PSO Retirement Villages Limited

Financial Statements

For the year ended 30 June 2020

PSO Retirement Villages Limited

Financial Statements

Contents

PSO Retirement Villages Limited

General Information

Incorporation Number 2293410
Date of Formation 21 August 2009

Shareholder

Presbyterian Support Otago Incorporated	100
Total Ordinary Shares	100

Nature of Business
Retirement Village operation

Directors
Frazer Burnett Barton
Raymond James Macleod
Timothy James Mepham

Principal Place of Business/Registered Office
407 Moray Place
Dunedin 9016
New Zealand
Phone: 03 477 7115

Solicitors
Anderson Lloyd
Private Bag 1959
Dunedin 9054
New Zealand

Bankers
Westpac Bank
George Street
Dunedin 9016
New Zealand

Auditors
PricewaterhouseCoopers
P O Box 5848
Dunodin 0058
New Zealand

Statutory Supervisor
Covenant Trustee Services Limited

PSO Retirement Villages Limited

Statement of Comprehensive Revenue and Expense

for the Year ended 30 June 2020

	Notes	2020 $000's	2019 $000's
Revenue			
Service fees from Occupiers		245	241
Village Contributions		897	578
Interest Income		369	407
Rental Income		20	18
Total Operating Income	2	1,531	1,244
Expenditure			
General Operating		83	88
Marketing & Advertising		78	46
Office & Administration		9	13
Occupancy Costs		322	302
Depreciation		74	66
Lease Costs		201	201
Total Expenditure	3	767	716
Operating Surplus before increase in ORA Expense		764	528
Increase in ORA Expense	10	528	-
Operating Surplus for the Year		236	528
Non-Operating Movements			
Movement in Obligation to Purchase Unit Titles		(70)	-
Net Surplus for the Year		166	528
Other Comprehensive Revenue & Expense			
Operating Property Revaluation	7	665	-
Total Comprehensive Revenue and Expense		831	528

PSO Retirement Villages Limited

Statement of Changes in Net Assets / Equity

for the Year ended 30 June 2020

	Accumulated Surplus $000's	Operating Property Revaluation Reserve $000's	Total Equity $000's
Balance 1 July 2018	2,211	505	2,716
Net Surplus for the Year	528	-	528
Other Comprehensive Income	-	-	-
Total Comprehensive Income	528	-	528
Balance 30 June 2019	2,739	505	3,244
Balance 1 July 2019	2,739	505	3,244
Net Surplus for the Year	166	-	166
Other Comprehensive Income	-	665	665
Total Comprehensive Income	166	665	831
Balance 30 June 2020	2,905	1,170	4,075

PSO Retirement Villages Limited

Statement of Financial Position

As at 30 June 2020

	Notes	2020 $000's	2019 $000's
Equity			
Accumulated Surplus		2,905	2,739
Operating Property Revaluation Reserve		1,170	505
Total Equity		4,075	3,244
Represented by :			
Current Assets			
Cash and cash equivalents	5	449	829
Short term deposits	5	1,271	1,346
Receivables	6	11,044	9,114
		12,764	11,289
Non Current Assets			
Property, Plant and Equipment	7	5,824	4,956
		5,824	4,956
Total Assets		18,588	16,245
Current Liabilities			
Accounts Payable and Accruals	8	197	165
Retirement Village Deferred Income	9	950	777
Refundable portion - Occupation Right Agreements	10	13,046	11,809
Obligations to purchase Unit Titles	11	320	250
		14,513	13,001
Net Assets		4,075	3,244

Signed on behalf of the Board as at 23rd September 2020.

Mr Ray Macleod
Director

Mr Timothy Mepham
Director

pwc

PSO Retirement Villages Limited

Statement of Cash Flows

for the Year ended 30 June 2020

	Notes	2020 $000's	2019 $000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was Provided from :			
Services provided		259	273
Proceeds from Occupation Right Agreements		3,320	3,240
Interest Income		32	61
		3,611	3,574
Cash was applied to :			
Employees and Suppliers		212	202
Refunds of Occupation Right Agreements		2,765	2,144
		2,977	2,346
Net Cash flows from Operating Activities	4	634	1,228
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was Provided from :			
Proceeds from Short Term Deposits		75	780
		75	780
Cash was applied to :			
Purchase of Property, Plant and Equipment		133	78
Investments in Short Term Deposits		-	-
		133	78
Net Cash flows from (to) Investing Activities		(58)	702
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was applied to :			
Net Payments to Parent		956	1,455
Net Cash flows (to) Financing Activities		(956)	(1,455)
Net Increase in Cash		(380)	475
Opening Balance of cash and cash equivalents		829	354
Closing Balance of cash and cash equivalents		449	829
Represented by :			
Cash and Cash Equivalents		449	829
	5	449	829

pwc

PSO Retirement Villages Limited

Notes to the Financial Statements
for the Year ended 30 June 2020

General Information

The financial statements presented here are for PSO Retirement Villages Limited ("the Company"), which is a company incorporated under the 'Companies Act 1993'. The Company is wholly owned by Presbyterian Support Otago Incorporated and its registered office is situated at 407 Moray Place, Dunedin, New Zealand.

The Company was formed on 21 August 2009 and commenced its activities in November 2010. The Company provides residential accommodation for older people in the Otago geographical area. It issues licences to occupy to residents which provide an unconditional right for each resident to live in the units. Licences to occupy are issued on the basis of 75% of the market value being held as a refundable deposit and 25% of the market value being amortised to income to the Company.

PSO Retirement Villages Limited is a designated public benefit entity which is incorporated and domiciled in New Zealand. The Company develops, owns and operates retirement villages for older people within Otago. PSO Retirement Villages Limited is a reporting entity for the purposes of the Financial Reporting Act 2013 and its financial statements comply with that Act.

These financial statements are for the year to 30 June 2020 and they have been approved for issue by the Board of Directors on 23rd September 2020.

The Board of Directors do not have the power to amend these financial statements once issued.

Impact of COVID-19

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. On 25 March 2020, New Zealand went into a Level 4 lockdown status requiring all non-essential businesses whose employees could not work from home to close for a four week period (extended by a further 5 days to 27 April 2020). The Company's core operations (aged care – retirement villages) were deemed essential services and, as a result, the Company was able to operate in a reduced capacity with no material impact on the balances or disclosures in the financial statements, except for a greater degree of uncertainty attached to the valuation of the Company's properties, as described in Note 7.

Management and the Board have considered the impact of Covid-19 on relevant balances and disclosures in the financial statements and have a reasonable expectation that the Company will continue operating on a financially sustainable basis for the next 12 months. For this reason the financial statements have been prepared on a going concern basis, consistent with the prior period.

1. Statement of Accounting Policies

Statement of Compliance
These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the Public Benefit Entity (PBE) Accounting Standards applicable to not for profit public benefit entities. Pursuant to the Accounitng Standards Framework mandated by the External Reporting Board (XRB), the company reports in accordance with Tier 1 PBE Standards.

(a) ***Basis of Preparation***
The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Historical cost convention
The financial statements have been prepared on the basis of historical cost except for land and buildings which have been measured at fair value.

Presentation and functional currency
These financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency. All figures are rounded to the nearest thousand ($000).

Going Concern assumption
These financial statements have been prepared on a going concern basis.

(b) ***Revenue***
Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from exchange transactions
(i) Services rendered
Revenue for this category is recognised in the accounting period in which the services are rendered.
(ii) Village Contributions
The village contribution accrues during the occupation of the resident and is offset against the obligation to residents and settled on termination of the occupation licence. The village contribution legally accrues over a four year period to a maximum of 25% for Wanaka Retirement Village and Ranui Court or 15% for Columba Court of the market value of the licence. The village contribution is accrued to the Statement of Comprehensive Revenue and Expense on a straight line basis over the estimated average period of occupancy

pwc

of a range between 6.6 and 7.5 years.
The village contribution difference between legal entitlement and the average period of occupancy is treated as deferred revenue in the Statement of Financial Position.

(iii) Interest income
Interest income is recognised on an accrual basis as and when the right to receive interest is established.

(iv) Rental income
Rental income is accounted for as and when the income is earned.

Revenue from non-exchange transactions
Non-exchange transactions are those where the Company receives an inflow of resources (i.e. cash and other tangible or intangible items) but provides no (or nominal) direct consideration in return.
With the exception of services-in-kind, inflows of resources from non-exchange transactions are only recognised as assets where both:
- It is probable that the associated future economic benefit ot service potential will flow to the Company, and
- Fair value is reliably measurable.

Inflows of resources from non-exchange transactions that are recognised as assets are recognised as non-exchange revenue, to the extent that a liability is not recognised in respect to the same inflow.
Liabilities are recognised in relation to inflows of resources from non-exchange transactions when there is a resulting present obligation as a result of the non-exchange transactios, where:
- It is probable that an outflow of resources embodying future economic benefit or service potential will be required to settle the obligation, and
- The amount of the obligation can be reliably estimated.

The Company does not derive non-exchange transaction revenue.

(c) ***Trade and Other Receivables***
Accounts receivable are recognised initially at fair value with subsequent provision, if required, for doubtful debts.

(d) ***Cash and Cash Equivalents***
Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and short term deposits with an original maturity of three months or less, which are subject to insignificant risk to changes in value.

(e) ***Goods and Services Tax (GST)***
The financial statements are prepared on a GST inclusive basis, as the Company is not registered for GST on the basis that its operations consist entirely of exempt supplies namely the provision of residential accommodation.

(f) ***Leases***
Operating lease payments where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are included as an expense in the Statement of Comprehensive Revenue and Expense in equal instalments over the lease term. The Company is not party to any finance leases.

(g) ***Taxation***
PSO Retirement Villages Limited is a charitable organisation under the Charities Act 2005, and is exempt from income tax.

(h) ***Property, Plant and Equipment and Depreciation***
Operating Property
Operating property is held for the purpose of meeting service delivery objectives.
Land and buildings are measured at fair value, based on periodic but at least triennial valuations by qualified external independent valuers using a discounted cash flow model, less accumulated depreciation on buildings and any impairment losses recognised after the date of the revaluation.
Plant and equipment is stated at historical cost less depreciation and any accumulated impairment losses.
Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Revenue and Expense during the financial period in which they are incurred.
When an item of Property, Plant and Equipment is disposed of, the difference between net disposal proceeds and the carrying amount is recognised as a gain or loss in the Statement of Comprehensive Revenue and Expense.
Property, Plant and Equipment held with the intention of resale is recorded separately in the Statement of Financial Position at the lower of cost and net realisable value.

Depreciation
Depreciation of property, plant and equipment, other than freehold land is calculated so as to allocate the cost or value of the assets less their residual values over their estimated useful lives. There is no depreciation calculated on freehold land.

The useful lives used in the preparation of these statements are as follows :

Buildings	28 - 50 years SL
Furniture & fittings	10 years DV
Plant & equipment	10 years SL

Land and Building Revaluations
Any revaluation increment relating to the Company's interest in property is credited to the Operating Property Revaluation Reserve included in the equity section of the Statement of Financial Position, except to the extent that it it reverses a revaluation decrease of the same asset class previously recognised in the Statement of Comprehensive Revenue and Expense, in which case the increase is recognised as revenue in the Statement of Comprehensive Revenue and Expense. The remaining revaluation increment is credited to the Refundable Portion - Occupation Right Agreements to reflect the market value for each license. Any revaluation decrease is recognised in the Statement of Comprehensive Revenue and Expense, except that it offsets a previous revaluation increase of the same asset class, in which case the decrease is debited directly to the Operating Property Revaluation to the extent of the credit balance existing in the reserve for that assets class.

The fair value of Retirement Village assets is determined by a qualified, independent external valuer using a discounted cash flow model. To avoid double counting of assets and liabilities, the fair value of Retirement Village assets as determined by the qualified, independent external valuer is adjusted for assets and liabilities already recognised in the Statement of Financial Position which are also reflected in the discounted cash flow model. These adjustments to determine the value of Retirement Village assets are disclosed in note 7.

(i) ***Impairment of non-financial assets***
The carrying amount of the Company's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is an indication of impairment.
If such indication exists, then the asset's recoverable amount is estimated.
The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows (for cash-generating assets) of future remaining service potential (for non-cash-generating assets) are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Cash-generating assets and non-cash generating assets are distinguished as follows:

Cash-generating assets, CGU
These are assets are held with the primary objective of generating a commercial return and a CGU is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets.
The most significant CGUs for the Company have been identified as individual retirement villages.

Non-cash-generating assets
These are assets other than cash-generating assets.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from contnuing use that are largely independent of the cash inflows of other assets or CGUs.

(j) ***Accounts Payable and Accruals***
Trade payables represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid on the 20th of the month following invoice.

(k) ***Financial Instruments***
The Company is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, debtors, creditors and loans. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to the financial instruments instruments are recognised in the Statement of Comprehensive Revenue and Expense.

Financial Assets
Loans and receivables
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are derecognised as a financial asset only when the contractual rights to the cash flows from the assets expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Refundable Portion - Occupation Right Agreements
Occupation Right Agreements (ORA) confer to residents the right of occupancy of the retirement village unit for life, or until the agreement is terminated by either party as prescribed. This right is the refundable deposit on the license issued and represents a percentage of the market value for each license. The percentage refundable varies between 95% and 75% as per the terms prescribed in the ORA.

Amounts payable under ORA's are non interest bearing and recorded as a liability in the Statement of Financial Position, net of village contributions receivable.

(l) ***Significant Accounting Judgements, Estimates and Assumptions***
In applying the Company's policies, management continually evaluates judgements, estimates and assumptions made based on experience and other factors, including expectations of future events that may have an impact on the Company. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions made. Significant judgements,

estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(i) Significant Accounting Judgements

Impairment of Property, Plant and Equipment
The Company assesses impairment of all assets at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment. These include the retirement village sector performance, economic and political environments.

(ii) Significant Accounting Estimates and Assumptions

Estimation of useful lives of assets
The estimation of the useful lives of assets has predominantly been based on historical experience. Adjustments to useful life are made when considered necessary.

Retirement Village expected tenure
As discussed in note 1 (b) (ii), the calculation for recognition of Retirement Village Contribution in the Statement of Comprehensive Revenue and Expense is based on an estimate of the expected period of tenure of residents. The expected period of tenure based on historical and industry experience is estimated to be 6.6 - 7.5 years.

Revaluation of Property, Plant and Equipment
Land and buildings are revalued every three years. Valuations are carried out in compliance with the professional standards of the NZ Institute of Valuers by experienced independent valuers.
The valuer has used assumptions relating to future cash flows arising from the properties and assumptions relating to future growth rates of retirement village occupation right agreement amounts, the average duration of residency of occupants and appropriate discount rates. Refer note 7 for key assumptions made. The fair value of property, plant and equipment is subjective and changes to the assumptions have a significant impact on profit and the fair value.

(m) ***Statement of Cash Flows***
The Statement of Cash Flows are prepared inclusive of Goods and Services Tax (GST), which is consistent with the method used in the Statement of Comprehensive Revenue and Expense. Cash and cash equivalents comprise cash on hand and on demand deposits and other short term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and includes all call borrowing such as bank overdrafts used by the Company as part of their day-to-day cash management.

'Operating activities' represents all transactions and other events that are not investing or financing activities, and includes receipts and repayments.
'Investing activities' are those activities relating to the acquisition and disposal of property, plant and equipment.
'Financial activities' are those activities relating to changes in the debt capital structure of the Company.

(n) ***New and amended standards***
The following new accounting standards and interpretations have been issued that are not mandatory for accounting periods beginning 1 July 2019 and have not been early adopted by the Company.

Financial Instruments
PBE IPSAS 41 Financial Instruments is effective for annual periods beginning on or after 1 January 2022, with early adoption permitted. The main changes under this standards are;
- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which may result in earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks.
The Company has not yet assesed the effects of the new standard.

Service Performance Reporting
PBE FRS48 Service Performance Reporting establishes principles and requirements for presenting service performance and information that is useful for accountability and decision making purposes. These high level requirements provide flexibility for entities to determine how best to "tell their story". The effective date is annual periods beginning on or after 1 January 2022, with early adoption permitted.
The Group has not yet assesed the effects of the new standard.

(o) ***Prior year comparatives***
Where appropriate, prior year comparatives have been restated to be in line with current reporting.

pwc

PSO Retirement Villages Limited

Notes to the Financial Statements - continued
for the Year ended 30 June 2020

	2020 $000's	2019 $000's
2. Revenue		
Exchange transactions		
Analysed by Village		
Wanaka Retirement Village	740	514
Ranui Court Retirement Village	347	257
Columba Court Retirement Village	75	66
	1,162	837
Interest Income	369	407
Total Operating Income	1,531	1,244

	2020 $000's	2019 $000's
3. Expenses		
Analysed by Village		
Wanaka Retirement Village	359	297
Ranui Court Retirement Village	135	142
Columba Court Retirement Village	66	73
Other	6	3
	566	515
Operating Lease	201	201
Increase in ORA Expense	528	-
Total Expenses	1,295	716

4. Reconciliation of Surplus with Cash Flows from Operating Activity

	2020 $000's	2019 $000's
Surplus for Year	831	528
Add non-cash items:		
Depreciation	74	66
Retirement Village Income	(897)	(578)
Interest Income - Parent	(336)	(346)
Other Costs - Parent	244	231
Lease costs - Parent	201	201
Revaluation - Occupation Right Agreements	528	-
Revaluation - Retirement Village Assets	(665)	(310)
Movement in Obligation to Purchase Unit Titles	70	-
	(781)	(736)
Changes in Working Capital		
Decrease/(Increase) in Trade Receivables	(6)	15
Increase/(Decrease) in Accounts Payable & Accruals	35	15
Increase (Decrease) in Occupation Right Agreements	555	1,406
	584	1,436
Net Cash Flow from Operating Activities	634	1,228

pwc

5. Current Assets - Cash and Cash Equivalents & Short Term Deposits

	2020 $000's	2019 $000's
Cash at bank	449	829
Short-term deposits	1,271	1,346

Cash at bank, except current accounts, earn interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Short-term deposits are made for varying periods of three and six months, depending on the immediate cash requirements of PSO Retirement Villages Limited.

PSO Retirement Villages Limited also has an unsecured overdraft facility with the Westpac Bank Ltd of $150K.

6. Current Assets - Receivables

	2020 $000's	2019 $000's
Trade Receivables	1	2
Advance to Parent - Presbyterian Support Otago Incorporated	10,952	9,045
Receivable owing by residents	80	63
Receivable from ORA transactions	-	-
Other Receivables	11	4
	11,044	9,114

Trade receivables are non-interest bearing and are generally on 14-30 day terms. No allowance for impairment loss has been made as it is believed all receivables are collectable. Receivable owing by residents are for amounts owing on settlement of Occupation Right Agreements and are non-interest bearing. Advance to the Parent is not secured and earns interest income at a rate of 3.5% per annum. The advance is repayable on demand however it is not expected to be repaid in full within the next 12 months.
The receivable owing by residents relates to the resident of a unit where occupation right agreements have yet to be issued. Under the previous agreements this amount was charged to residents and will be recovered on subsequent issuing of an occupation right agreement to a new resident.

Details regarding the credit risk of current receivables are disclosed in Note 13.

7. Non-Current Assets - Property, Plant and Equipment

2020	Land $000's	Buildings $000's	Furniture & Fittings $000's	Plant & Equipment $000's	Computer Equipment $000's	Total $000's
Gross carrying amount						
Balance 1 July 2019	970	3,924	167	63		5,124
Additions	-	50	53	25	3	131
Revaluation movements	(121)	640	-	-	-	519
Revaluation uplift of ORA value	146	-	-	-	-	146
Balance 30 June 2020	995	4,614	220	88	3	5,920
Accumulated depreciation and impairment						
Balance 1 July 2019	-	(98)	(39)	(31)	-	(168)
Current year depreciation	-	(50)	(15)	(8)	(1)	(74)
Revaluation adjustment	-	146	-	-	-	146
Balance 30 June 2020	-	(2)	(54)	(39)	(1)	(96)
Carrying amount 30 June 2020	995	4,612	166	49	2	5,824

2019	Land $000's	Buildings $000's	Furniture & Fittings $000's	Plant & Equipment $000's	Computer Equipment $000's	Total $000's
Gross carrying amount						
Balance 1 July 2018	830	3,877	128	57	-	4,892
Additions	-	47	39	6	-	92
Revaluation uplift of ORA value	140	-	-	-	-	140
Balance 30 June 2019	970	3,924	167	63	-	5,124
Accumulated depreciation and impairment						
Balance 1 July 2018	-	(49)	(28)	(25)	-	(102)
Current year depreciation	-	(49)	(11)	(6)	-	(66)
Revaluation adjustment	-	-	-	-	-	-
Balance 30 June 2019	-	(98)	(39)	(31)	-	(168)
Carrying amount 30 June 2019	970	3,826	128	32	-	4,956

The latest valuation of Retirement Village assets including Land and Buildings was the valuation by qualified, independent, external valuers Telfer Young as at 30 June 2020. Telfer Young are appropriately qualified and experienced in valuing retirement village properties in New Zealand.
The valuer has considered the impact of COVID-19 in the assumptions used at the time of the valuation. However, the valuation also included a statement that due to the severe market disruption and lack of transactional data as a result of COVID-19, a greater degree of uncertainty is attached to the valuation.

The fair values are based on a discounted cash flow model applied to the expected future cash flows generated by the properties. The valuation calculates the expected cash flows for a 50 year period, based on occupancy turnover of 6 years which is extrapolated at a nominal growth rate of between 2.75% and 3.75% and discounted to present value at a discount rate of 14.5% to 14.75%.

The valuation is adjusted for cash flows relating to refundable occupation right agreements and deferred income, which are already recognised separately on the balance sheet and also reflected in the cash flow model.

Residents interests are secured by a first charge in favour of the Statutory Supervisor, Covenant Trustee Services Limited over the land and buildings owned by the company and Presbyterian Support Otago Incorporated

It is the directors opinion that Fair Value is the most appropriate basis to value PSO Retirement Villages Ltd's retirement village businesses of which Land, Buildings and Plant are major components.
The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

Any current year acquisitions are included at cost.

PSO Retirement Villages Limited

Notes to the Financial Statements - continued
for the Year ended 30 June 2020

8. Current Liabilities - Accounts Payable and Accruals

	2020 $000's	2019 $000's
Trade Creditors	52	30
External Maintenance Provision	145	124
Other accruals	-	11
	197	165

Trade creditors are non-interest bearing and are normally settled on the 20th of month following invoice.

9. Current Liabilities - Retirement Village Deferred Income

	2020 $000's	2019 $000's
Deferred Income - Wanaka Retirement Village	698	554
Deferred Income - Ranui Court	234	199
Deferred Income - Columba Court	18	24
	950	777

Retirement village deferred income reflects the policy that income is recognised on a straight line basis over the estimated average period of occupancy which ranges between 6.6 and 7.5 years. The village contribution legally accrues over four years. Deferred income is therefore the balance of contractual income that has not been recognised in the Statement of Comprehensive Revenue and Expense.

10. Current refundable portion - Occupation Right Agreements

	2020 $000's	2019 $000's
Refundable amounts held - per contract	13,046	11,809
Movements in Provisions		
Carrying amount as at 1 July	11,809	11,073
New refundable amounts received	3,320	3,240
Refundable amounts paid out	(2,765)	(2,144)
Change in termination amount due	(1,052)	(670)
ORA Revaluation	1,263	-
Revaluation adjustment	146	140
Revaluation adjustment to Parent Advance	325	170
Carrying amount as at 30 June	13,046	11,809

Terms and conditions

The Company operates three Retirement Villages, namely Wanaka Retirement Village, Ranui Court and Columba Court, under Occupation Right Agreements.
The refundable portion of an ORA relates to the amount owing to the resident if the agreement was terminated and this liability is partially extinguished as the termination payment owing to the Company increases.
The liability relating to the holders of ORA's is non-interest bearing.
As a result of the revalutaion of Retirement Villages assets the net liabililty owing to residents on termination of their Occupation Right Agreements also needs recalculating. The net uplift in value of the Retirement Villages assets as of 30 June 2020 has meant that the Company's refundable portion to residents has increased as of balance date by $528K (2019 nil). This increase in liability is reflected in the Statement of Comprehensive Revenue and Expense as a separate expense for clarity.

11. Obligations to Purchase Unit Titles

	2020 $000's	2019 $000's
Obligations - Ranui Court	320	250

The obligation to purchase unit titles relates to original contracts at Ranui Court. Under this original contract the title is held by the resident and the Company has an obligation to purchase the title upon termination. These contracts are being replaced with Occupation Right Agreements. As at June 2020 there is one remaining unit title contract (2019, one contract).

12. Share Capital

	2020 $000's	2019 $000's
Issued and paid up capital	-	-

PSO Retirement Villages Limited

Notes to the Financial Statements - continued

for the Year ended 30 June 2020

13. Financial Instruments

Categories of Financial Instruments	2020 $000's	2019 $000's
Loans and Receivables - including cash and cash equivalents	12,764	11,289
Financial Liability at Amortised Cost	13,563	12,224

Classification and fair values of Financial Instruments
The carrying amount approximates the fair value of the Company's financial assets and financial liabilities.

Financial Risk Management
The Company's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

(i) Market Risk - cash flow and fair value interest rate risk
PSO Retirement Villages Limited can hold interest bearing assets in the form of short to medium term cash deposits. However the majority of the Company's income and operating cash flows are substantially independent of changes in market interest rates.

2020

	Effective Interest Rate %	Financial Instrument Maturities $000's Current	1 - 2 years	2 - 5 years	Over 5 years	Total
Assets						
Cash and Bank	0.05%	449	-	-	-	449
Short term deposits	2.65%	1,271	-	-	-	1,271
Receivables	3.50%	11,044	-	-	-	11,044
		12,764	-	-	-	12,764
Liabilities						
Refundable portion - ORA's	0.00%	13,046	-	-	-	13,046
Obligation to purchase unit titles	0.00%	320	-	-	-	320
Accounts Payable and Accruals	0.00%	197	-	-	-	197
		13,563	-	-	-	13,563

2019

	Effective Interest Rate %	Financial Instrument Maturities $000's Current	1 - 2 years	2 - 5 years	Over 5 years	Total
Assets						
Cash and Bank	0.10%	829	-	-	-	829
Short term deposits	3.10%	1,346	-	-	-	1,346
Receivables	4.46%	9,114	-	-	-	9,114
		11,289	-	-	-	11,289
Liabilities						
Refundable portion - ORA's	0.00%	11,809	-	-	-	11,809
Obligation to purchase unit titles	0.00%	250	-	-	-	250
Accounts Payable and Accruals	0.00%	165	-	-	-	165
		12,224	-	-	-	12,224

Sensitivity
Cash Investments - the impact on profit and loss of a 100 basis point shift in interest rates would be an increase or decrease of $13K with everything else being held constant.
Receivables - the impact on profit and loss of a 100 basis point shift in interest rates would be an increase or decrease of $100K with everything else being held constant. The only receivable that attracts interest is the advance held with Presbyterian Support Otago Inc.
The above calculations are based on the balances of investments and receivables as at balance date.

(ii) Credit Risk
Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The maximum exposure to credit risk relates to bank and receivables which total $12,747K (2019 $11,289K). $10,952K of this is the intergroup advance with the Company's sole shareholder (2019 $9,045K).
The Company places its cash and short term deposits with high credit rated institutions. As a minimum the Company has a requirement that monies will only be held with institutions with a AA credit rating with Standard and Poors.
Financial instruments which potentially subject PSO Retirement Villages Limited to concentrations of credit risk consist principally of cash, short term deposits, receivables and shareholder advances.
PSO Retirement Villages Limited places its cash and short term investments with high credit rated financial institutions.
Aging of trade receivables is monitored on a monthly basis, the balance of accounts in the 60 days and over category is $0K (2019 - $0K).

(iii) Liquidity Risk
The Company has a responsibility to manage liquidity risk. This is achieved through an appropriate liquidity risk framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

14. Related Party Disclosure

Ultimate parent

PSO Retirement Villages Limited is a 100% subsidiary of Presbyterian Support Otago Incorporated. As at balance date there is an advance between the Company and its parent with a balance of $10,952K (2019 $9,045K). There is no security held by PSO Retirement Villages Limited for the amount due from Presbyterian Support Otago Incorporated. This advance earns interest at 3.5% per annum and is repayable on demand. However it is not expected to be repaid back in full within the next 12 months.

The following transactions were also carried out with related parties:

	2020 $000's	2019 $000's
(a) Transactions with parent		
Lease charges for Wanaka Retirement Village	201	201
Interest on Advance with Parent	336	346
Transfer of Land and Buildings	-	-
(b) Purchase of services		
Purchase of services from Anderson Lloyd		
- an entity connected with a Director	-	1

15. Operating Lease Commitments - Group as Lessee

	2020 $000's	2019 $000's
Non cancellable operating lease rental commitments are payable as follows:		
Not later than one year	84	201
Later than one year but not later than five years	-	84
Later than five years	-	-
	84	285

The Company leases the land and buildings of Wanaka Retirement Village from Presbyterian Support Otago Incorporated. The term of the lease is for 5 years with 6 rights of renewal for 5 years each.

16. Capital Expenditure Commitments

PSO Retirement Villages Limited has no capital commitments as at 30 June 2020, (2019 - Nil).

17. Contingent Liabilities and Assets

There are no known outstanding contingent liabilities or assets affecting PSO Retirement Villages Limited at 30 June 2020, (2019 - Nil).

18. Events occurring after Balance Date

There are no events subsequent to balance date which materially impact these financial statements (2018 - Nil).

19. Auditor Remuneration

	2020 $000's	2019 $000's
Audit fee	7	9
Other Services	2	2
	9	11

The nature of the other services relates to Trustee reporting to the Statutory Supevisor of the retirement villages.