

Rotorua Regional Airport Limited
Financial Statements
For the Year Ended 30 June 2018

Rotorua Regional Airport Limited
Financial Statements Index
For the Year Ended 30 June 2018

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Rotorua Regional Airport Limited

Company Directory

As at 30 June 2018

Date of Incorporation	6 April 1990		
Company Number	386483		
IRD Number	051-834-720		
Nature of Business	Provision of Safe & Efficient Airport Services for Airline and Aircraft Operators and the Travelling Public		
Business Location	Rotorua Airport Terminal Rotorua Airport, SH30, Rotokawa, Rotorua		
Registered Office	Rotorua Airport Terminal Rotorua Airport, SH30, Rotokawa, Rotorua		
Directors	Peter Stubbs (Chairman) Stuart Alan Crosby John Amarama Fenwick Anthony John Marks		
Auditors	Audit New Zealand on behalf of the Auditor-General		
Accountants	Bright Wild Thomas & Lee Limited, Rotorua		
Bankers	ASB Bank & Bank of New Zealand, Rotorua		
Solicitors	Holland Beckett, Rotorua		
Shareholders	Rotorua Lakes Council	28,645,000	Ordinary Shares

Rotorua Regional Airport Limited

Annual Report

For the Year Ended 30 June 2018

The Directors hereby present their Annual Report including Financial Statements of the company for the year ended 30 June 2018.

Section 211 of the Companies Act 1993 requires the following disclosures:

Principal Activities

The business of the company is the provision of safe and efficient airport services for airlines and aircraft operators and the travelling public. The nature of the company's business has not changed during the year.

Auditors

The Auditor General is appointed under Section 15 of the Public Audit Act 2001. Audit New Zealand has been appointed to provide these services. Provision for audit fee for the year was \$25,628.

Directors Holding Office During the Year

The following Directors held office as at 30 June 2018:

	Date of Appointment
Peter Stubbs (Chairman)	21/05/2014
Stuart Alan Crosby	22/12/2010
John Amarama Fenwick	01/10/2017
Anthony John Marks	01/07/2016

The following Directors ceased as directors during the year:

	Date of Cessation
Wiremu Atetini Kingi	31/12/2017

Directors' Remuneration

Directors' remuneration paid was as follows:

	2018	2017
Peter Stubbs (Chairman)	20,000	20,000
Wiremu Atetini Kingi	5,000	10,000
Stuart Alan Crosby	10,000	10,000
John Amarama Fenwick	7,500	-
Anthony John Marks	10,000	10,000
	<hr/>	<hr/>
	52,500	50,000

No other benefits have been provided by the Company to a Director for services as a Director or in any other capacity. No loans have been made by the Company to a Director nor has the Company guaranteed any debts incurred by a Director.

Rotorua Regional Airport Limited

Annual Report

For the Year Ended 30 June 2018

Employee's Remuneration

The following numbers of employees, who were not directors, received remuneration and benefits which exceeded \$100,000 in value for the 2018 financial year:

\$170,000 - \$179,999	1
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Directors' Disclosures

There were entries recorded in the Register of Interests. See Note 23 of the financial statements.

No Director acquired or disposed of any interest in shares in the company.

The Board of Directors received no notices from Directors wishing to use company information received in their capacity as Directors which would not have ordinarily been available.

The Company paid all of the premiums on contracts insuring directors in respect of liability and costs permitted to be insured against in accordance with Section 162(5) of the Companies Act 1993.

Donations

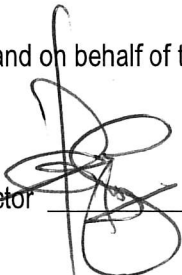
No donations were made by the company during the year.

Statement of Intent (SOI) Adoption

A requirement under clause 3(b) of Schedule 8 of the Local Government Act 2002 is that the Board of Rotorua Regional Airport Limited (RRAL) must deliver the completed SOI to the shareholders on or before 30 June each year. The SOI for 2019-2021 was adopted by the Board of the Company on 28 September 2018. The delay to complete the SOI was because Rotorua Lakes Council (RLC) requested to RRAL that it suspend its rights under the Service Funding Agreement (SFA) pending the outcome of discussions for a new funding mechanism to replace the current SFA. The suspension will provide the opportunity for both RLC and RRAL to agree a funding mechanism that meets RLC's objective as stated under their Letter of Expectation to RRAL dated 22nd of December 2017 that RRAL "builds non-aviation revenue and optimises existing assets, including unlocking the potential of the unused airport land".

For and on behalf of the Board of Directors,

Director



Director



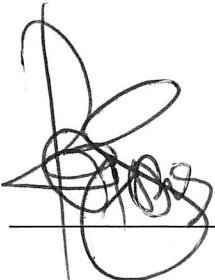
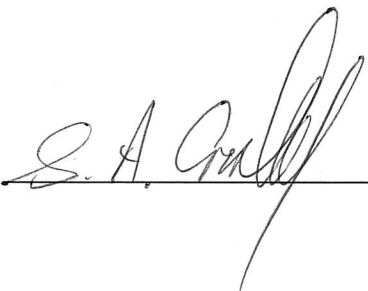
Dated this 28 day of September 2018.

Rotorua Regional Airport Limited
Statement of Management Responsibility
For the Year Ended 30 June 2018

The Directors of Rotorua Regional Airport Limited accepts responsibility for the preparation of the annual financial statements and the judgements used in these statements.

The Directors accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the company's financial and non-financial reporting.

In the opinion of the Directors, the annual financial statements for the financial year fairly reflect the financial position, operations and cash flows of the company.

Director  Director 

Dated this 28 day of September 2018.

Rotorua Regional Airport Limited

Statement of Service Performance

For the Year Ended 30 June 2018

The following is a Statement of Service Performance relating to the financial and non-financial performance measures and key objectives outlined in the Company's Statement of Intent (SOI) for the year ended 30 June 2018.

Performance Information

Non-financial measures	2018 Target	2018 Actual	Performance	2017 Actual
Aircraft movements	6,204	7,246		6,950
Passenger numbers	242,644	246,486		234,929
Customer service & facility rating	7.5 out of 10	7.3		7.5
Number of controllable safety incidents	0	0.0		0.0
Number of employee injuries (days off work)	0	1.0		0.0

Key

 Met

 Needs improvement

The airport performed well in all non-financial performance measures except for an underachievement against the Customer Service Rating, being 7.3 achieved versus the target rating of 7.5. This was driven by issues with the current design and condition of the terminal. These issues will be addressed as part of the terminal redevelopment programme, due to commence in late 2018.

In addition, the airport had one employee injury event against a target of zero.

Explanations for major variations from the Company's budgeted figures in the 30 June 2018

Financial measures	2018 Target	2018 Actual	Performance	2017 Actual
Total Revenue	4,946,340	5,291,904		5,054,044
Total Expenses	4,950,468	4,830,463		4,441,569
Net Surplus (deficit) after tax	(4,128)	469,520		612,475
Capital expenditure	4,925,000	1,078,338		438,733

Key

 Met

 Needs improvement

Given that the financial targets in the Statement of Intent are individual targets, total revenue less total expenses do not necessarily equate net surplus (deficit) after tax.



Rotorua Regional Airport Limited

Statement of Service Performance

For the Year Ended 30 June 2018

Explanation for major variances from the Company's budgeted figures in the 30 June 2018 Statement of Intent (SOI) are as follows:

Total Revenue

Total revenue for the year was over budget due to better than forecast performance across terminal rental and car parking streams. This resulted from a focused initiative to ensure all rentals were aligned to market levels, representing the unique nature of an airport operating environment.

Total Expenses

Total expenses for the year were below budget due to a strong focus on expense minimisation across all airport operations. Further savings will be targeted into FY19 as part of a broader procurement review which is designed to drive cost efficiencies and optimise our working capital.

Capital Expenditure

Delays in commencement of the Terminal and Fire Station redevelopment works have resulted in actual expenditure falling short of budget in FY18, leading to a much broader project spend being spread across FY19. The Fire Station works are due to be completed in September 2018. Redevelopment of the Terminal will commence in late 2018.

KEY OBJECTIVES

Below is an update on each of the Company's Key Objectives for 2018 as set out in the SOI:

Manage health and safety risks and provide a safe environment for everyone affected by the activities of the airport including employees, customers, tenants, contractors and visitors

Implementation areas include;

- Completion of a review of all Emergency procedures;
 - Staff Health and Safety training for all staff;
 - Hazard identification, Hazard register documentation;
 - Establishment of Notifiable event, Incident protocols;
 - Contractor and tenant works application and airside access requirements established, and policy framework established;
 - Establish service and maintenance records for all key operating systems;
 - Audits established for the Policy and Procedural framework;
 - Establishment of a Safety Management System (SMS) framework in accordance with requirements from the Civil Aviation Authority (CAA). This was certified by CAA.
-
- **Develop a commercial network that best meets the needs of the residents and businesses in the region**
Implemented action plan to strengthen passenger numbers on the Rotorua to Christchurch sector.

Reinstatement of the Rotorua to Wellington "red eye" flight.

Activated a strategy for growth of general aviation activity & revenues.

Rotorua Regional Airport Limited

Statement of Service Performance

For the Year Ended 30 June 2018

- **Redevelop the original terminal & rescue fire, taking the opportunity to showcase the best of what Rotorua has to offer**

Completed design documentation for redevelopment of the Terminal, costings completed and have moved to procure the works.

- **Engage the community and staff by being welcoming and ensuring the airport is an asset that they can be proud of**

Ensured that all staff position descriptions are aligned to Company's work plan.

Revised shift roster implemented.

Website refresh implemented.

- **Manage and maintain business-critical infrastructure, services and facilities for all users of the Airport**

Determined a strategy for Air New Zealand landing fees renegotiation

Reviewed the format / purpose / frequency of the airport users meeting.

Established Company's internal audit process to ensure compliance against statutory requirements

- CAA, regulatory, HASE compliance.

Reviewed the carpark operating structure, consider physical segmentation of rental, public activity to address revenue leakage from non-airport based operators.

- **Build non-aviation revenue and optimise existing assets, including unlocking the potential of the unused airport land**

Completed a draft masterplan. Commenced preparation of a detailed feasibility analysis to validate viability.

Reviewed all lease contracts and reset commercial terms where required.



Rotorua Regional Airport Limited
Statement of Comprehensive Revenue & Expense
For the Year Ended 30 June 2018

	Note	2018	2017
REVENUE			
Operating revenue	3	5,225,727	5,047,497
Other revenue	4	66,177	6,547
TOTAL REVENUE		5,291,904	5,054,044
EXPENSES			
Operating expenses	5	1,139,335	1,008,798
Depreciation, amortisation & impairment charges	11,12	2,287,089	2,198,857
Directors' fees		52,500	50,000
Finance expense		501,261	514,853
Other expenses	6	850,278	669,061
TOTAL EXPENSES		4,830,463	4,441,569
SURPLUS (DEFICIT) BEFORE TAX		461,441	612,475
Income tax expense	10	(8,079)	-
SURPLUS (DEFICIT) AFTER TAX		469,520	612,475
OTHER COMPREHENSIVE REVENUE & EXPENSE			
<i>Items that will not be reclassified to surplus (deficit)</i>			
Gain on revaluation of property, plant & equipment	16c,11	17,051,615	-
TOTAL COMPREHENSIVE REVENUE & EXPENSE		17,521,135	612,475

The accompanying notes form part of these financial statements.

Rotorua Regional Airport Limited
Statement of Changes in Equity
For the Year Ended 30 June 2018

	Note	2018	2017
EQUITY AT START OF YEAR		30,577,447	29,964,972
Total comprehensive revenue & expense for the year		17,521,135	612,475
EQUITY AT END OF YEAR		48,098,582	30,577,447

The accompanying notes form part of these financial statements.

Rotorua Regional Airport Limited
Statement of Financial Position
As at 30 June 2018

	Note	2018	2017
CURRENT ASSETS			
Cash and cash equivalents	9	2,939,071	1,077,998
Receivables from exchange transactions	17	205,022	167,427
Other receivables	17	106,541	45,061
Prepayments		55,823	39,189
TOTAL CURRENT ASSETS		3,306,457	1,329,675
NON-CURRENT ASSETS			
Property, plant & equipment	11	61,373,150	44,717,004
Intangible assets	12	525	1,506
TOTAL NON-CURRENT ASSETS		61,373,675	44,718,510
TOTAL ASSETS		64,680,132	46,048,185
CURRENT LIABILITIES			
Payables under exchange transactions	18	634,800	316,689
Other payables	18	84,166	94,601
Income and rent in advance		11,940	14,605
Borrowings	22	722	722
Employee entitlements	19	53,381	44,121
TOTAL CURRENT LIABILITIES		785,009	470,738
NON-CURRENT LIABILITIES			
Borrowings	22	15,000,000	15,000,000
Deferred tax liabilities	10	796,541	-
TOTAL NON-CURRENT LIABILITIES		15,796,541	15,000,000
TOTAL LIABILITIES		16,581,550	15,470,738
NET ASSETS		48,098,582	30,577,447
EQUITY			
Share capital	16(a)	28,645,000	28,645,000
Retained earnings	16(b)	2,401,967	1,932,447
Asset revaluation reserve	16(c)	17,051,615	-
TOTAL EQUITY		48,098,582	30,577,447

The Board of Directors of Rotorua Regional Airport Limited authorised these financial statements for issue on ____ September 2018.

The accompanying notes form part of these financial statements.

Rotorua Regional Airport Limited
Statement of Cashflows
For the Year Ended 30 June 2018

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was received from:			
Receipts from customers		5,190,369	5,024,121
Interest received		43,896	4,808
Income tax refund		-	4,869
		5,234,265	5,033,798
Cash was paid to:			
Payments to suppliers and employees		2,017,914	1,680,977
Goods and services tax (net)		48,988	55,122
Income tax payment		12,292	-
Interest paid		500,226	518,191
		2,579,420	2,254,290
Net cash flow from operating activities	8	2,654,845	2,779,508
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was received from:			
Proceeds from sale of property, plant and equipment		26,221	51,739
		26,221	51,739
Cash was paid to:			
Purchase of property, plant and equipment		819,993	357,939
		819,993	357,939
Net cash flow from investing activities		(793,772)	(306,200)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was received from:			
Proceeds from borrowings		-	-
		-	-
Cash was paid to:			
Repayment of borrowings		-	1,503,000
		-	1,503,000
Net cash flow from financing activities		-	(1,503,000)
Net increase (decrease) in cash and cash equivalents		1,861,073	970,308
Cash and cash equivalents at the beginning of the year		1,077,998	107,690
Cash and cash equivalents at the end of year	9	2,939,071	1,077,998

The GST (net) component of the operating activities reflects the net GST paid to and received from the Inland Revenue Department. The GST (net) component has been presented on a net basis as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of other primary financial statements.

The accompanying notes form part of these financial statements.

Rotorua Regional Airport Limited

Notes to the Financial Statements

For the Year Ended 30 June 2018

STATEMENT OF ACCOUNTING POLICIES

1. REPORTING ENTITY

Rotorua Regional Airport Limited ('the Company') is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The Company is fully owned by the Rotorua Lakes Council and is a Council Controlled Trading Organisation as defined under section 6 of the Local Government Act 2002.

The Company has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the Company are for the year ended 30 June 2018. The financial statements were authorised for issue by the directors on 28 September 2018.

2. BASIS OF PREPARATION

The financial statements have been prepared on the going concern basis.

Statement of compliance

The Company is a reporting entity for the purposes of the Financial Reporting Act 1993. These financial statements comply with the Financial Reporting Act 1993, the Companies Act 1993, and Section 69 of the Local Government Act 2002, which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

These financial statements have been prepared in accordance with Tier 2 PBE accounting standards.

The entity is eligible and has elected to report in accordance with Tier 2 PBE Standards RDR on the basis that the entity has no public accountability and has expenses >\$2m and ≤ \$30m.

These financial statements comply with PBE standards.

Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, and infrastructure assets.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of the Company is New Zealand dollars.

Changes in accounting policies

There have been no changes in the Company's accounting policies since the date of the last audited financial statements.

Rotorua Regional Airport Limited

Notes to the Financial Statements

For the Year Ended 30 June 2018

SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies which materially affect the measurement of financial results and financial position have been adopted in the preparation of the financial statements.

(a) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from non-exchange transactions

Service funding from Rotorua Lakes Council is recognised as revenue when it becomes receivable.

Revenue from exchange transactions

Operating revenue is recognised when earned.

Lease income is recognised on an accrual basis with reference to the leases and rental agreements in force at balance date, with adjustment for rent paid in advance.

Interest income is recognised using the effective interest method.

(b) Borrowings & borrowing costs

Borrowings are initially recognised at their fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

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

(c) Trade debtors and other receivables

Trade debtors and other receivables are recognised at their face value less any provision for doubtful debts.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

(d) Trade creditors and other payables

Trade creditors and other payables are stated at cost which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed.

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and call deposits. Bank overdrafts that are repayable on demand and form part of the Company's cash management are included for the purposes of the statement of cash flows.

(f) Employee Entitlements

Liabilities for accumulating short-term entitlements are measured at nominal value based on unused entitlement accumulated at current rate of pay at balance date.

Rotorua Regional Airport Limited

Notes to the Financial Statements

For the Year Ended 30 June 2018

(g) Goods & Services Tax

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the Inland Revenue Department, including GST relating to the investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

(h) Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

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

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive revenue and expense or directly in equity.

Rotorua Regional Airport Limited

Notes to the Financial Statements

For the Year Ended 30 June 2018

(i) **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, the sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(j) **Property, Plant & Equipment**

Property Plant and Equipment consists of:

Operational Assets

These assets include land, buildings & fit-out, furniture and office equipment, computer equipment, motor vehicles and various plant and equipment.

The Company owns a number of residential properties as a land bank to cover possible future expansion of the runway and safety areas. The receipt of market-based rental from these properties is incidental to this purpose. The properties are held for service delivery objectives as part of the Airport's overall operating strategy. The properties are therefore accounted for as property, plant, and equipment rather than investment property.

Infrastructure Assets

These assets include runways, aprons, taxiways, surround security fences, other paved areas (pavements, car parks & roads) and underground reticulated systems.

Measurement

Property plant and equipment are measured at cost less accumulated depreciation and impairment losses with the following exception:

- Land is measured at fair value
- Buildings and infrastructure assets are measured at fair value less accumulated depreciation and impairment losses.

Revaluations

Land, buildings and infrastructure assets are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and are revalued at least every five years. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value. If there is a material difference, then the off-cycle asset classes are revalued.

Rotorua Regional Airport Limited

Notes to the Financial Statements

For the Year Ended 30 June 2018

Accounting for Revaluations

The Company accounts for revaluations on a class of assets basis.

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class-of-asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

Disposal

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are recognised in the statement of comprehensive revenue and expense.

When revalued assets are sold, the amount included in revaluation reserve in respect to those assets is transferred to retained earnings.

Subsequent costs

Costs incurred subsequent to initial recognition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write-off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Infrastructure assets

Runway, Taxiways, Aprons	10-80 years
Other Paved Areas	13 years
Surround Security Fences	10 years

Operational assets

Buildings and Fit-out	10-46 years
Motor Vehicles	5-10 years
Furniture & Office Equipment	10 years
Computer Equipment	4 years
Plant & Equipment	4-10 years

Rotorua Regional Airport Limited

Notes to the Financial Statements

For the Year Ended 30 June 2018

(k) Impairment

At each reporting date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised in the statement of comprehensive revenue and expense. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use for non-cash generating assets

Non-cash generating assets are those assets that are not held with the primary objective of generating a commercial return. For non-cash generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Value in use for cash generating assets

Cash generating assets are those assets that are held with the primary objective of generating a commercial return. The value in use for cash generating assets and cash generating units is the present value of expected future cash flows.

(l) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses.

The carrying amount of an intangible asset with a finite life is amortised on a straight-line basis over its useful life.

Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the statement of comprehensive revenue and expense.

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

Computer Software	4 years	25%SL
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(m) Critical accounting estimates and assumptions

In preparing these financial statements the company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

Rotorua Regional Airport Limited

Notes to the Financial Statements

For the Year Ended 30 June 2018

The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful lives of property, plant and equipment

At balance date, the Company reviews the useful life of its buildings and infrastructural assets. Assessing the appropriateness of useful life and residual value estimates requires the Company to consider a number of factors, such as the physical condition of the assets, expected period of use of the assets by the Company, and expected disposal proceeds from the future sale of the assets. An incorrect estimate of the useful life will impact on the depreciation expense recognised in the profit and loss, and the carrying amount of the assets in the statement of financial position. The Company will minimise the risk of this estimation uncertainty by physical inspections of assets, and asset replacement of programmes in line with useful life expectations.

Impairment of property, plant and equipment and intangible assets

The Company performs impairment testing with respect to its property, plant and equipment and intangible assets. In determining whether impairment exists, there is no impairment if the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The fair value less cost of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

The value in use calculation for cash generating assets is based on a discounted cash flow model. The cash flows are derived from the forecasted cashflows. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows.

Estimating the fair value of land and buildings

Land, being airport land and other land, has been assessed based upon potential use, location, size and services provided. Fair values of land are based upon the highest and best use principle which may not be necessarily the existing use. Highest and best use in relation to the valuation is the most probable use of the land which is physically possible, appropriately justified, legally permissible, financially feasible and which results in the highest value of the asset being valued. To establish an appropriate market value for the airport land, comparable sales evidence has been analysed to establish current market buying price for the land in its highest and best alternative use. Having established base land value rates, adjustments have been made to reflect location, scale, designation and resource management issues. Other land has been assessed at fair value using fair market, highest and best use basis determined from prevailing land sales with adjustments made for future potential as industrial.

Aeronautical specialised buildings have been assessed at fair value using Optimised Depreciated Replacement Cost approach (ODRC). The ODRC approach uses the minimum cost of replacing or replicating the service potential embodied in the assets with modern equivalent assets in the most efficient was practical given the service requirements, the age and condition of the existing assets and replacement in the normal course of business. Non-aeronautical buildings have been assessed at fair value using both ODRC approach and Direct Capitalisation approach. The Direct Capitalisation approach is based on market derived cash flows for the buildings and an applied investment yield. For any non-aeronautical buildings that cannot be legally or physically separated from the main airport campus, reliance has been placed on the ODRC approach to determine its fair value.

Residential buildings have been assessed at fair value using fair market, highest and best use basis determined from prevailing land sales with adjustments made for future potential as industrial.

Rotorua Regional Airport Limited
Notes to the Financial Statements
For the Year Ended 30 June 2018

3. OPERATING REVENUE

	2018	2017
Exchange revenue		
Landing Charges	1,510,651	1,400,494
Lease Rental	365,607	393,135
Parking Revenue	573,599	509,163
Ground Handling Revenue	34,510	34,507
Other Operating Revenue	198,860	210,198
Non-exchange revenue		
Rotorua Lakes Council Service Funding	2,542,500	2,500,000
Total Operating Revenue	5,225,727	5,047,497

4. OTHER REVENUE

	2018	2017
Interest Received	43,896	4,808
Gain on the disposal of property, plant & equipment	22,281	1,739
Total Other Revenue	66,177	6,547

5. OPERATING EXPENSES

	2018	2017
Customs Service/MAF Expenses	-	1,866
Rental Property Expenses	15,444	31,701
Runway/Taxiway/Apron Expenses	778,303	663,851
Surrounds Expenses	129,260	69,910
Terminal Expenses	216,328	241,470
Total Operating Expenses	1,139,335	1,008,798

Personnel costs of \$528,009 (2017: \$510,492) are included in the above operating expenses.

6. OTHER EXPENSES

	2018	2017
Audit Fees – audit of financial statements	25,628	25,357
Land Rates	91,365	90,245
Other Expenses	733,285	553,459
Total Other Expenses	850,278	669,061

Personnel costs of \$229,944 (2017: \$201,866) are included in the above other expenses.

Rotorua Regional Airport Limited
Notes to the Financial Statements
For the Year Ended 30 June 2018

7. CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments in each of the financial instrument categories are as follows:

	2018	2017
Loans and receivables		
Cash and cash equivalents	2,939,071	1,077,998
Trade and other receivables (excluding taxes receivable)	205,022	167,427
Total Loans and Receivables	3,144,093	1,245,425
Financial liabilities at amortised cost		
Trade and other payables (excluding taxes payable)	698,585	385,720
Borrowings	15,000,722	15,000,722
Total Financial Liabilities at Amortised Cost	15,699,307	15,386,442

Trade and other receivables of \$205,022 have been pledged as security for loans under a general security agreement with Rotorua Lakes Council (2017: \$167,427). The first ranking security interest over trade and other receivables takes effect as a transfer to Rotorua Lakes Council in the events of default by the Company.

8. RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2018	2017
Net operating surplus (deficit)	469,520	612,475
Add non-cash items		
Depreciation, amortisation & impairment losses	2,287,089	2,198,857
Deferred tax	(24,572)	-
	2,732,037	2,811,332
Add (less) movements in working capital items		
Employee entitlements	9,260	(1,698)
Trade and other receivables	(50,028)	(23,283)
Trade and other payables	(19,018)	(14,693)
	(59,786)	(39,674)
Add (less) items classified as investing or financing activities		
(Gains)/losses on the disposal of property, plant and equipment	(17,406)	7,850
Net cash flows from operating activities	2,654,845	2,779,508

The trade creditors and other payables movement does not agree with the face of the statement of financial position due to the exclusion of this year's fixed asset payable of \$(258,345). (2017: \$(80,794))

Rotorua Regional Airport Limited
Notes to the Financial Statements
For the Year Ended 30 June 2018

9. CASH & CASH EQUIVALENTS

	2018	2017
Cash at bank	2,935,529	1,071,762
Cash on hand	3,542	6,236
Net cash & cash equivalents	2,939,071	1,077,998

10. INCOME TAX

	2018	2017
Components of tax expense		
Current tax expense	16,493	-
Deferred tax expense	(24,572)	-
Tax expense	(8,079)	-

Relationship between tax expense and accounting profit

Surplus (deficit) before tax	461,441	612,475
Tax at 28% (2017: 28%)	129,203	171,493
Non-deductible expenditure	6,295	127
Tax losses recognised	-	(171,620)
Deferred tax adjustment	(143,577)	-
Tax expense	(8,079)	-

Deferred tax asset (liability)

	Property, plant and equipment	Employee entitlements	Other Provisions	Total
Balance at 30 June 2016	-	-	-	-
Charged to surplus or deficit	-	-	-	-
Balance at 30 June 2017	-	-	-	-
Charged to surplus or deficit	(4,691)	14,947	14,316	24,572
Charged to other comprehensive income	(821,113)	-	-	(821,113)
Balance at 30 June 2018	(825,804)	14,947	14,316	(796,541)

A deferred tax asset in relation to tax losses of \$1,002,071 and temporary differences of \$45,254 were not recognised in 2017.

Rotorua Regional Airport Limited

Notes to the Financial Statements

For the Year Ended 30 June 2018

11. PROPERTY, PLANT & EQUIPMENT

	Plant and Equipment	Motor Vehicles	Furniture and Office Equipment	Computer Equipment	Land	Buildings & Fit-out	Infrastructure Assets	Total
Cost								
Balance at 1 July 2016	1,128,298	428,878	145,174	66,284	7,154,818	9,637,502	30,533,881	49,094,835
Additions	26,323	68,261	1,781	5,808	-	335,208	1,350	438,731
Disposals	-	(6,667)	-	-	-	(64,422)	-	(71,089)
Balance at 30 June 2017	1,154,621	490,472	146,955	72,092	7,154,818	9,908,288	30,535,231	49,462,477
Balance 1 July 2017	1,154,621	490,472	146,955	72,092	7,154,818	9,908,288	30,535,231	49,462,477
Revaluation	-	-	-	-	14,940,182	2,932,546	-	17,872,728
Additions	49,736	37,644	-	3,876	-	977,227	9,855	1,078,338
Disposals	(13,239)	(68,890)	(10,866)	(400)	-	(140,432)	-	(233,827)
Balance 30 June 2018	1,191,118	459,226	136,089	75,568	22,095,000	13,677,629	30,545,086	68,179,716
Accumulated Depreciation and Impairment Losses								
Balance at 1 July 2016	696,161	323,667	130,635	60,623	-	620,532	727,484	2,559,102
Depreciation Expense	94,436	49,241	6,787	3,079	-	298,256	1,746,072	2,197,871
Impairment Losses	-	-	-	-	-	-	-	-
Disposals	-	(6,667)	-	-	-	(4,833)	-	(11,500)
Balance at 30 June 2017	790,597	366,241	137,422	63,702	-	913,955	2,473,556	4,745,473
Balance at 1 July 2017	790,597	366,241	137,422	63,702	-	913,955	2,473,556	4,745,473
Revaluation	-	-	-	-	-	-	-	-
Depreciation Expense	81,913	46,013	2,369	4,471	-	269,073	1,746,330	2,150,169
Impairment Losses	-	-	-	-	-	135,939	-	135,939
Disposals	(11,717)	(64,950)	(10,598)	(400)	-	(137,350)	-	(225,015)
Balance at 30 June 2018	860,793	347,304	129,193	67,773	-	1,181,617	4,219,886	6,806,566
Carrying Amounts								
At 1 July 2016	432,137	105,211	14,539	5,661	7,154,818	9,016,970	29,806,397	46,535,733
At 30 June and 1 July 2017	364,024	124,231	9,533	8,390	7,154,818	8,994,333	28,061,675	44,717,004
At 30 June 2018	330,325	111,922	6,896	7,795	22,095,000	12,496,012	26,325,200	61,373,150

The carrying amount of property, plant and equipment of \$61,373,150 has been pledged as security for loans under a general security agreement with Rotorua Lakes Council.

An independent valuation of the Company's land and buildings was performed by Telfer Young, Registered Valuer, to determine the fair value of the assets. The effective date of the valuation was 30 June 2018. The revaluation surplus net of deferred tax of \$17,051,615 has been credited to other comprehensive income. The carrying values of infrastructure assets were reviewed at balance date to ensure those values were not materially different to fair value. As there was no material difference in values, an off-cycle valuation was not carried out on those infrastructure assets.

Rotorua Regional Airport Limited
Notes to the Financial Statements
For the Year Ended 30 June 2018

12. INTANGIBLE ASSETS

	Acquired Software	Total
Cost		
Balance at 1 July 2016	97,463	97,463
Additions		
Disposals		
Balance at 30 June 2017	97,463	97,463
Balance 1 July 2017	97,463	97,463
Additions	-	-
Disposals	-	-
Balance 30 June 2018	97,463	97,463
Accumulated Amortisation and Impairment Losses		
Balance at 1 July 2016	94,971	94,971
Amortisation Expense	986	986
Impairment Losses	-	-
Disposals	-	-
Balance at 30 June 2017	95,957	95,957
Balance at 1 July 2017	95,957	95,957
Amortisation Expense	981	981
Impairment Losses	-	-
Disposals	-	-
Balance at 30 June 2018	96,938	96,938
Carrying Amounts		
At 1 July 2016	2,492	2,492
At 30 June and 1 July 2017	1,506	1,506
At 30 June 2018	525	525

13. CAPITAL EXPENDITURE COMMITMENTS

	2018	2017
Capital commitments		
Property, Plant & Equipment	820,736	152,580
Total Capital Commitments	820,736	152,580

Capital commitments represent capital expenditure contracted for at balance date but not yet incurred.

14. CONTINGENT ASSETS & LIABILITIES

(a) Contingent Assets

The Company has no contingent assets (30 June 2017: nil).

(b) Contingent Liabilities

The Company has no contingent liabilities (30 June 2017: nil).

Rotorua Regional Airport Limited
Notes to the Financial Statements
For the Year Ended 30 June 2018

15. OPERATING LEASE COMMITMENTS

(a) Operating lease as lessee

Height protection lease commitment

Kahikatea trees to the north of the runway threaten compliance with the Civil Aviation Act, therefore a lease payment is paid to Ngati Rangiteaorere Kahikatea Trust to ensure the trees are maintained to the required height protection level ensuring the Airport complies with the Civil Aviation Act. Future minimum lease payments are as follows:

	2018	2017
Less than 1 year	60,000	60,000
Between 1 and 5 years	150,000	210,000
Over 5 years	-	-

There is a lease payment contingent clause under the lease agreement whereby the Company must pay to Ngati Rangiteaorere Kahikatea Trust the difference between 6% of the gross landing charges and the annual lease payment of \$60,000 if the amount equal to 6% of the gross landing charges exceeds the annual lease payment of \$60,000.

(b) Operating lease as lessor

The Company has operating lease agreements with lessees of the terminal and other land and buildings of the airport with expiry dates ranging from 1 to 32 years including options to further extend terms under the individual lease agreements. Market rent reviews are carried out annually and are based on annual increases in the Consumer Price Index (All Group). The lessees do not have option to purchase the properties at the expiry of the lease period.

Contingent rents of \$90,330 have been recognised during the year. (2017: \$89,144)

16. SHAREHOLDERS' EQUITY

(a) Share Capital

	2018		2017	
	# of shares	Carrying value	# of shares	Carrying value
Issued Ordinary shares				
Opening balance	28,645,000	28,645,000	28,645,000	28,645,000
Ordinary shares issued in the year	-	-	-	-
Closing balance	28,645,000	28,645,000	28,645,000	28,645,000

The number of shares authorised at balance date were 28,645,000 shares. All issued ordinary shares are fully paid and have a par value of \$1 per share. Fully paid ordinary shares have full voting rights and participate fully in all dividends and proceeds upon winding up of the Company.

Rotorua Regional Airport Limited
Notes to the Financial Statements
For the Year Ended 30 June 2018

(b) Retained Earnings

	2018	2017
Retained Earnings opening balance	1,932,447	1,319,972
Net Surplus (Deficit) after tax	469,520	612,475
Retained Earnings Closing Balance	2,401,967	1,932,447

(c) Asset revaluation reserve

	2018	2017
Opening balance	-	-
Revaluation gain (loss)	17,872,728	-
Deferred tax on movement	(821,113)	-
Closing balance	17,051,615	-

Asset revaluation reserve consists of:

	2018	2017
Land	14,940,182	-
Buildings and fitouts	2,111,433	-
Closing balance	17,051,615	-

17. TRADE AND OTHER RECEIVABLES

	2018	2017
Receivables from exchange transactions		
Trade debtors	205,022	167,427
	205,022	167,427
Other receivables		
Income tax refund due	40,860	45,061
GST refund due	65,681	-
	106,541	45,061
Total Trade and Other Receivables	311,563	212,488

Receivables are generally short-term and non-interest bearing. Therefore, the carrying value of receivables approximates their fair value.

Rotorua Regional Airport Limited
Notes to the Financial Statements
For the Year Ended 30 June 2018

18. TRADE AND OTHER PAYABLES

	2018	2017
Payables from exchange transactions		
Trade creditors	583,672	281,832
Year-end accruals	51,128	34,857
	634,800	316,689
Other payables		
Related party payables	63,785	69,031
GST payment due	-	7,729
FBT payable	1,348	1,210
PAYE payable	19,033	16,631
	84,166	94,601
Total Trade and Other Payables	718,966	411,290

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. Therefore, the carrying values of creditors and other payables approximates their fair value.

19. EMPLOYEE ENTITLEMENTS

	2018	2017
Annual leave	42,449	29,592
Alternative leave	10,932	14,529
Total Employee Entitlements	53,381	44,121

20. SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no significant events after balance date.

21. REPORTING AGAINST FINANCIAL FORECAST AS SET OUT IN SOI

	2018 Target	2018 Actual	Variance
Total revenue	4,946,340	5,291,904	345,564
Total expenses	4,950,468	4,830,463	120,005
Net surplus (deficit) after tax	(4,128)	469,520	473,648

Explanation of major variances against financial forecast

- 1) Refer to pages 8 & 9 of the Statement of Service Performance for explanation of variances against financial forecast for the following profit or loss items:

Total Revenue & Total Expenses
Net surplus (deficit) after tax

Rotorua Regional Airport Limited

Notes to the Financial Statements

For the Year Ended 30 June 2018

22. BORROWINGS

	2018	2017
Current portion		
Borrowing – Bank of New Zealand	722	722
Non-current portion		
Borrowing – Rotorua Lakes Council	15,000,000	15,000,000
Total Borrowings	15,000,722	15,000,722

The loan from Rotorua Lakes Council is secured by a General Security Agreement. The average interest rate on the loan at balance date was 3.12% plus a margin of 25 basis points (bps).

The Company has a Customised Average Rate Loan (CARL) from BNZ Bank of up to \$3,400,000 that matures on 15 June 2019. This facility is unsecured with a floating interest rate based on a margin of 1.20% above the Bank Bill Reference Rate (BKBM). The interest rate on this facility at 30 June 2018 was 3.14%.

The Company's portfolio of debt is structured with a view to minimising interest rate risk and maximising certainty of the Company's debt servicing costs in the current financial year.

Rotorua Regional Airport Limited
Notes to the Financial Statements
For the Year Ended 30 June 2018

23. RELATED PARTIES

The controlling party of the Company is Rotorua Lakes Council. The following transactions are the disclosures of transactions between the Company and its shareholders and directors:

The following transactions were carried out with related parties on normal commercial terms. The transactions between the Company and Rotorua Lakes Council, and with companies in which directors have an interest are not required to be disclosed by PBE IPSAS 20 Related Party Disclosures. The disclosures made are for information purposes only.

a) Transactions with Rotorua Lakes Council

	2018	2017
<i>Purchases of goods & services</i>		
Land and water rates	97,427	95,112
Resource consent fees	8,802	279
Land covenant payments	59,951	-
"Bike the Runway" sponsorship	-	2,000
Maintenance charge	-	120
	166,180	97,511
<i>Sales of goods & services</i>		
Service funding received under a service level agreement	2,542,500	2,500,000
	2,542,500	2,500,000
<i>Loan</i>		
Loan received during the year	-	-
Loan paid during the year	-	-
Loan from Rotorua Lakes Council as at balance date	15,000,000	15,000,000
<i>Other</i>		
Interest paid on loan	501,261	499,000
	501,261	499,000
<i>Receivable & payable</i>		
Balance receivable from Rotorua Lakes Council	48,885	-
Balance payable to Rotorua Lakes Council	63,785	69,031

Rotorua Regional Airport Limited
Notes to the Financial Statements
For the Year Ended 30 June 2018

b) Transactions with Rotorua Economic Development (RED)

	2018	2017
Sale of goods & services		
Advertising income from RED*	30,000	30,000
	30,000	30,000

* Rotorua Economic Development was previously part of Rotorua Lakes Council. The income relates to the I-site.

c) Transactions with companies in which directors have an interest

	2018	2017
Purchases of goods & services		
Amount billed from Simpson Grierson for legal services (and paid)	560	1,450
	560	1,450

Simpson Grierson, a firm in which Mr Peter Stubbs, a director of the Company, was a partner of. There were no amounts outstanding at year end.

d) Board members remuneration

	2018	2017
Peter Stubbs	20,000	20,000
Wiremu Atetini Kingi	5,000	10,000
Stuart Alan Crosby	10,000	10,000
John Amarama Fenwick	7,500	-
Anthony John Marks	10,000	10,000
	52,500	50,000

e) Employee remuneration

	2018	2017
Total remuneration paid		
170,000 to 179,999	1	-

The key management personnel include the Board of Directors and the CEO. Total key management personnel compensation for the financial year ending 30 June 2018 was \$222,755 (2017: \$208,941). This includes total full-time equivalent personnel of 6 in the financial year ending 30 June 2018. (2017: 7)

No related party debts have been written off or forgiven during the year. (2017: Nil)

