest.

15. FINANCIAL INSTRUMENTS

The table below shows the carrying amounts of the Group's financial assets and financial liabilities.

Classification and fair values of financial instruments

| | 2018 | | 2017 | |
|--|-----------------------|---|-----------------------|---|
| | Loans and receivables | Financial liabilities at amortised cost | Loans and receivables | Financial liabilities at amortised cost |
| Cash and cash equivalents | 1,981,325 | | 1,778,105 | |
| Term Deposits | 849,049 | | 1,431,115 | |
| Receivables from exchange transactions | 297,831 | | 262,707 | |
| Investments | 1,061,073 | | - | |
| Non-exchange Liabilities (note 14) | | 457,433 | | 528,199 |
| Payables (from exchange transactions) | | 552,957 | | 669,121 |
| | <u>4,189,278</u> | <u>1,010,390</u> | <u>3,471,927</u> | <u>1,197,320</u> |

16. NET FINANCE INCOME

| | 2018 | 2017 |
|--------------------------------|----------------|---------------|
| Finance Income comprises: | | |
| Interest Received | 64,681 | 81,557 |
| Realised Gain on Investments | 30,328 | - |
| Unrealised Gain on Investments | 30,757 | - |
| | <u>125,766</u> | <u>81,557</u> |
| Finance Costs Comprises: | | |
| Other Finance Costs | - | - |
| | <u>-</u> | <u>-</u> |

17. OPERATING LEASE COMMITMENTS

The Group leases motor vehicles and photocopiers under non-cancellable operating lease agreements.

The Group has a right to occupy premises at 470 Parnell Road, Auckland and 165 Westhaven Drive, Auckland.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2018 | 2017 |
|------------------------------------|----------------|----------------|
| Payable within one year | 250,212 | 223,910 |
| Payable between one and five years | 531,013 | 335,040 |
| Payable more than five years | - | - |
| | <u>781,225</u> | <u>558,950</u> |

The amount of expenditure recognised in the current year in respect of leases amounts to \$247,290 (2017: \$309,464).

Notes to the Special Purpose Consolidated Financial Statements

For the year ended 30 June 2018

18. CAPITAL COMMITMENTS

There are no capital commitments at the reporting date. (2017: \$Nil).

19. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or liabilities at the reporting date. (2017: \$Nil).

20. EVENTS AFTER THE REPORTING DATE

The board is not aware of any other matters or circumstances since the end of the reporting period, not otherwise dealt with in these special purpose consolidated financial statements that have significantly or may significantly affect the operations of the Group (2017: \$Nil).

21. SERVICE LEVEL AGREEMENT & LOTTERY GRANTS BOARD FUNDING

Service Level Agreement funding income during the year totaled \$2,440,000 (2017: \$1,874,000). This funding is set for three years, with the current funding period ending 30 June 2020.

Lottery Grants Board funding income received during the year totaled \$2,027,471 (2017: \$2,284,574). This is a contestable annual funding source.