OSPRI

CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended 30 June 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2017

In thousands of New Zealand Dollars	Note	2017	2016
Revenue			
Revenue from non-exchange transactions	6	73,181	88,437
Revenue from exchange transactions		7,508	440
Total revenue		**80,689**	**88,877**
Expenditure			
NAIT operations		2,168	3,232
Contact centre and compliance		1,618	1,914
Pest control and management		36,507	49,920
Disease management and testing		13,577	14,219
Research		1,561	2,040
Business service support		11,654	9,110
Battle for our Birds		6,853	-
Total expenditure	7	**73,938**	**80,435**
Surplus before financing costs		6,751	8,442
Interest income		308	237
Surplus for the year		**7,059**	**8,679**
Total comprehensive revenue and expense for the year		**7,059**	**8,679**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

In thousands of New Zealand Dollars	Note	Contributed capital	Retained earnings	Reserves	Total equity
Balance as at 1 July 2015		-	5,999	12,604	18,603
Changes in equity for 2016					
Total comprehensive revenue and expense for the year		-	310	8,369	8,679
Transfers between reserves	11	-	(955)	955	-
Balance as at 30 June 2016		-	**5,354**	**21,928**	**27,282**
Changes in equity for 2017					
Total comprehensive revenue and expense for the year		-	7,059	-	7,059
Balance as at 30 June 2017		**-**	**12,413**	**21,928**	**34,341**

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

In thousands of New Zealand Dollars	Note	2017	2016
Assets			
Cash and cash equivalents		31,633	21,260
Receivables and other current assets	8	4,775	5,875
Current assets		36,408	27,135
Property, plant and equipment		734	1,035
Intangible assets	9	5,581	8,982
Non-current assets		**6,315**	**10,017**
Total assets		**42,723**	**37,152**
Liabilities			
Payables from exchange transactions and other liabilities		7,598	7,720
Employee benefits liability		764	813
Revenue received in advance	10	19	1,337
Current liabilities		**8,381**	**9,870**
Total liabilities		**8,381**	**9,870**
Equity			
Retained earnings		12,414	5,354
Reserves	11	21,928	21,928
Total equity		**34,342**	**27,282**
Total equity and liabilities		**42,723**	**37,152**

APPROVAL BY THE DIRECTORS

The Financial Statements were authorised on behalf of the OSPRI Board of Directors on 14 September 2017:

J J Grant
Chair of the Board

M E Pohio
Director

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

In thousands of New Zealand Dollars	Note	2017	2016
Cash flows from operating activities			
Revenue from operations		80,203	89,871
Cash paid to employees and suppliers		(70,115)	(79,756)
Net cash from/(used in) operating activities	14	**10,088**	**10,115**
Cash flows from investing activities			
Interest income		308	237
Purchase of property, plant and equipment		(23)	(39)
Purchase of intangible assets		-	(1,886)
Net cash from/(used in) investing activities		**285**	**(1,688)**
Net increase in cash and cash equivalents		10,373	8,427
Cash and cash equivalents at 1 July		21,260	12,833
Cash and cash equivalents at 30 June		**31,633**	**21,260**

The notes are an integral part of these financial statements.

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NOTE 1: REPORTING ENTITY

OSPRI New Zealand Limited ('OSPRI' or the 'Company') is a charity domiciled in New Zealand and registered under the Charities Act 2005. The consolidated financial statements have been prepared in accordance with the requirements of that Act. The registered office of OSPRI is located on Level 9, CallActive House, 15 Willeston Street, Wellington 6011.

These consolidated financial statements for the year ended 30 June 2017 comprise the controlling entity OSPRI and its two subsidiaries TBfree New Zealand Limited ('TBfree') and National Animal Identification and Tracing (NAIT) Limited ('NAIT'), together referred to as the 'Group'. For the purposes of financial reporting, OSPRI and the Group are designated as not-for-profit public benefit entities.

OSPRI was incorporated on the 6 June 2013 and the Group was formed upon the acquisition of TBfree and NAIT. All entities within the Group are domiciled in New Zealand and are registered under the Companies Act 1993. TBfree manages the National Pest Management Plan ('NPMP') for Bovine Tuberculosis in accordance with the provisions of the Biosecurity Act 1993. NAIT is responsible for implementing New Zealand's National Animal Identification and Tracing Scheme and operates under the National Animal Identification and Tracing Act 2012.

NOTE 2: BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with and comply with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with Tier 1 PBE Accounting Standards (Not-For-Profit) ('PBE').

The consolidated financial statements were authorised for issue by the Board of Directors on 14 September 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis and on an accrual basis.

(c) Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the functional and reporting currency of the Group. All values are rounded to the nearest thousand ($000) except where indicated otherwise.

NOTE 3: USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with NZ GAAP Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following note:

- Note 9 – capitalisation of internally generated software.

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 30 June 2017 is included in the following note:

- Note 9 – assessment of useful lives and residual values
- Note 9 – impairment of non-financial assets – non-cash generating assets.

NOTE 4: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below and in the notes to the consolidated financial statements have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Group.

(a) Income tax

OSPRI and its subsidiaries are registered as charitable entities with the Charities Services and are therefore exempt from New Zealand income tax on normal operations.

(b) Good and Services Tax

The Consolidated Statement of Comprehensive Revenue and Expenses has been prepared so that all components are stated exclusive of Goods and Services Tax ('GST'). All items in the Consolidated Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST.

(c) Cash and cash equivalents

The Group assesses 'Cash and cash equivalents' to include term deposits, where the term deposit has less than three months to maturity as at balance date.

(d) Impairment of non-financial assets

The Group has determined that all property, plant and equipment and intangible assets are non-cash generating assets, as they are held to provide activities and services that benefit biosecurity and industry good in New Zealand, rather than for a commercial return.

Impairment of non-cash-generating assets

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

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount. Impairment losses are recognised in the Consolidated Statement of Comprehensive Revenue and Expenses.

(e) Impairment of financial assets

The Group's financial assets are classified as loans and receivables and are assessed at each reporting date to determine whether there is objective evidence that they are impaired. Objective evidence that financial assets are impaired includes default or delinquency by the counterparty. The Group considers evidence of impairment for financial assets measured at amortised costs at a specific level. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus/deficit and reflected in an allowance account against the financial asset. When an event occurring after the impairment causes the impairment loss to be reduced, the decrease in impairment loss is reversed through surplus/deficit.

NOTE 5: SEGMENT INFORMATION

The Group is organised and reports to its directors on the basis of three functional areas: OSPRI New Zealand Limited (OSPRI) and both subsidiaries, National Animal Identification and Tracing Limited (NAIT) and TBfree New Zealand Limited (TBfree).

Inter-segment allocations – expenses incurred by OSPRI on behalf of its subsidiaries are allocated across the two programmes on a proportional basis. These transfers are accounted for at cost and are eliminated on consolidation. There was no charge for these services (2016: $1 million).

OPERATING STATEMENT SEGMENT INFORMATION

2017

In thousands of New Zealand Dollars	OSPRI	NAIT	TBfree	Elimination of inter-segment transactions	Group
Operating income					
Crown revenue	-	2,234	27,337	-	29,571
Slaughter levies	-	2,110	22,064	-	24,174
Tag levies	-	3,273	-	-	3,273
Industry and regional funding	-	-	15,583	-	15,583
Live Export Levies	-	-	344	-	344
TB animal reactor proceeds	-	-	230	-	230
Battle for our Birds	7,135	-	-	-	7,135
Other income	-	-	379	-	379
Total operating income	**7,135**	**7,617**	**65,937**	**-**	**80,689**
Operating expenditure					
Disease management and testing	-	-	13,577	-	13,577
Research	-	-	1,561	-	1,561
NAIT operations	-	2,168	-	-	2,168
Contact centre and compliance	-	314	1,304	-	1,618
Pest control and management	-	-	36,507	-	36,507
Battle for our Birds	6,853	-	-	-	6,853
Business service support	-	1,678	9,976	-	11,654
Total operating expenditure	**6,853**	**4,160**	**62,925**	**-**	**73,938**
Net operating surplus/(deficit) for the year	**282**	**3,457**	**3,012**	**-**	**6,751**
Interest income	**-**	**111**	**197**	**-**	**308**
Total comprehensive revenue and expense for the year	**282**	**3,568**	**3,209**	**-**	**7,059**

2016

In thousands of New Zealand Dollars	OSPRI	NAIT	TBfree	Elimination of inter-segment transactions	Group
Operating income					
Crown revenue	-	2,228	29,149	-	31,377
Slaughter levies	-	2,265	30,247	-	32,512
Tag levies	-	3,326	-	-	3,326
Industry and regional funding	-	-	21,204	-	21,204
TB animal reactor proceeds	-	-	18	-	18
Other income	1,440	-	-	(1,000)	440
Total operating income	**1,440**	**7,819**	**80,618**	**(1,000)**	**88,877**
Operating expenditure					
Disease management and testing	-	-	14,219	-	14,219
Research	-	-	2,040	-	2,040
NAIT operations	-	3,232	-	-	3,232
Contact centre and compliance	-	927	987	-	1,914
Pest control and management	-	-	49,920	-	49,920
Business service support	986	3,894	5,230	(1,000)	9,110
Total operating expenditure	**986**	**8,053**	**72,396**	**(1,000)**	**80,435**
Surplus/(deficit) before financing costs	**454**	**(234)**	**8,222**	**-**	**8,442**
Interest income	**2**	**89**	**146**	**-**	**237**
Total comprehensive revenue and expense for the year	**456**	**(145)**	**8,368**	**-**	**8,679**

NOTE 5: SEGMENT INFORMATION – CONTINUED

BALANCE SHEET SEGMENT INFORMATION

2017

In thousands of New Zealand Dollars	**OSPRI**	**NAIT**	**TBfree**	**Elimination of inter-segment transactions**	**Group**
Non-current assets	2,072	12,441	26,131	(4,235)	36,409
Current assets	716	2,810	2,788	-	6,314
Total assets	**2,788**	**15,251**	**28,919**	**(4,235)**	**42,723**
Current liabilities	2,017	1,977	8,622	(4,235)	8,381
Total liabilities	**2,017**	**1,977**	**8,622**	**(4,235)**	**8,381**
Retained earnings and reserves	489	9,706	17,088	-	27,283
Surplus/(deficit) for the year	282	3,568	3,209	-	7,059
Total equity	**771**	**13,274**	**20,297**	**-**	**34,342**

2016

In thousands of New Zealand Dollars	**OSPRI**	**NAIT**	**TBfree**	**Elimination of inter-segment transactions**	**Group**
Non-current assets	646	9,304	23,486	(6,301)	27,135
Current assets	1,322	4,378	4,317	-	10,017
Total assets	**1,968**	**13,682**	**27,803**	**(6,301)**	**37,152**
Current liabilities	1,479	3,976	10,716	(6,301)	9,870
Total liabilities	**1,479**	**3,976**	**10,716**	**(6,301)**	**9,870**
Retained earnings and reserves	33	9,851	8,719	-	18,603
Surplus/(deficit) for the year	456	(145)	8,368	-	8,679
Total equity	**489**	**9,706**	**17,087**	**-**	**27,282**

NOTE 6: REVENUE FROM NON-EXCHANGE TRANSACTIONS

In thousands of New Zealand Dollars	2017	2016
Crown funding	29,571	31,377
Industry and Regional Council funding	15,583	21,204
Slaughter levies	24,174	32,512
Live export levies	344	-
TB animal reactor proceeds and other	230	18
Tag levies	3,273	3,326
Other Income	6	-
Total revenue from non-exchange transactions	**73,181**	**88,437**

POLICIES

Non-exchange transactions are those where the Group receives value from another entity (e.g. cash funding) without giving approximately equal value to that entity in exchange. Funding received from non-exchange transactions is recognised as non-exchange revenue, to the extent that a liability is not recognised in respect to the same funding received. Liabilities are recognised in relation to funding received when there is a resulting present obligation to perform to satisfy a condition (or milestone), and the failure of which will result in the refund of any funding that have been received in relation to the specified condition (or milestone).

The following are the recognition criteria in relation to the Group's non-exchange transactions.

(a) Crown, Industry and Regional Councils funding

The recognition of non-exchange revenue from Crown, Industry and Regional funding depends on whether the funding comes with any stipulations imposed on the use of funds provided.

Stipulations that are 'conditions' specifically require the entity within the Group to return the funds received if they are not used in the way stipulated, resulting in the recognition of a 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 entity or the Group to return the funds 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 when the funds are receivable or received.

TBfree receives funding from the Crown. The funding is provided to enable the entity to carry out its National Pest Management Plans (NPMP) and activities. The funding agreements have specific strategy objectives and performance measures which are subject to independent audit and review. Ongoing funding is dependent on the achievement of these milestones. Prior to the 'TB Plan Funder's Agreement' being effective from 1 July 2016, if the milestones were not achieved or if the funding provided had been underspent, then further funding was either suppressed or there was a return of funds obligation. Revenue in relation to Crown funding is initially recognised as a non-exchange liability and as revenue only when the milestones have been achieved.

TBfree receives funding from the dairy, beef and lamb, and deer industry sectors. The funding provided is restricted to being used by the entity to carry out their necessary activities to implement the NPMP for bovine tuberculosis strategies and programmes of work for the benefit of the respective industries. The funding agreements do not impose any condition on the entities that require a return of unspent funds. Revenue in relation to this funding is recognised when it is receivable or received by the entities.

NOTE 6: REVENUE FROM NON-EXCHANGE TRANSACTIONS – CONTINUED

NAIT receives funding from the Crown. The funding is provided to enable the entity to carry out its animal identification and tracing operations. The funding agreements have specific strategy objectives and performance measures which are subject to independent audit and review. Ongoing funding is dependent on the achievement of these milestones. If the milestones are not achieved or if the funding provided has been underspent, then further funding is suppressed. Revenue in relation to Crown funding is initially recognised a a non-exchange liability and as revenue only when the milestones have been achieved.

(b) Slaughter and tag levies

In accordance with legislation, levies are charged when animals are slaughtered and when animal ear tags are sold. The levies collected are restricted to being used to contribute towards the establishment and ongoing maintenance of a national animal identification and tracing system, and a disease management system. There are no conditions imposed on the entities in respect of this stream of revenue. Revenue in relation to these levies is recognised when it is receivable or received by the entities.

NOTE 7: EXPENDITURE

In thousands of New Zealand Dollars	**Note**	**2017**	**2016**
Short-term employee benefits		11,527	13,818
Amortisation and depreciation	14	3,085	2,201
Operating lease expenses	15	1,175	1,352
Audit fees paid to KPMG		35	35
Non-audit fees paid to KPMG		16	20

NOTE 8: RECEIVABLES AND OTHER CURRENT ASSETS

In thousands of New Zealand Dollars	**2017**	**2016**
Receivables from non-exchange transactions		
DairyNZ	1,390	1,773
Deer Industry New Zealand	7	70
Slaughter levies receivable	2,304	2,789
Regional Councils	84	430
Tag levies receivable	480	401
Other receivables and prepayments	510	412
Total receivables from non-exchange transactions	**4,775**	**5,875**

NOTE 9: INTANGIBLE ASSETS

In thousands of New Zealand Dollars	**Software**	**Work in Progress**	**Total**
Cost			
Balance as at 1 July 2015	19,133	230	19,363
Additions	1,435	1,868	3,303
Capitalisation of WIP	-	(1,416)	(1,416)
Balance as at 30 June 2016	**20,568**	**682**	**21,250**
Additions	-	50	50
Write-offs	-	(682)	(682)
Balance as at 30 June 2017	**20,568**	**50**	**20,618**

In thousands of New Zealand Dollars	**Software**	**Work in Progress**	**Total**
Amortisation and impairment			
Balance as at 1 July 2015	10,463	-	10,463
Amortisation	1,805	-	1,805
Balance as at 30 June 2016	**12,268**	**-**	**12,268**
Amortisation	2,769	-	2,769
Balance as at 30 June 2016	**15,037**	**-**	**15,037**
Net book values			
Balance as at 30 June 2016	8,300	682	8,982
Balance as at 30 June 2017	5,531	50	5,581

NOTE 9: INTANGIBLE ASSETS – CONTINUED

POLICIES – INTANGIBLE ASSETS

All intangible assets are stated at cost less amortisation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. All other repair and maintenance costs are recognised in surplus/deficit as incurred. The costs of self-constructed assets are recognised as capital work in progress until the assets are operating in the manner intended, at which time they are transferred to intangible assets.

Amortisation is recognised in surplus/deficit and is calculated to write off the cost of items of intangible assets less their residual values using the straight-line method over their estimated useful lives of 3–5 years.

The assets' residual values and useful lives are reviewed and adjusted during the reporting period as appropriate. The majority of computer software comprises the NAIT Database and Disease Management systems. Due to management expectations that, pending completion of the NAIT review currently underway and the potential need to respond with enhancements to the NAIT application, the remaining estimated useful lives of these systems has been shortened from four to three years.

Work in progress balances are reviewed on a regular basis. In scenarios where projects are not completed, or are no longer considered to add value to the Group, the amount of work in progress held for those projects is written off.

JUDGEMENT – CAPITALISATION OF INTERNALLY GENERATED SOFTWARE

Judgement is required when distinguishing between the research and development phase of customised software projects and whether the costs meet the recognition requirements for capitalisation. Post capitalisation, management monitors whether the recognition requirements continue to be met, or whether there are any indications that capitalisation costs should be impaired. As enhancements to internally developed software are created and capitalised, the Group reviews the useful life of the existing asset. If the enhancement will extend the useful life of the asset, this is adjusted. Historic amortisation is not affected but amortisation for the extended life of the asset is revised on a straight line basis.

NOTE 10: REVENUE RECEIVED IN ADVANCE

In thousands of New Zealand Dollars	2017	2016
Crown Revenue Advances		
Opening balance	1,337	417
Increase / (Decrease) for the year	(1,318)	920
Total revenue received in advance	**19**	**1,337**

Revenue received by TBfree from the Crown and not fully expended during the financial year is transferred to Funders' Revenue Advances and is held for future use as described in note 6(a).

NOTE 11: CAPITAL AND RESERVES

(a) Share capital

OSPRI has 110 (2016:110) ordinary shares that have been issued and fully paid with no par value.

(b) NAIT reserve

NAIT is obligated to deliver the national animal identification and tracing system which will require capital spending from time to time. This reserve represents the funds held for future development of the system as well as the ability to maintain service levels in the event that revenue streams change significantly at short notice.

(c) TBfree reserve

TBfree is obligated to deliver the national pest management plan which will require capital spending from time to time. This reserve represents the funds held for future development of the system as well as the ability to maintain service levels in the event that revenue streams change significantly at short notice.

NOTE 12: FINANCIAL INSTRUMENTS

POLICIES

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises financial instruments on the trade date at which the Group becomes a party to the contractual provisions of the 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 of the risks and rewards of ownership of the financial asset transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised 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 or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets and liabilities – measurement

Financial assets: The Group's financial assets are cash and cash equivalents and receivables from exchange and non-exchange transactions. All financial assets are classified as loans and receivables. Loans and receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised costs using the effective interest method.

Financial liabilities: The Group's financial liabilities include payables from exchange and non-exchange transactions which are classified as financial liabilities at amortised cost. Other financial liabilities are initially measured at fair value less any directly attributable transaction costs.

(a) Fair values

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The Group has no financial instruments that are subject to fair value adjustments at each reporting period. The carrying amounts of all financial assets and liabilities approximate their fair values.

(b) Financial risk management

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk from its financial assets, including cash and cash equivalents with financial institutions, as well as credit exposures to industry participants including outstanding receivables and committed transactions. The Group does not require any collateral or security to support financial instruments relating to receivables or financial institutions. The Group holds all its cash and cash equivalents with New Zealand registered banks and spreads its risks across these banks. The carrying amounts of all receivables represents the maximum exposure to credit risk.

RECEIVABLES FROM EXCHANGE AND NON-EXCHANGE TRANSACTIONS

The aging of receivables from exchange and non-exchange transactions as at reporting date is presented below.

2017

In thousands of New Zealand Dollars	**Gross**	**Impairment**	**Net**
Not past due	4,637	-	4,637
Past due 1–60 days	1	-	1
Past due 61 days +	9	-	9
Total receivables	**4,647**	**-**	**4,647**

2016

In thousands of New Zealand Dollars	**Gross**	**Impairment**	**Net**
Not past due	2,714	-	2,714
Past due 1–30 days	1	-	1
Total receivables	**2,715**	**-**	**2,715**

The movement in the impairment allowance for receivables is presented below.

In thousands of New Zealand Dollars	
Balance as at 1 July 2015	**9**
Impairment loss	3
Write off of bad debts	(12)
Balance as at 30 June 2016	**-**
Impairment loss	-
Write off of bad debts	-
Balance as at 30 June 2017	**-**

NOTE 12: FINANCIAL INSTRUMENTS – CONTINUED

There are no amounts related to receivables from non-exchange transactions that are impaired as at reporting date except for carrying the provision for doubtful debts relating to receivables for the Otago Land Levy from the prior year.

(ii) Liquidity risk

Liquidity risk arises from the Group's management of working capital and it is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient cash and borrowing facilities to meet its liabilities when due, under both normal and stressed conditions. The Group's policy is that short term investments can only be held for a maximum of 185 days. The only financial liabilities that the Company has are payables from exchange and non-exchange transactions, which are expected to settle within 60 days of the reporting date.

(iii) Market risk

Market risk arises from the Group's use of financial instruments that are interest bearing, denominated in foreign currencies, and/or traded in public markets. Market risk is the risk that the fair value of future cash flows of a financial instruments will fluctuate because of change in interest rates, foreign exchange rates and market prices. During the financial year and as at reporting date, the Group's exposure to market risk is not material.

(c) Capital management

The Group's capital includes share capital, retained earnings and various reserves, which accumulate surpluses intended for specific industry purposes and future commitments. The Group manages its capital with long term objectives tailored to each subsidiary.

NOTE 13: RELATED PARTIES

OSPRI New Zealand Limited is the Parent and ultimate controlling entity. It has two wholly owned subsidiaries TBfree and NAIT. The Shareholders of OSPRI include Beef + Lamb New Zealand Limited (45.5%), DairyNZ Limited (45.5%) and Deer Industry New Zealand (9%).

(a) Key management personnel

The key management personnel, as defined by IPSAS 20 Related Party Disclosures, are the Directors on the Board, who together constitute the governing body of the Company and members of the leadership team (formerly executive team), responsible for reporting to the governing body.

The total remuneration of members of the Board and the number of individuals receiving remuneration in this category are:

In thousands of New Zealand Dollars	**2017**	**2016**
Board fees (including committee fees)	203	218
Number of persons	6	6
NAIT panel fees	15	14
Number of persons	3	3
Total Remuneration to Board members	**218**	**232**

The leadership team consists of the Chief Executive, General Managers and Head of Divisions. The total remuneration of the leadership team and the number of managers, on a full-time equivalent basis, receiving remuneration in this category are:

In thousands of New Zealand Dollars	2017	2016
Total remuneration to leadership team	1,399	1,559
Number of persons	7	6

(b) Transactions with other related parties

The Group had the following transactions with other related parties and the balances owing to and from other related parties are disclosed in the table below.

	Transaction value for year ended 30 June		Balances outstanding as at 30 June	
In thousands of New Zealand Dollars	2017	2016	2017	2016
Deer Industry New Zealand	1,226	1,335	-	70
DairyNZ Limited	14,500	16,500	1,390	1,773
AgResearch Limited	(1,311)	(830)	(204)	(144)

AgResearch has a long standing relationship with TBfree. It is a related party as Jeff Grant is the deputy chair of AgResearch (and chairman from 1 July 2017), whilst also being a director of TBfree.

NOTE 14: RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO SURPLUS/(DEFICIT)

Indirect Method

In thousands of New Zealand Dollars	2017	2016
Surplus for the year	7,059	8,679
Interest received	(308)	(237)
WIP additions	(50)	(633)
Non-cash movements		
Amortisation and depreciation	3,085	2,201
WIP writeoffs	633	-
Changes in working capital	(331)	105
Net cash flows from operating activities	**10,088**	**10,115**

NOTE 15: OPERATING LEASES AS LESSEE

The Group has entered into a number of non-cancellable operating leases for buildings, office equipment and motor vehicles. The lease commitments are based on current rentals. Future lease commitments at year end in respect of these non-cancellable leases are as follows:

In thousands of New Zealand Dollars	**2017**	**2016**
Due within one year	993	836
Due between one and two years	984	189
Due between two and five years	753	136
Total non-cancellable operating lease payments	**2,730**	**1,161**

POLICIES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are expensed on a straight line basis over the period of the lease.

NOTE 16: COMMITMENTS

(a) Pest management control commitments

TBfree enters into contractual arrangements for the completion of Pest Management Control operations. The estimated cost to complete pest control operations that were not accrued, but had been contracted at 30 June 2017 is $1.71 million (2016: $1.71 million). All of these operations will be completed within the following financial year from funding contained within the 2017/18 year's budget.

(b) Research contract commitments

TBfree has entered into a number of funding agreements for research projects. The continued funding of these is subject to performance reviews. Future commitments at year end in respect of these funding agreements are as follows:

In thousands of New Zealand Dollars	**2017**	**2016**
Due within one year	1,183	1,056
Due between one and two years	456	1,716
Due between two and five years	-	435
Total research funding commitments	**1,639**	**3,207**

(c) TMA Master Contract Commitments

The Company has entered into a number of agreements regarding contracts for future pest control work in particular regions. These contracts can be terminated within 90 days at no cost to the Company.

NOTE 17: CONTINGENT LIABILITIES

The Company has ongoing claims, investigations and inquiries, none of which it currently believes are to have significant effect on the financial statements of the Group (2016: Nil)

NOTE 18: SUBSEQUENT EVENTS

There were no significant events after balance date that would have a material impact on the financial statements (2016: Nil).

Independent Auditor's Report

To the shareholders of OSPRI New Zealand Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of OSPRI New Zealand Limited (the company) and its subsidiaries (the group) on pages 4 to 21:

i. present fairly in all material respects the Group's financial position as at 30 June 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with Public Benefit Entity Standards (Not For Profit).

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2017;
- the consolidated statements of comprehensive revenue and expenses, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the 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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to risk management workshops and a review of the new grant funding agreement. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's financial statements. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

KPMG

Use of this independent auditor's report

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent 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 shareholders as a body for our audit work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being Public Benefit Entity Standards (Not For Profit));
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent 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. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page3.aspx.

This description forms part of our independent auditor's report.

KPMG

KPMG
Wellington

14 September 2017