CIVIC BUILDING LIMITED

ANNUAL REPORT

For the Year Ended
30 June 2017

CONTENTS

Directory and Statutory Disclosures

Registered Office	53 Hereford Street Christchurch
Directors	J Gough D East M Davidson
Company Secretary	D Brandish
Bankers	Bank of New Zealand Westpac New Zealand ANZ Bank New Zealand ASB Bank
Auditors	Audit New Zealand on behalf of the Auditor General Christchurch

NATURE OF BUSINESS

Civic Building Ltd (the Company) was established on 12 October 2007 in order to carry out the development of the civic building for the Christchurch City Council (Council). On 26 October 2007 the Company entered into an agreement to develop the civic building on the NZ Post site with Ngai Tahu. The 2009 Annual Plan approved the creation of an unincorporated joint venture structure to carry out the development. The Company has a 50% interest in the resulting joint venture.

The Company appoints three representatives to the unincorporated joint venture Board. The Company's representatives on the joint venture board are its directors.

The Company does not have any staff, rather it is managed by the Christchurch City Council.

DIRECTORS

The persons holding office as Directors of the Company throughout the year and on 30 June 2017 were:

J Gough
D East (appointed 2 March 2017)
M Davidson (appointed 2 March 2017)
P Lonsdale (resigned 2 March 2017)
T Scandrett (resigned 2 March 2017)

DIRECTOR'S INTERESTS

The following Directors as at 30 June 2017 have made general disclosures of interest with respect to any transaction that may be entered into with certain organisations on the basis of their being a Director, Partner, Trustee or Officer of those organisations during the year:

J Gough	Councillor	Christchurch City Council
	Director	Christchurch City Holdings Ltd
	Director	Gough Corporation Holdings Ltd
	Director	The Terrace On Avon Ltd (appointed 7 March 2017)
	Director	69 Worcester Boulevard Ltd
	Director	Gough Property Corporation Ltd
	Director	The Terrace Carpark Limited (appointed 7 March 2017)
	Shareholder	The Russley Village Limited
	Shareholder	Gough Holdings Ltd
	Trustee	Antony Gough Trust
D East	Councillor	Christchurch City Council
	Director	Canterbury Economic Development Co. Ltd
	Director	Cavalier Business Services
	Chairman	North Beach Surf Life Savings Club
	Treasure	New Brighton Pier & Foreshore Society Inc
	Treasure	Canterbury Neighbourhood Support Inc
	Trustee	Canterbury Museum Trust Board
	Trustee	Christchurch Stadium Trust
M Davidson	Councillor	Christchurch City Council

REMUNERATION OF DIRECTORS
No remuneration and other benefits were paid or due and payable to directors for services as a director during the year (2016: Nil)

USE OF COMPANY INFORMATION
During the year, the Board received no notices from members or directors of Company requesting to use Company information received in their capacity as Members or Directors which would not otherwise have been available to them.

DONATIONS
There were no donations made by the Company during the year (2016: Nil).

DIVIDENDS
There have been no dividends declared for the year (2016: Nil).

EMPLOYEES' REMUNERATION
The Company has no employees.

AUDITORS
The Auditor-General is the auditor under Section 15 of the Public Audit Act 2001 and Section 70 of the Local Government Act 2002. Audit New Zealand has been appointed to provide these services on behalf of the Auditor-General.

For and on behalf of the Board

James Goff

Director ***Date*** 25 September 2017

Director ***Date*** 25 September 2017

Statement of Comprehensive Income
For the year ended 30 June 2017

	Note	2017 $000	2016 $000
Revenue	1(a)	4,739	4,869
Finance costs	1(b)	5,420	5,435
Other expenses	1(b)	633	665
		6,053	6,100
(Loss) / profit before income tax		(1,314)	(1,231)
Income tax expense/(income)	2	(368)	(345)
(Loss) / profit for the period		(946)	(886)
Other comprehensive income		-	-
Total comprehensive income		(946)	(886)

The accompanying accounting policies and notes form part of these financial statements.

Statement of Financial Position
As at 30 June 2017

	Note	2017 $000	2016 $000
Current assets			
Cash and cash equivalents	12	3,771	3,540
Other financial assets		1,460	1,590
Trade and other receivables	4	4,205	4,156
Current tax assets	2(b)	544	630
Total current assets		9,980	9,916
Non-current assets			
Investment property	6	5,120	5,120
Trade and other receivables	5	45,827	46,563
Total non-current assets		50,947	51,683
Total assets		60,927	61,599
Current liabilities			
Trade and other payables	7	572	474
Total current liabilities		572	474
Non-current liabilities			
Borrowings	8	58,888	58,888
Deferred tax liabilities	2(c)	10,354	10,178
Total non-current liabilities		69,242	69,066
Total liabilities		69,814	69,540
Net assets		(8,887)	(7,941)
Equity			
Capital and other equity instruments	9	6,188	6,188
Retained earnings		(15,075)	(14,129)
Total equity		(8,887)	(7,941)

The accompanying accounting policies and notes form part of these financial statements.

For and on behalf of the Board

Director ***Date*** 25 september 2017

Director ***Date*** 25 September 2017

Statement of Changes in Equity
For the year ended 30 June 2017

	Capital $000	Retained Earnings $000	Total $000
Balance at 1 July 2015	6,188	(13,243)	(7,055)
Total comprehensive income for the period			
Profit or (loss)	-	(886)	(886)
Total comprehensive income for the period	-	(886)	(886)
Balance at 30 June 2016 and 1 July 2016	6,188	(14,129)	(7,941)
Total comprehensive income for the period			
Profit or (loss)	-	(946)	(946)
Total comprehensive income for the period	-	(946)	(946)
Balance at 30 June 2017	6,188	(15,075)	(8,887)

The accompanying accounting policies and notes form part of these financial statements.

Cashflow Statement
For the year ended 30 June 2017

	Note	2017 $000	2016 $000
Cash flows from operating activities			
Operating revenue		5,284	5,146
Insurance proceeds received		-	57
Payments to suppliers		(534)	(612)
Income tax received/(paid)		631	691
Net GST movement		(1)	3
Net cash provided by/(used in) operating activities	12	5,380	5,285
Cash flows from investing activities			
Interest received		141	186
Maturities of term deposits		5,520	4,800
New term deposits		(5,390)	(4,590)
Net cash (used in)/provided by investing activities		271	396
Cash flows from financing activities			
Interest paid		(5,420)	(5,417)
Net cash provided by/(used in) financing activities		(5,420)	(5,417)
Net increase in cash and cash equivalents		231	264
Cash and cash equivalents at beginning of year		3,540	3,276
Cash and cash equivalents at end of year	12	3,771	3,540

The accompanying accounting policies and notes form part of these financial statements.

Statement of Service Performance

Reporting against the Statement of Intent

	Target $000	Actual $000	Variance $000
Income			
Interest - Finance Lease	3,578	3,578	-
Interest - Other	121	141	20
Other income	1,183	1,020	(163)
Total Income	4,882	4,739	(143)
Expenses			
Finance costs	5,423	5,420	3
Other expenses	719	633	86
Total Expenses	6,142	6,053	89
Net Surplus (deficit) before tax	(1,260)	(1,314)	(54)
Taxation	(400)	(368)	32
Net Surplus (deficit) after tax	(860)	(946)	(86)
Capital Structure			
Uncalled capital	10,000	10,000	-
RPS Shares	6,188	6,188	-
Borrowings from Council	58,888	58,888	-
Finance Lease assets	49,980	49,980	-
Total Assets	60,930	60,927	(3)
Ratio of shareholder funds to total assets	-14.4%	-14.6%	

Key performance targets
To ensure that the Company meets the financial targets contained within the Statement of Intent.

Financial performance targets

Total actual income is slightly lower than plan due to a reduction in property expenses recoveries, as a result of lower actual property related expenses.

The total asset balance of $60.9 million is in line with plan.

Performance Measures

Operational Performance Targets

Objective and Strategy	Performance Measure	Result
Meet the financial targets contained within this SOI.	Budgeted key performance indicators are met or exceeded.	Revenue and net surplus targets were not met due to a reduction in expense recoveries. Capital structure actuals are in line with target.
Manage the investment in a commercially astute and prudent manner.	Ensure the Civic building is managed in accordance with the management agreement.	The building is being managed in accordance with the management agreement.

Environmental and Social Performance Targets

Performance Target	Performance Measure	Result
The Civic building was designed to achieve a high standard in terms of environmental and energy sustainability.	Ensure the Civic building operates in a manner that preserves Green Star 6 accreditation features.	The Facilities Management Team Considers that the building is operating in a manner consistent with a star 6 facility.

Notes to the Financial Statements

1 Profit from operations

(a) Revenue

	2017 $000	2016 $000
Rental revenue:		
Operating lease rental revenue - investment property	432	399
Recovery of property expenses	588	614
	1,020	1,013
Interest revenue:		
Finance lease interest revenue	3,578	3,621
Bank deposits	141	178
	3,719	3,799
Material damage and insurance proceeds received / receivable	-	57
Total revenue	4,739	4,869

(b) Expenses

	Note	2017 $000	2016 $000
Finance costs:			
Interest on loans		5,420	5,435
		5,420	5,435
Direct operating expenses of investment properties:			
Audit fees	3	16	16
Management fees		21	20
Property management costs		582	618
Repairs and maintenance		7	6
Other		7	5
		633	665
Loss on revaluation of investment property		-	-
		-	-
Total expenses		6,053	6,100

Notes to the Financial Statements

2 Income taxes

a. Income tax recognised in profit or loss

	2017 $000	2016 $000
Tax expense/(income) comprises:		
Current tax expense/(income)	(544)	(630)
Adjustments recognised in current year in relation to the current tax of prior years	-	-
Adjustments recognised in current year in relation to the deferred tax of prior years	-	-
Deferred tax expense/(income)	176	285
Total tax expense/(income)	(368)	(345)

Reconciliation of prima facie income tax:

	2017 $000	2016 $000
Profit/(loss) from operations	(1,314)	(1,231)
Income tax expense calculated at 28% (2016: 28%)	(368)	(345)
Correction to prior year tax calculation	-	-
Correction to prior year deferred tax	-	-
Deferred tax adjustment	176	286
Building lease classified as operating lease for tax purposes	(176)	(286)
	(368)	(345)

b. Current tax assets and liabilities

	2017 $000	2016 $000
Current tax assets:		
Subvention receivable	544	630
	544	630

Notes to the Financial Statements

c. Deferred tax balances

Taxable and deductible temporary differences arise from the following:

	2017 $000	2016 $000
Deferred tax assets		
Tax losses	-	-
	-	-

	2017 $000	2016 $000
Deferred tax liabilities		
Temporary differences	10,354	10,178
	10,354	10,178

Taxable and deductible temporary differences arise from the following:

Year ended 30 June 2017	**Opening balance $000**	**Charged to income $000**	**Closing balance $000**
Deferred tax liabilities:			
Investment Property	10,178	176	10,354
	10,178	176	10,354
Deferred tax assets:			
Tax losses	-	-	-
	-	-	-
Net deferred tax balance	10,178	176	10,354

Taxable and deductible temporary differences arise from the following:

Year ended 30 June 2016	**Opening balance $000**	**Charged to income $000**	**Closing balance $000**
Deferred tax liabilities:			
Investment Property	9,892	286	10,178
	9,892	286	10,178
Deferred tax assets:			
Tax losses	-	-	-
	-	-	-
Net deferred tax balance	9,892	286	10,178

d. Imputation credit account balances

There were no Imputation credits available for use in subsequent periods as at 30 June 2017 or 30 June 2016.

3 Remuneration of auditors

	2017 $000	2016 $000
Auditor of the entity:		
Audit of the financial statements	11	11
Audit of the financial statements - other auditor	5	5
	16	16

4 Current trade and other receivables

	Note	2017 $000	2016 $000
Finance lease receivable - current portion	5	4,153	4,138
Trade receivables		9	10
Related party receivable		26	2
Sundry Receivable		17	6
		4,205	4,156

The carrying value of debtors and other receivables approximate their fair value.

The carrying value of receivables that would otherwise be past due or impaired whose terms have been renegotiated amount to $nil (2016: $nil)

5 Finance lease receivable

	Minimum future lease payments		Present value of minimum future	
	2017 $000	2016 $000	2017 $000	2016 $000
No later than one year	4,315	4,300	4,153	4,138
Later than one year and not later than five years	18,425	18,025	14,868	14,535
Later than five years	67,130	71,845	30,959	32,028
Minimum lease payments	89,870	94,170	49,980	50,701
Unguaranteed residual	-	-	-	-
Gross finance lease receivables	89,870	94,170	49,980	50,701
Less unearned finance income	(39,890)	(43,469)	-	-
Present value of minimum lease payments	49,980	50,701	49,980	50,701

Included in the financial statements as:		
Current trade and other receivables	4,153	4,138
Non-current trade and other receivables	45,827	46,563
	49,980	50,701

Notes to the Financial Statements

The Company and Ngai Tahu Property (CCC-JV) have leased the Civic Building at 53 Hereford Street to the Council. The lease commenced on 24 August 2010 and is for a period of 24 years, with three rights of renewal, giving a total lease life of 96 years.

Rental on the building (including land) was initially set at $8,233,776 per annum, with the following rental increases specified in the contract:

1. a 3 per cent increase per annum which is payable on the third anniversary of commencement, compounded on an annual basis.
2. a market rental increase on every sixth anniversary of commencement, set at the greater of five per cent or market rental.
3. a further 3 per cent per annum payable on the sixth anniversary of the increase in point 1.

No contingent rent is payable under the lease.

6 Investment property

	2017 $000	2016 $000
Balance at beginning of financial year	5,120	5,120
Revaluation	-	-
Balance at end of financial year	5,120	5,120

On entering into the lease with the Council for the Civic Building, the building has been reclassified as a finance lease receivable. The land portion remains classified as investment property.

Recognition and Measurement

Investment Property includes properties held to earn rental income and/or for capital appreciation that are not occupied by the combined group. These properties are measured at fair value on an annual basis. Gains or losses arising from a change in fair value are included in profit or loss in the period in which they arise.

Measurement of Fair Value

Investment properties were fair valued at 30 June 2017 and 30 June 2016 by independent registered external valuers, Colliers International (Valuation) Limited.

As the valuation of investment properties does not use fully observable data, it is classified as a level 3 fair value. There have been no transfers in or out of level during the year.

The fair value of this property has been determined by capitalising the potential income that the property can generate. This is tested against a discounting of future cash flows arising from the property.

The valuer has provided for the evidenced downward pressure on rents in the Christchurch CBD office market. The market is currently responding to the over-supply situation within the Christchurch CBD by stopping development and at the same time reducing rents to meet the market. This has been shown in an easing of the capitalisation rate by 10 basis points from 6.25% in June 2016 to 6.35% at balance date.

Notes to the Financial Statements

7 Current trade and other payables

	2017 $000	2016 $000
Trade payables	361	262
Related party payables	148	148
GST payable	63	64
	572	474

8 Non-current borrowings

	2017 $000	2016 $000
Unsecured:		
Loans from parent entity	58,888	58,888
	58,888	58,888

The Company has entered into a cash advance facility agreement with Council. Repayment will be made in 2038. Interest is payable at a weighted average of 9.20% quarterly (2016: 9.20% quarterly).

The terms of the cash advance facility allow the Company to make prepayments of principal repayments. During the year the Company made no repayments (2016: nil).

The fair value of the borrowings is $85,999,205 (2016: $88,689,230) based on cash flows discounted using the market rate of 5.5% (2016: 5.3%) The fair value was calculated on the basis that the loan will be paid back at the end of the loan agreement in 2038 less the effect of planned capital repayments before maturity.

The fair value of the loan is considered to be categorised as Level 2 on the fair value hierarchy as it has been determined used a number of observable valuation inputs such as the market interest rate (2016: Level 2).

Notes to the Financial Statements

9 Capital and other equity instruments

	2017 $000	2016 $000
Fully paid ordinary shares	-	-
Fully paid redeemable preference shares (A)	6,188	6,188
	6,188	6,188
Fully paid ordinary shares		
Issue of shares	10,000	10,000
Less: uncalled portion of shares issued	(10,000)	(10,000)
Closing balance of paid up capital	-	-
Fully paid redeemable preference shares (A)		
Balance at beginning of financial year	6,188	6,188
Issue of shares	-	-
Balance at end of financial year	6,188	6,188

Redeemable preference shares do not carry entitlement to vote at general meetings of the Company, and are not transferable. The shares are redeemable at the option of the Company in its sole discretion or upon the winding up of the Company or on expiry at 20 June 2038. In all other respects redeemable preference shares rank pari passu with ordinary shares.

The shares do not carry fixed dividend rights.

10 Commitments for expenditure

There were no commitments for development expenditure that were not otherwise accrued at 30 June 2017 (2016: $nil).

11 Contingent liabilities and contingent assets

There were no contingent assets or contingent liabilities as at 30 June 2017 or 30 June 2016

Notes to the Financial Statements

12 Notes to the cash flow statement

	2017 $000	2016 $000
Cash and cash equivalents		
Cash and cash equivalents	3,771	3,540
	3,771	3,540
Reconciliation of profit for the period to net cash flows from operating activities		
Net profit for the period	(946)	(886)
Changes in net assets and liabilities		
Increase / (decrease) in income tax receivable	86	60
(Increase) / decrease in receivables	(34)	5
Increase / (decrease) in payables	98	74
Decrease in lease receivable	722	514
Interest received classed as investing	(142)	(185)
Interest paid classed as financing	5,420	5,417
Non cash items:		
Loss / gain on revaluation of investment property		-
Increase / decrease in deferred tax	176	286
Finance lease income		
Net changes in net assets and liabilities	6,326	6,171
Net cash from operating activities	5,380	5,285

Notes to the Financial Statements

13 Related-party transactions

Council is the ultimate controlling party of the Company. The following transactions were carried out with related parties during the year:

	2017 $000	2016 $000
Receipts from related parties		
Finance Lease interest, principal and rent received from the Council	4,698	4,499
Subvention payments received from Council group entities	630	690
Recovery of property expenses from the Council	582	609
Sinking fund from Council	42	48
Payments to related parties		
Interest paid to the Council	5,420	5,435
Management fees charged by Ngai Tahu Properties Ltd	96	90
Management fees charged by the Council	20	20
Rates paid to Council	234	222
Year end balances (GST exclusive)		
Loan advances from Council	58,888	58,888
Accrued interest payable to Council	148	148
Subvention payments receivable from group companies	544	630
Accounts Payable to Council	-	-

The Company expects to transfer tax losses of $1,941,314 to other members of the Council group (2016: $2,251,755) by way of a subvention payment of $543,568 (2016: $630,491) which has been accrued and a loss offset of $1,397,746 (2016: $1,621,264).

Key Management Personnel

All transactions occurred on normal trading terms and conditions.

Key management personnel includes the Directors.

The Company paid no Directors fees in the 2016/2017 financial year (2015/2016: nil).
The Company paid no joint venture board fees in 2017 (2016: $nil).

14 Operating Leases

	Minimum Lease Payments 2017 $000	Minimum Lease Payments 2016 $000
Operating lease as lessor		
Within one year	409	407
Between 1 and 5 years	1,747	1,709
Over 5 years	6,365	6,812
	8,521	8,928

The terms of the lease are detailed in note 6.

15 Financial instruments

Classification of financial instruments

2017	Loans & receivables $000	Other amortised cost $000	Total carrying amount $000
Current assets			
Cash and cash equivalents	3,771	-	3,771
Trade and other receivables	4,205	-	4,205
Other financial assets	1,460	-	1,460
	9,436	-	9,436
Non current assets			
Finance lease receivable	45,827	-	45,827
	45,827	-	45,827
Total Financial Assets	55,263	-	55,263
Current liabilities			
Trade and other payables	-	572	572
	-	572	572
Non current liabilities			
Borrowings	-	58,888	58,888
	-	58,888	58,888
Total Financial Liabilities	-	59,460	59,460

2016	Loans & receivables $000	Other amortised cost $000	Total carrying amount $000
Current assets			
Cash and cash equivalents	3,540	-	3,540
Trade and other receivables	4,156	-	4,156
Other financial assets	1,590	-	1,590
	9,286	-	9,286
Non current assets			
Finance lease receivable	46,563	-	46,563
	46,563	-	46,563
Total Financial Assets	55,849	-	55,849
Current liabilities			
Trade and other payables	-	474	474
	-	474	474
Non current liabilities			
Borrowings	-	58,888	58,888
	-	58,888	58,888
Total Financial Liabilities	-	59,362	59,362

Notes to the Financial Statements

Contractual Maturity Analysis

as at 30 June 2017	Carrying amount $000	Contractual cashflows $000	Less than 1 year $000	1 - 2 years $000	3 - 5 years $000	More than 5 years $000
Financial assets:						
Cash and cash equivalents	3,771	3,771	3,771	-	-	-
Trade and other receivables	4,205	4,367	4,367	-	-	-
Other financial assets	1,460	1,460	1,460	-	-	-
Finance lease receivables	45,827	85,554	-	4,314	14,110	67,130
	55,263	95,152	9,598	4,314	14,110	67,130
Financial liabilities:						
Trade and other payables	572	572	572	-	-	-
Related party borrowings	58,888	172,785	5,420	5,420	16,275	145,670
	59,460	173,357	5,992	5,420	16,275	145,670

as at 30 June 2016	Carrying amount $000	Contractual cashflows $000	Less than 1 year $000	1 - 2 years $000	3 - 5 years $000	More than 5 years $000
Financial assets:						
Cash and cash equivalents	3,540	3,540	3,540	-	-	-
Trade and other receivables	4,156	4,317	4,317	-	-	-
Other financial assets	1,590	1,590	1,590	-	-	-
Finance lease receivables	46,563	89,869	-	4,314	13,710	71,845
	55,849	99,316	9,447	4,314	13,710	71,845
Financial liabilities:						
Trade and other payables	474	474	474	-	-	-
Related party borrowings	58,888	178,205	5,420	5,420	16,275	151,090
	59,362	178,679	5,894	5,420	16,275	151,090

Finance lease receivables due in less than one year are included in the Trade and other receivables balance.

Financial instrument risk

The Company has a series of policies to manage the risks associated with financial instruments. The Company is risk averse and seeks to minimise exposure from its financing activities.

Credit risk management

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings (if available) or to historic information about counterparty default rates.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company places its cash with banking institutions that have a Standard and Poor's rating of AA.

	2017 $000	2016 $000
Counterparties with credit ratings		
Cash and cash equivalents		
AA Band	3,771	3,540
Other financial assets		
AA Band	1,469	1,599
Finance lease receivable		
A Band	49,980	50,701

Liquidity risk management
Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and maintaining adequate reserves with the maturity profile of financial assets being matched to the financial liabilities.

Market risk management
Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates and market prices, will affect the Company's profit or the value of its holdings in financial instruments.

Interest rates
Interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Company to interest rate risk.

The Company's borrowing liability with its parent is at a weighted fixed interest rate of 9.20% (2016: 9.20%). The Company is not sensitive to movements in interest rates in respect of its borrowing obligations. Interest rate movements would, however, affect the amount of interest income received by the Company on surplus cash. A 1% movement either way would have the effect of increasing/decreasing the Company's profit before tax by $53,464 or $38,494 after tax (2016: $51,619 or $37,166 after tax).

Foreign exchange
The Company has no exposure to foreign exchange risk.

16 Capital Management

The Company's capital comprises share capital and retained earnings. The Company manages its revenues, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interest of the community.

Notes to the Financial Statements

17 Joint Arrangements

The Company has a 50% interest in Christchurch Civic Building Joint Venture (CCB-JV) with Ngai Tahu Property (CCC-JV) Limited. The CCB-JV is an unincorporated partnership in which both partners share equally in the assets and liabilities of the operations. The CCB-JV board is comprised of three members appointed by each of the partners.

The CCB-JV owns and leases the Civic Building in Hereford Street to the Christchurch City Council.

The nature of the arrangement is such that it is considered a joint operation for accounting purposes. As a result the financial results of the Company incorporate its 50% share of the CCB-JV on line by line basis.

18 Events after balance date

There have been no material events known to the Directors occurring subsequent to balance date that would have a significant impact on the financial statements for the year ended 30 June 2017.

19 Accounting policies

Reporting Entity

These are the financial statements of Civic Building Limited (the "Company")

The Company is registered under the Companies Act 1993 and is domiciled in New Zealand. The Company is a Council Controlled Trading Organisation as defined by section 6 of the Local Government Act 2002.

The Company was established on 12 October 2007 in order to carry out the development of the civic building for the Council. On 26 October 2007 the Company entered into an agreement to develop the civic building on the NZ Post site with Ngai Tahu. The Council's 2009 Annual Plan approved the creation of an unincorporated joint venture structure to carry out the development. The Company has a 50% interest in the resulting joint operations.

Accordingly, the Company has designated itself as a profit orientated entity for the purposes of New Zealand Equivalent to International Financial Reporting Standards (NZ IFRS). The Company is not considered 'large' for the purposes determining the appropriate reporting tier and has consequently opted to report as a Tier 2 entity applying NZ IFRS with Reduced Disclosure Requirements.

The financial statements of the Company have been prepared in accordance with the Financial Reporting Act 2013, the Companies Act 1993 and the Local Government Act 2002.

The financial statements of the Company are for the year ended 30 June 2017. The financial statements were authorised for issue by the Board of Directors on 25 September 2017.

Basis of financial statement preparation

The financial statements have been prepared in accordance with the New Zealand generally accepted accounting practice as appropriate for Tier 2 for-profit entities

The financial statements have been prepared on an historical cost basis except for the revaluation of investment properties.

The functional and presentation currency is New Zealand dollars. All values are rounded to the nearest thousand dollars ($000).

Judgements, estimates and assumptions
In preparing these financial statements the Company has been required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the year if the change affects only that year, or into future years if it also affects future years. In the process of applying the Company's accounting policies, management has made the following judgements estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements. The determination of the fair value of investment property is regarded as a critical estimate and is valued at least on an annual basis. This requires the estimation of current market values by an independent registered valuer, refer to note 6.

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

A. Joint Operations

A joint operation is a joint arrangement whereby the parties have joint control of the arrangements and have rights to the assets, and obligatons for the liabilities relating to the arrangement.

Where such an arrangement exists the Company will recognise its share of the assets, liabilities, revenue and expenses including its share of any held or incurred jointly.

B. Financial Assets

Term deposits with maturities greater than three months are measured at amortised cost and have been designated as loans and receivables.

C. 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 impairment.

D. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows, and in current liabilities on the statement of financial position.

E. Investment property

The land leased to third parties under operating leases is classed as investment property.

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

Gains or losses arising from a change in fair value of the investment property are recognised in the statement of comprehensive income.

F. Share capital

(i) Ordinary share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it provides for mandatory redemption by the issuer for a specific amount at a specific date (or gives the holder the right to requires such redemption from the issuer), or if it gives the holder the right to put it back to the issuer for cash or another financial asset. Dividends thereon are recognised in the statement of comprehensive income as interest expense.

G. Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

H. Provisions

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

I. Leases

(i) Finance leases

Leases in which substantially all of the risks and rewards of ownership of an asset transfer to the lessee are classified as finance leases whether or not title is eventually transferred. At inception, finance leases are recognised in the statement of financial position at the present value of the minimum lease payments plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term.

Amounts due from lessees under finance leases are recorded as receivables. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant rate of return on the net investment outstanding in respect of the lease.

(ii) Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

J. Revenue

Revenue is measured at the fair value of consideration received.

(i) Interest income

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

(ii) Finance lease income

Finance lease income is allocated over the lease term on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant periodic return on the Company's net investment in the finance lease.

(iii) Operating lease income

Operating lease income is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

(iv) Insurance proceeds

Insurance proceeds are recognised in the statement of comprehensive income when the compensation becomes receivable.

K. Financing costs

Financing costs comprise interest payable on borrowings calculated using the effective interest rate method. All interest payable on borrowings is recognised as an expense in the statement of comprehensive incomes as it occurs.

L. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

M. 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. They represent liabilities for goods and services received by the Company during and up to the end of the financial year and which remain unpaid as at balance date. The amounts are exclusive of GST.

N. Goods and Services Tax

The financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense. The net amount of GST recoverable from, payable to, the Inland Revenue Department is included as part of receivables or payable in the statement of financial position.

Independent Auditor's Report

Independent Auditor's Report

To the readers of Civic Building Limited's financial statements and performance information for the year ended 30 June 2017

The Auditor-General is the auditor of Civic Building Limited (the company). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 5 to 8, and 11 to 26, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and

- the performance information of the company on pages 9 to 10.

In our opinion:

- The financial statements of the company on pages 5 to 8, and 11 to 26:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; 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 the New Zealand equivalents to International Financial Reporting Standards with reduced disclosure requirements.

- The performance information of the company on pages 9 to 10 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 2017.

Our audit was completed on 25 September 2017. This is the date at which our opinion is expressed.

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

Basis for opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 4, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information 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 performance information, 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 performance information 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(Revised): 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.

Andy Burns
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand