

HARNESS RACING NEW ZEALAND

ANNUAL REPORT

2019-2020



Ultimate Sniper Horse of the Year 2019-20



Harnessing excitement, service, integrity and prosperity for our stakeholders and customers





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CHAIR AND CHIEF EXECUTIVE'S

REPORT

There is much to celebrate about the 2019/20 racing season, the season that will long remembered as the "Covid" season. Covid-19 saw a halt to all racing from early March through to the end of May 2020, and a number of feature races could not be staged.

However we were treated to some special highlights during a shortened season.

Ultimate Sniper's efforts to win all three heats and the Interdominion Final in Auckland, Habibi Inta's seven and a half length win in The Dominion, Copy That's win in the Elsu Classic and Cruz Bromac winning the NZ Cup for champion reinsman Blair Orange to name but a few.

Blair continued his domination of the Driver's Premiership. A true professional who puts in the hard work, the long hours and the constant travel around the country he is deserving of all his success.

Robert Dunn was a popular winner of the Trainers Premiership. Aided by his son and stable driver John the stable produced a steady stream of winners from their Auckland and Canterbury bases throughout the season.

Congratulations to John Morrison who won the 2019/20 season Junior Drivers premiership.

We also need to acknowledge the outstanding success of our very own Dexter Dunn who continues to excel and sits at the very top of the North American drivers' premiership.

Also flying the Kiwi flag in North America is the super mare Shartin. Bred in Prebbleton by hobby breeder Grant Crabbe, Shartin was recently named Horse of the Year. An outstanding achievement and the first for a Southern Hemisphere bred pacer.

Whilst we celebrate our stars we must also congratulate and acknowledge all our participants. Their passion and dedication can never be questioned and they thoroughly deserve every win that comes their way.

OVERVIEW

Covid-19 has changed the world, and almost crippled the Racing Industry here in New Zealand.

The lifeblood of the racing industry is the NZ TAB, and when its turnover dropped to around 20%, distributions to the racing codes were unsustainable.

We would like to acknowledge the then Racing Minister Winston Peters, who was able to secure a substantial funding package from Government, that would not only see the TAB and the industry get through the lockdown but be able to transition back to a full racing calendar.

It was during this period that both the TAB and the codes had to look hard and had to look quickly at their costs as the Government funding package needed to be placed strategically and not just applied as a band aid over the industry. The TAB took 20 million out of their operation by reducing staff, cutting on course services and exiting from radio and print media.

For its part Harness was asked to look at its footprint with a view to consolidating and providing a venue plan fit for future use.

There was an expectation that funding would be reduced, and that the funding needed to be more strategically and efficiently placed. So on the back of Covid HRNZ decided on a venue and dates plan that would secure the industry's future going forward. As expected this was met with resistance from those who were impacted the most.



The consolidation of venues is on going and a final determination will be made on the back of independent tri-code regional reviews. The first of these reviews is underway looking at the Otago -Southland region. This review will be completed by December 31st 2020.

Harness New Zealand also undertook a review of our club funding model, and work continues on that funding model to determine what should be an industry cost, as opposed to a club cost. The Board has also committed that prior to the next racing season to undertake a review of group and feature race funding, and has as a priority the lifting of stakes at the bottom end of the industry and to develop strategies that will strengthen and grow our market share and overall industry performance.

RACING ACT 2020

The new Act is now in place. The RITA Board who transitioned across to the TAB will be revitalized and a new NZ TAB Board will be put in place very shortly. This is of particular interest to the codes as the new TAB Board will feature three racing code appointees which at this point in time is particularly important for the racing industry.

The codes now operate together as Racing NZ and this is proving to be a successful forum.

The operations and structure of the JCA and the RIU will early next year be overseen by only one Board – the Racing Integrity Board (RIB). Appointments to the new RIB Board will be made in the coming months.

PERFORMANCE

Harness racing betting turnovers have since the end of lockdown been up on the same period last year. However we cannot be complacent. Our income is derived from betting on our product and we have to keep working on our product, dates, times and general presentation to ensure we capture more of the betting dollar. Negotiations are under way amongst the three codes to establish a new code funding formula and it will be crucial that Harness secures a fair and just model that enables our code to progress and grow.

BREEDING

The number of mares being bred remains a concern. HRNZ continues to work closely with The NZ Standardbred Breeders Association on this issue. This is a worldwide trend and there is no silver bullet.

Breeding bonuses and breeding incentives would provide some positive momentum, but there is not enough funding available at this point in time to implement such schemes.

The 2020/21 season will see the introduction of micro chipping to our foal crop. Micro chipping is part of HRNZ's animal welfare strategy along with a raft of initiatives that will keep Harness Racing in front of any animal welfare issues.

INTERDOMINIONS

HRNZ is still part of the Interdominion rotation and committed to the series to be run at Menangle in November 2021. We have indicated to the Interdominion Council that we will review our involvement going forward after the Menangle series.



OBITUARIES

Our thoughts go out to the families and friends of those harness participants who we lost during the season.

CLOSING

In closing we would like to thank the dedicated team at HRNZ. Each and every one is passionate about the Industry and on behalf of the Board I thank them for their contribution.

We would like especially to thank Peter Jensen for all the hard work he put into the CEO role. Peter's departure from HRNZ due to ill health robbed us of an extremely talented administrator and we all wish him well.

It was sad to see Darrin Williams leave after such a long tenure, but we are pleased that he has not been lost to the industry and we wish him well in his new role back where it all started for him at Addington.

We welcome to HRNZ Gary Woodham, who has recently been appointed as HRNZ's new CEO. Gary takes up his position on 11 January 2021, and we also welcome Catherine McDonald, the new General Manager of Racing in November.

I would also like to acknowledge the support and work of the New Zealand Standardbred Breeders Association and the New Zealand Sires Stakes Board.

To all those Club committees and volunteers thank you, for without you it would not be possible to run the meetings and the races the Industry depends on.

We must never forget that this is a great sport, it is entertaining, it is fun and it brings people and horses together in a unique way.



Chairman

Ken Spicer



Interim Chief Executive

Phil Holden





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FINANCE CHAIR'S

REPORT

HRNZ – OVERALL PERFORMANCE

In the 2019/2020 financial year, Harness Racing New Zealand (HRNZ) achieved a surplus of \$351,000 after the deduction of the losses from Cardigan Bay Holdings Ltd (CBHL).

While this surplus has reversed the trend of a deficit in the previous two seasons, this has been due to the impact of Covid-19; whereby non-essential spend was halted during the period where racing was on hold. The overall performance of HRNZ was also helped by the Covid-19 wage subsidy and the acceptance of staff for reduced hours and using up annual leave.

The last five months of the season were difficult due to the imposed lockdown of the country and the affect that Covid-19 pandemic had on the industry and sports betting both in New Zealand and offshore. With the TAB's income significantly reduced, our code funding fell significantly, which had an adverse effect on the clubs that had yet to finish their racing season and saw HRNZ get no RITA funding for two months.

HRNZ ADMINISTRATION AND OPERATIONS

Net HRNZ administration expenditure, before revenue received from RITA or TAB NZ and before the Covid-19 subsidy was \$2,617,000, a reduction of \$150,000 from the prior year. This reduction is attributable to the actions taken due to Covid-19, in reducing costs during the period where racing was on hold.

CARDIGAN BAY HOLDINGS LTD

During the year the Board of HRNZ resolved to sell the hospitality venues in its fully owned subsidiary CBHL. This decision was taken in line with the Board's strategy to focus on Harness Racing's core business. The sale of the hospitality venues is expected to be completed by November 2020.

ASSOCIATES

At balance date, HRNZ held a 25% shareholding in the Racing Integrity Unit Ltd and a 50% shareholding in the Races Limited Partnership. In the 2019/2020 season, HRNZ's overall share in the net surpluses of the two associates was \$166,000.

CODE FUNDING DISTRIBUTION RESERVE

The code distribution reserve increased from \$195,000 at previous season end to \$430,000 as at 31 July 2020. The suspension of racing and sports earlier this year brought home the stark reality that our reserve is clearly not sufficient. The Board of HRNZ remains committed to restore the reserve to a level that won't threaten the ongoing viability of our industry. At this point in time a reserve of \$3 million plus seems a long way out.

BALANCE SHEET

Despite a difficult last five months of the season due to Covid-19, HRNZ remains in a reasonable financial position with total equity of \$3,101,000.



John Coulam
Finance Chair

John Coulam

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 31 JULY 2020

	Note	2020 \$,000 (thousands)	2019 *Restated
REVENUE			
Revenue - Exchange Transactions			
Administration and Operations	1	4,993	5,362
Code Funding Distribution Revenue	2	35,350	44,155
Interest Income		9	36
Sale of Goods and Services	3	110	73*
Share In Surplus Of Associates	4	166	277
		<u>40,628</u>	<u>49,903*</u>
Revenue - Non Exchange Transactions			
Covid19 Wage Subsidy		228	-
Fines and Penalties		75	106
TOTAL REVENUE		<u>40,931</u>	<u>50,009*</u>
LESS EXPENSES			
Administration and Operations	5	4,997	5,895*
Funding Policy Payments	6	35,114	44,645
TOTAL EXPENSES		<u>40,111</u>	<u>50,540*</u>
SURPLUS (DEFICIT) BEFORE TAX		820	(531)*
Income Tax Expense	7	-	-
SURPLUS (DEFICIT) AFTER TAX FROM CONTINUING OPERATIONS		820	(531)*
DISCONTINUED OPERATIONS			
Deficit after tax for the year from discontinued operations	12	(469)	(157)*
SURPLUS (DEFICIT) AFTER TAX AND TOTAL COMPREHENSIVE INCOME		<u>351</u>	<u>(688)</u>

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2020

	CODE DISTRIBUTION	ACCUMULATED FUNDS \$,000 (thousands)	TOTAL
Balance, 31 July 2018	685	2,753	3,438
(Deficit) For The Year	(490)	(198)	(688)
Balance, 31 July 2019	195	2,555	2,750
Surplus For The Year	235	116	351
Balance, 31 July 2020	430	2,671	3,101

These financial statements are to be read in conjunction with the notes on pages 6 to 22

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 JULY 2020

	Note	2020 \$,000 (thousands)	2019
CURRENT ASSETS			
Cash and Cash Equivalents	8	2,753	1,925
Inventory		8	54
Other Financial Assets	9	271	566
Receivables	10	799	601
Asset Held for Sale	12	277	-
TOTAL CURRENT ASSETS		4,108	3,146
NON CURRENT ASSETS			
Intangible Asset - Goodwill	12	-	360
Investment in Associate	4	591	426
Property, Plant and Equipment	11	552	881
TOTAL NON CURRENT ASSETS		1,143	1,667
TOTAL ASSETS		5,251	4,813
CURRENT LIABILITIES			
Income Received in Advance		132	22
Provisions and Employee Benefit Liabilities	13	325	348
Trade and Other Liabilities	14	1,545	1,464
TOTAL CURRENT LIABILITIES		2,002	1,834
NON CURRENT LIABILITIES			
Provisions and Employee Benefit Liabilities	13	148	229
TOTAL NON CURRENT LIABILITIES		148	229
TOTAL LIABILITIES		2,150	2,063
EQUITY			
Accumulated Funds		2,671	2,555
Code Distribution Reserve		430	195
TOTAL EQUITY ATTRIBUTABLE TO HRNZ		3,101	2,750
TOTAL LIABILITIES AND EQUITY		5,251	4,813

For and on behalf of the Board who authorise the issue of these financial statements on 09 November 2020.



Ken Spicer
Chairman



John Coulam
Finance Chair

These financial statements are to be read in conjunction with the notes on pages 6 to 22

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 JULY 2020

	Note	2020	2019
		\$,000 (thousands)	
Operating Activities			
<i>Cash was provided from</i>			
Interest Received		9	11
Receipts from Code Distribution and Customers		7,272	8,660
Receipts from Code Distribution to Clubs from RITA		35,350	44,155
		<hr/>	<hr/>
		42,631	52,826
<i>Cash was used in</i>			
Funding Policy Payments from Code Distribution		35,115	44,644
Payments to Employees and Suppliers		6,372	8,784
		<hr/>	<hr/>
Net Cashflows from (used in) Operating Activities	16	1,144	(602)
Investing Activities			
<i>Cash was provided from</i>			
Receipts from Investments		-	225
Cash from Sale of Assets		-	982
		<hr/>	<hr/>
		-	1,207
<i>Cash was used in</i>			
Purchase of Investments		5	74
Purchase of Property, Plant and Equipment		3	165
Purchase of Additional Bar - CBHL		-	400
		<hr/>	<hr/>
		8	639
Net Cashflows From (used in) Investing Activities		<hr/> (8)	<hr/> 568
Net Increase / (Decrease) in Cash and Cash Equivalents		1,136	(34)
Add: Opening Cash and Cash Equivalents		1,925	1,959
Closing Cash and Cash Equivalents	8	3,061	1,925
Represented by			
Cash At Bank		46	343
Short Term Deposits		2,707	1,582
Cash at Bank attributable to Discontinued Operations		308	-
		<hr/>	<hr/>
		3,061	1,925

These financial statements are to be read in conjunction with the notes on pages 6 to 22

Notes to the Financial Statements

REPORTING ENTITY

Harness Racing New Zealand Incorporated (HRNZ) is an incorporated society registered and domiciled in New Zealand. It is a racing code as defined in the Racing Act 2003. The HRNZ (Group) consists of the operations of HRNZ (the Parent) and the subsidiary company Cardigan Bay Holdings Ltd (CBHL) which operates hospitality businesses. The Parent, HRNZ owns a 25% share in Racing Integrity Unit Ltd (RIUL), and a 50% share in The Races Limited Partnership (TRLP).

The primary objectives of HRNZ are to:

- Determine the Harness Racing code's funding policy and business plan, including race meeting performance targets and the distribution of funds to maximise and sustain financial benefits to harness racing clubs, owners and licence holders.
- Deliver harness races for wagering customers through broadcast and on course events.
- Define, regulate and amend the Rules and Regulations of Harness Racing in accordance with HRNZ's constitution.

Any equity has been provided with a view to supporting the objectives rather than making a financial return. Accordingly HRNZ has designated itself as a public benefit entity for financial reporting purposes.

BASIS OF PREPARATION

Statement of Compliance: The consolidated financial statements have been prepared in accordance with HRNZ's Constitution and the Racing Act 2003 which require compliance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) and other applicable financial reporting standards as appropriate for Tier 1, Not-For-Profit, Public Benefit Entities.

Basis of Measurement: The financial statements have been prepared on the basis of historical cost except for certain assets and liabilities for which specific accounting policies have been identified. Cost is based on the fair value of the consideration given in exchange for assets.

Basis of Consolidation: Controlled entities are those entities over which HRNZ (the controlling entity) has the power to govern the financial and operating policies so as to obtain benefits from their activities. Potential exercisable or convertible voting rights are considered when assessing whether HRNZ controls another entity.

Controlled entities are fully consolidated from the date on which control is obtained by HRNZ and cease to be consolidated from the date on which control is lost. Assets, liabilities, income and expenses of a controlled entity acquired or disposed of during the year are included in the financial statements from the date HRNZ gains control until the date it ceases to control the entity.

Investments in controlled entities held by HRNZ are accounted for at cost less any impairment charges in the separate financial statements of HRNZ.

Functional Currency: The financial statements are presented in New Zealand dollars which is the functional currency of HRNZ rounded to the nearest thousand dollars (\$'000).

CHANGES IN ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner which ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Policies: The financial statements are prepared in accordance with the PBE Standards.

Policies have been consistently applied in the periods reported in these financial statements.

New Accounting Standards and Interpretations issued but not yet effective: The standards and interpretations applicable to HRNZ which have been issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. HRNZ is currently assessing the impact of these new standards and intends to adopt these standards, if applicable, when they become effective or when management assessed early adoption is appropriate:

Standards	Effective application date
• PBE IFRS 9 (Financial Instruments)	FY2022
• PBE IPSAS 41 and effective date of PBE IFRS 9 (Financial Instruments)	FY2023
• PBE FRS 48 (Service Performance Reporting)	FY2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant account policies adopted and used in the preparation of the financial statements to the extent applicable to the financial year are summarised below:

REVENUE

HRNZ is primarily funded through allocations from the Harness Code Distribution Account from the RITA and revenue from horse and ownership transactions, licencing fees and other activities associated with HRNZ.

Under Accounting Standards IPSAS 9 and IPSAS 23, revenue is required to be classified as either revenue from exchange transactions or revenue from non exchange transactions in the statement of comprehensive revenue and expense.

An exchange transaction is one in which HRNZ receives a consideration of approximately equal value in exchange for sale of goods or rendering of services. Exchange revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to HRNZ and it can be reliably measured; it is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties.

In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Revenue from a non-exchange transaction is recognised as soon as the inflow of resources can be recognised as an asset in the financial statements but only to the extent that no corresponding present obligation recognised with respect to the asset received/receivable. Fines and penalties are classified as non-exchange revenue and recognised when they are invoiced.

Administration and Operations Revenue: Is classified as exchange revenue and is recognised either when payment is made or invoiced for transactions with HRNZ.

Code Funding Distribution: This revenue is recognised as an exchange transaction as the Harness Racing Code supply racing product to RITA in exchange for a distribution from RITA surpluses accumulated from their wagering, betting and gaming activities.

This revenue is recognised pursuant to Section 25 (1) of the Racing Act 2003 based upon the level of Code Funding received from RITA plus additional distributions in accordance with the Code Funding Agreement that was in effect for the financial year 2018/2019.

Interest Revenue: This revenue is derived from short term investments with Westpac for general HRNZ funds, Stakes payments awaiting release, the fair value recognition for Auckland Trotting Club loan and the two specific investments for Staff Retirement and Cruickshank Junior Drivers. Interest income is recognised on a time basis by reference to the effective interest rate.

Sale of Goods and Rendering of Services: Sales of goods or services are classified as exchange transactions. Revenue from the sale of goods is recognised when HRNZ or CBHL have transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue is recognised at the time of invoicing or when payment is received.

The revenue from the sale of goods and services relates mainly to the trading operations of CBHL who operate hospitality businesses. Costs associated with operating these businesses are included with Administration and Operations Expense, Note 5.

Fines Revenue: Is classified as non exchange revenue and recognised when the fine or penalty is invoiced.

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents comprise cash on hand and 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 with original maturities of three months or less, in which HRNZ invests as part of day-to-day cash management.

Notes to the Financial Statements

The cash flow statement categorises movements in cash and cash equivalents into the following activity types:

Operating Activities: include cash received from all income sources and record the cash payments made for the supply of goods and services.

Investing Activities: are those activities relating to the acquisition and disposal of non current assets.

Financing Activities: comprises activities that change the equity and debt capital structure.

INVESTMENT IN ASSOCIATES

Associates are entities over which HRNZ has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method under which the investment is initially recognised at cost and subsequently adjusted to recognise post acquisition changes in HRNZ's share in the associate's comprehensive revenue and expense; the adjustment to the carrying amount of the investment is included in HRNZ's statement of comprehensive revenue and expense. At each balance date HRNZ assess whether the investments are impaired and when there is objective evidence of impairment, an impairment loss is recognised in the statement of comprehensive revenue and expense.

TAXATION

HRNZ is exempt from paying Income Tax under Section CW47 (1) (c) of the Income Tax Act 2007. CBHL as a trading entity is subject to Income Tax. The Income Tax expense in relation to CBHL's surplus or deficit for the current year comprises current tax and deferred tax.

The following taxes, levies and similar charges are paid by HRNZ and CBHL:

- Goods and Services Tax (GST)
- Fringe Benefit Tax (FBT)
- Employer compulsory Kiwi Saver Contributions
- Accident Compensation Commission (ACC) levies

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

CBHL – Income Tax: *Current tax* relates to the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. This is calculated using the effective tax rates that have been enacted or substantively enacted by balance date.

Deferred Tax relates to the amount of income tax payable or recoverable in future periods in respect of temporary differences and unutilised tax losses. A deferred tax asset is only recognised to the extent that there is reasonable certainty that sufficient taxable surplus will be generated against which the tax losses may be utilised.

Current tax and deferred tax is charged or credited to the statement of comprehensive revenue and expense, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

INVENTORY

Inventory is stated at the lower of cost and net realisable value which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Any write down from cost to net realisable value is recognised in the statement of comprehensive revenue and expense.

FINANCIAL ASSETS

Recognition and measurement: HRNZ recognises financial assets when it becomes party to a contract and classifies them depending on management's intention to hold them and the nature of the investments.

All financial assets are recognised initially at fair value. The subsequent measurement and presentation of the financial assets will vary depending on their category currently applicable to HRNZ as follows:

- *Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive revenue and expense when the loans and receivables are derecognised or impaired.

Held-to-maturity are non-derivative debt instruments with fixed or determinable payments that HRNZ has the positive intention and ability to hold to maturity.

There has been no change in classification during the year.

A financial asset is derecognised primarily when: (a) the rights to receive cash flows from the asset have expired, or (b) HRNZ has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement.

Impairment: At each reporting date, HRNZ assesses whether the financial assets are impaired and when there is objective evidence of impairment, the carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of comprehensive revenue and expense.

For financial assets carried at amortised cost, the criteria used to determine whether objective evidence of impairment exists, is the asset's collectability. Collectability is reviewed on an ongoing basis at an operating unit level and other facts and circumstances surrounding the counterparty. For trade receivables, this may also be demonstrated by financial difficulties of the debtor or default payments. An impairment provision is recognised when there is objective evidence that HRNZ will not be able to collect the contractual cash flows associated with the asset.

In the case of equity investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost.

PROPERTY PLANT AND EQUIPMENT

Recognition and measurement: Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. It is measured initially at cost which includes expenditure that is directly attributable to the acquisition of the asset; an item of property, plant and equipment is recognised only when it is probable that future economic benefit or service potential associated with the item will flow to HRNZ and if the cost or fair value can be measured reliably. Subsequent costs that meet the recognition criteria are recognised in the carrying value of the item of property, plant and equipment.

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

Depreciation: Depreciation is charged over the useful life of the asset at rates calculated to allocate the cost or valuation of the asset less any estimated residual value over its remaining useful life as follows:

Buildings	1.5% Straight Line
Computer equipment	14%-33.3% Straight Line
Furniture, fixtures and equipment	7%-50% Diminishing Value

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Impairment: HRNZ considers its property, plant and equipment as cash generating assets and performs annual impairment testing to determine whether there is any indication that they may be impaired.

If such an indication exists, HRNZ estimates the recoverable amount (i.e., the higher of the asset's fair value less costs of disposal and its value in use). When the carrying amount exceeds the recoverable amount of the asset, it is considered impaired and written down to its recoverable amount. Any impairment losses are included in the statement of comprehensive revenue and expense.

RECEIVABLES

Receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis to assess whether these are impaired based on expected losses, an analysis of historical information and a review of specific individual receivables. An impairment arises when there is objective evidence that HRNZ will not be able to collect the receivable and an impairment allowance is recognised in the statement of comprehensive revenue and expense. Individual debts that are known to be uncollectible are written off when identified.

Notes to the Financial Statements

FINANCIAL LIABILITIES

HRNZ recognises financial liabilities when it becomes party to a contract.

Financial liabilities are recognised initially at fair value and, in the case of payables and loans and borrowings, net of directly attributable transaction costs. Subsequent to initial recognition, HRNZ classifies all existing liabilities as '*Financial liabilities at amortised cost*' and carries them at amortised cost using the effective interest method. Gains and losses associated with these items are reported in the statement of comprehensive revenue and expense.

Financial liabilities end when the obligation under the liability is discharged, cancelled, or expires.

Financial liabilities are classified into the following specified categories: "fair value through profit or loss" and "financial liabilities at amortised cost". Policies in respect of individual categories of financial liabilities are outlined as follows:-

Trade and Other Payables: Trade and Other Payables fall under the category of "financial liabilities at amortised cost". Trade and Other Payables are recognised when HRNZ becomes obliged to make future payments resulting from the purchase of goods and services. Trade and Other Payables at initial recognition are measured at fair value, and subsequently measured at amortised cost using the effective interest method.

Borrowings: Borrowings fall under the category of "financial liabilities at amortised cost". Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the statement of comprehensive revenue and expense over the period of the borrowing using the effective interest method. Currently, HRNZ does not have any borrowings.

HRNZ has no liabilities categorized as financial liabilities at fair value through profit or loss. (2019: nil).

LEASES

Operating Leases: The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments where HRNZ are the lessee are recognised as an expense in the statement of comprehensive revenue and expense on a straight-line basis over the lease term. Operating lease incentives if applicable are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

PROVISIONS AND EMPLOYEE BENEFIT LIABILITIES

Provisions are recognised when it is probable that settlement will be required and that the amount can be measured reliably.

Salaries, Wages and Annual Leave provisions expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay, which are expected to approximate to the remuneration rate applying at the time of settlement.

Retirement Entitlements payable beyond 12 months have been calculated based on the following:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements; and
- the present value of the estimated future cash flows. These amounts are discounted to their present value.

HRNZ's contributions to defined contribution superannuation schemes (Kiwisaver) are recognised as an expense when incurred and reported in the statement of comprehensive revenue and expense.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements HRNZ has made estimates and assumptions concerning the future, based on experience and other factors. These estimates and assumptions may differ from the actual results that may have an impact on HRNZ.

HRNZ has presented its share of surplus or deficit of its associates RIUL and TRLP using the equity method. HRNZ shows its share of the surplus or deficit from these associates on one line on the statement of comprehensive revenue and expense.

HRNZ has determined that there are no significant estimates and assumptions applied overall in the preparation of these financial statements.

The carrying values of loans are sustained by guarantees which are equal to or higher than the value of any such loans.

DEFINITIONS

Throughout this report specific language is used for various activities related to the racing industry. To assist the reader of this report some definitions are detailed below:

Codes: Refers to the three racing bodies usually referred to as the Codes; namely New Zealand Thoroughbred Racing Incorporated (NZTR), New Zealand Greyhound Racing Incorporated (NZGRA) and Harness Racing New Zealand Incorporated (HRNZ).

Code Funding Distribution: Refers to the prescribed inter-code agreement between RITA (Racing Industry Transitional Agency and the Codes. It represents the methodology by which RITA will make distributions to the three racing codes (i.e., Harness, Thoroughbred and Greyhound).

Code Funding Policy: Represents the methodology by which HRNZ will distribute our Code Funding to HRNZ and Harness Clubs and Kindred Bodies for prizemoney (stakes) and other racing activities.

Kindred Bodies: Are the three associations relative to harness racing which are recognised in HRNZ's constitution: NZ Owners; NZ Standardbred Breeders and NZ Trainers and Drivers.

FINANCIAL PERFORMANCE

REVENUE

HRNZ is primarily funded through the Harness Code distributions from RITA and revenue from horse and ownership transactions, licencing fees and other activities associated with HRNZ.

Under Accounting Standards IPSAS 9 and IPSAS 23, revenue is required to be classified as either revenue from exchange transactions or revenue from non exchange transactions.

Interest revenue is recognised as it accrues on a time proportionate basis, through the Statement of Comprehensive Revenue taking into account the effective yield.

NOTE 1 ADMINISTRATION AND OPERATIONS

Administration and operations revenue is classified as exchange transactions. Revenue is recognised at the time of invoicing or when payment is received. Such transactions include fees for horse, owner and/or licence transaction and the allocation from our Harness Distribution account \$4,993,000 (2019: \$5,362,000).

NOTE 2 CODE FUNDING DISTRIBUTION

Code funding distribution represents revenue received from RITA, as per the prescribed funding model for the three racing codes, Harness, Thoroughbred and Greyhound, in accordance with Section 25 (1) of the Racing Act 2003.

NOTE 3 SALE OF GOODS AND SERVICES

For the year ended 31 July 2020 this revenue is primarily for provision of IT Services to industry organisations. Previously revenue from the sale of goods and rendering of services related mainly to the trading operations of CBHL's hospitality businesses.

NOTE 4 INVESTMENT IN ASSOCIATES

HRNZ holds a 25% ownership interest and voting rights in the Racing Integrity Unit Ltd (RIUL). The RIUL is a joint venture company among RITA and the three racing codes, which provides integrity services to each of the three codes under a service delivery contract. Each code funds their share of the RIUL's operating expenses on a cost recovery basis. RIUL is not intended to return a profit.

The RIUL is domiciled in New Zealand with a 31 July balance date. Its summarised financial information is as follows:

	2020 \$,000 (thousands)	2019 \$,000 (thousands)
Racing Integrity Unit Limited (RIUL)		
Opening Balance	48	72
Share In Deficit	(11)	(24)
Closing Balance	37	48

Notes to the Financial Statements

Summarised financial information with respect to RIUL is as follows

	2020 \$,000 (thousands)	2019 \$,000 (thousands)
Total Assets	1,647	1,747
Total Liabilities	1,501	1,555
Net assets	146	192
Revenue	6,304	6,719
Expenses	6,350	6,816
Deficit For The Year	(45)	(97)
Comprehensive Expense For The Year	(45)	(97)
 HRNZ's 25% Share in Net Assets	 37	 48
HRNZ's 25% Share of the Deficit	(11)	(24)

The RIUL financial statements at 31 July 2020 do not show any contingent liabilities (2019: nil).

During the financial year ended 31 July 2017 HRNZ, in partnership with Thoroughbred Racing New Zealand, established a 50/50 partnership named The Races Limited Partnership, for the acquisition of the Event Management Logistic business unit of RITA. Acquisition and operational activity under TRLP commenced 1 August 2017. TRLP delivers services to racing clubs to support the marketing and management of events on course.

Funding for the activities of TRLP has been secured through a three-year agreement with RITA, partial cost recovery from racing clubs and application of gaming funds as appropriate to the gaming fund policy. TRLP is not intended to return a profit, however due to reduced activity whilst the partners explore a digital transformation project TRLP has made a significant surplus. Surplus' are reinvested into TRLP.

TRLP is domiciled in New Zealand. Its summarised financial information is as follows:

	2020 \$,000 (thousands)	2019 \$,000 (thousands)
The Races Limited Partnership (TRLP)		
Opening Balance	378	77
Share In Surplus	177	301
Closing Balance	555	378

Summarised financial information with respect to TRLP is as follows

	2020 \$,000 (thousands)	2019 \$,000 (thousands)
Total Assets	1,319	1,887
Total Liabilities	211	1,131
Net assets	1,108	756
Revenue	3,640	4,596
Expenses	3,286	4,142
Surplus For The Year	354	454
Adjustment for Prior Year	-	148
Comprehensive Revenue For The Year	354	602
 HRNZ's 50% Share in Net Assets	 554	 378
HRNZ's 50% Share of the Surplus	177	301

TRLP financial statements at 31 July 2020 do not show any contingent liabilities (2019: nil).

NOTE 5 ADMINISTRATION AND OPERATING EXPENSE

	2020	2019
	\$,000 (thousands)	
		*Restated
Administration, Marketing, Operations and Publications ¹	4,651	5,422*
Board Remuneration and Governance Expenses ²	226	317
Breeders, Owners Associations Support & Initiatives	96	130
Trainers and Drivers Association Funding	24	26
	4,997	5,895*

¹ Included in this total are:

Fees paid to auditors of \$24,500 (2019: \$24,000) which includes other fees (tax) of \$215 (2019: 0).

Depreciation \$146,881 (2019: \$162,569). Included in this total are lease payments and costs for \$179,547 (2019: \$161,490).

for HRNZ's leased office premises at 17 Birmingham Drive, Christchurch.

There are a number of smaller leases relating to vehicles and CBHL's hospitality premises.

² Included in this total is the Board Remuneration for the year of \$129,533 (2019: \$160,000).

NOTE 6 CLUB FUNDING POLICY PAYMENTS

These funding policy payments include raceday payments to clubs; and administration, marketing and projects funding to HRNZ and Kindred Bodies in accordance with the Business Plan, Code Funding and Budget approved at the Annual Conference.

NOTE 7 INCOME TAX EXPENSE

HRNZ is exempt from paying income tax under Section CW47 (1) (c) of the Income Tax Act 2007.

CBHL is a trading entity and is subject to income tax. Income tax expense in relation to CBHL's surplus or deficit for the period comprises current tax and deferred tax.

	2020	2019
	\$,000 (thousands)	
<u>Components of Tax Expense</u>		
Current Tax Expense (Income)	-	-
Deferred Tax Expense (Income)	-	-
Total Tax Expense (Income)	-	-

Reconciliation of Prima Facie Income Tax Expense

	2020	2019
	\$,000 (thousands)	
<u>Surplus (Deficit) Before Tax</u>		
Non Assessable Surplus (Deficit) - HRNZ	820	(531)
(Deficit) Taxable Balance	(469)	(157)
Prima Facie Tax Expense (Benefit) at 28% (2018: 28%)	(131)	(44)
Timing Differences	37	
Taxation losses not recognised	95	44
Total Tax Expense	-	-

	2020	2019
	\$,000 (thousands)	
Tax Losses Carried Forward		
	3,766	3,671

CBHL has unutilised and unrecognised tax losses arising from prior years. There are no other tax planning opportunities or other evidence of recoverability in the near future. These unrecognised tax losses do not expire, and may not be used to offset taxable income elsewhere. On this basis, HRNZ has determined that it cannot recognise deferred tax assets on CBHL's tax losses carried forward.

Notes to the Financial Statements

FINANCIAL POSITION

NOTE 8 CASH AND CASH EQUIVALENTS

	2020 \$,000 (thousands)	2019 \$,000 (thousands)
Cash on Hand	2	122
Cash in Bank	44	221
Short-Term Deposits	2,707	1,582
	2,753	1,925

HRNZ administers the Centralised Stakes Payment System on behalf of Clubs, Drivers, Owners and Trainers.

The stakes funds investment is \$417,021 (2019: \$450,067), which relate to race meetings that have not been cleared for payment as at 31 July. HRNZ currently has no bank overdraft facility.

NOTE 9 OTHER FINANCIAL ASSETS

	2020 \$,000 (thousands)	2019 \$,000 (thousands)
Provident Fund ¹	57	59
Sulky Fund ²	120	112
Funds Held In Trust	177	171
Term Deposit	94	95
Loans and Advances	-	300
	271	566
Current Other Financial Assets	271	566
	271	566

Funds held in trust relate to interest-bearing re-investment of cash held by HRNZ for the Provident and Sulky Funds which are not available for use by HRNZ; interest received on these Funds are included in their balances.

¹ *Provident Fund* provides grants to licenced industry participants pursuant to *Rules 1501-1511* which are made at the discretion of the Fund Trustees.³

² *Sulky Fund* provides a limited form of damage type cover for registered sulkies to licenced industry participants pursuant to *Rule 1502* and the *Sulky Fund Regulations*.³

³ Included in trade and other liabilities are corresponding liabilities with respect to the Provident Fund and Sulky Fund of equal value as to that disclosed above.

NOTE 10 RECEIVABLES

	2020 \$,000 (thousands)	2019 \$,000 (thousands)
Receivables from Exchange Transactions		
Code Funding Receivable	35	195
Trade Receivables	764	406
Total Receivables	799	601

As at 31 July 2020 and 2019 balance dates, all overdue receivables have been assessed for impairment, based on expected losses, determined on analysis of historical information as well as a review of individual receivables. There are no impairment provisions on outstanding receivables (2019: nil).

The ageing of HRNZ's receivables is as follows:

	2020	2019
	\$,000 (thousands)	
Neither Past Due Nor Impaired		
Not past due	758	520
30-60 days	9	37
Past Due But Not Impaired		
60-90 days	1	5
Over 90 days	31	25
	799	587

NOTE 11 PROPERTY, PLANT AND EQUIPMENT

2020	Opening Balances			Current Year Movements			Closing Balances			
	Cost	Acc. Depreciation & Impairment	Carrying Amount	Additions	Net Disposals / Transfers at WDV	Impairment Charges	Depreciation	Cost	Acc. Depreciation & Impairment	Carrying Amount
Computers	490	(327)	163	4	(2)	-	(68)	492	(395)	97
Furniture, Fittings and Equipment	1,701	(983)	718	1	(185)	-	(79)	1,517	(1,062)	455
	2,191	(1,310)	881	5	(187)	-	(147)	2,009	(1,457)	552

2019	Opening Balances			Current Year Movements			Closing Balances		
	Cost	Acc. Depreciation & Impairment	Carrying Amount	Additions		Depreciation	Cost	Acc. Depreciation & Impairment	Carrying Amount
Computer	402	(257)	145		88	(70)	490	(327)	163
Furniture, Fittings and Equipment	1,584	(856)	728	117 ¹		(127)	1,701	(983)	718
	1,986	(1,113)	873	205		(197)	2,191	(1,310)	881

¹ Included in this total last year was the acquisition of plant and equipment for \$40,000 relating to the purchase of CBHL's additional hospitality outlet.

There are no restrictions or contractual commitments over title of any property, plant and equipment.

There are no restrictions or contractual commitments for the acquisition of any property, plant and equipment.

NOTE 12 DISCONTINUED OPERATIONS AND GOODWILL

DISCONTINUED OPERATIONS

During the 2019/2020 season HRNZ's Board resolved to sell the hospitality venues in its fully owned subsidiary Cardigan Bay Holdings Ltd. This decision was taken in line with the Board's strategy to focus on harness racing's core business. The sale of the hospitality venues is expected to be completed by November 2020.

At 31 July 2020 CBHL was classified as a discontinued operation and as a disposal group held for sale.

Revenue and expenses of CBHL have been reclassified from the results of continuing operations and are shown as a single line item on the face of the statement of comprehensive income as profit / (loss) after tax from discontinued operations.

Notes to the Financial Statements

The operating results of the discontinued operation were as follows:

	2020	2019
	\$,000 (thousands)	
Revenue Sale of Goods and Services	1,887	2,361
Revenue Covid19 Wage Subsidy	198	-
Cost Of Sales	(358)	(478)
Audit Fee	(12)	(12)
Other Operating Expenses	(782)	(832)
Staff Costs	(1,014)	(1,162)
Depreciation	(28)	(34)
Impairment of Investment	(360)	-
Result from Discontinued Operations Before Taxation	(469)	(157)
Tax Expense	-	-
Net Result from Discontinued Operations	(469)	(157)

The major classes of assets and liabilities of CBHL Ltd classified as held for sale as at 31 July 2020 are as follows:

	2020	
	\$,000 (thousands)	
Assets		
Cash and Short Term Investments	308	
Trade Receivable Debtors	29	
Inventory	32	
Fixed Assets	157	
Goodwill	-	
Total Assets	526	
Liabilities		
Revenue in Advance	(22)	
Trade Payable Creditors	(136)	
GST	(31)	
Employee Liabilities	(60)	
Total Liabilities	(249)	
Net Assets directly associated with the Asset Held for Sale	277	

	2020	2019
	\$,000 (thousands)	
The Net Cash flows incurred by CBHL are as follows:		
Operating	(158)	(39)
Investing	-	(414)
Financing	168	170
Result from Discontinued Operations Before Taxation	10	(283)

BUSINESS COMBINATION AND GOODWILL

The Board conducted an impairment review of the goodwill of \$360,000 as at 31 July 2020 and determined that it was fully impaired.

NOTE 13 PROVISIONS AND EMPLOYMENT BENEFIT LIABILITIES

	2020 \$,000 (thousands)	2019 \$,000 (thousands)
Accrued Salaries and Wages	55	52
Annual Leave	180	296
Retirement Provision	148	139
Due to Racing Integrity Unit Ltd	90	90
	473	577
Current Employee Benefits Liability	325	348
Non-current Employee Benefits Liability	148	229
	473	577

Salaries, wages and annual leave provisions are measured at nominal values based on accrued entitlements at current rates of pay, which are expected to approximate to the remuneration rate applying at the time of payment. Employer contributions to Kiwisaver are recognised as an expense when incurred and reported in the Statement of Comprehensive Revenue and Expense.

HRNZ's provisions relate to employee entitlements and benefits accruing to employees in respect of salaries and wages, annual leave, sick leave and retirement entitlements; the portion due and payable within the next 12 months from balance date is included under current employee benefits liability.

Retirement Entitlement Liability: HRNZ's provision for retirement entitlement liabilities includes the following:

- **Retirement provision:** HRNZ employees who, under their employment contract, commenced prior to 1 April 1992 and have completed at least ten years' service are entitled to a retirement benefit payment (calculated based on individual contract provisions) when they retire from HRNZ; a provision is recognised each year for the allocable amount of entitlement.
- **Due to Racing Integrity Unit Ltd:** On 1 February 2011, five of the eligible employees transferred to the RIUL. Their contract conditions include the retirement benefit.

As of 31 July 2020, there are 3 staff (2019: 3 staff) entitled to the retirement benefit. Any early payment of both HRNZ and RIUL retirement entitlements is made at the discretion of HRNZ Board.

The amount recognised for both types has been calculated based upon the dates when eligible employees are expected to retire, which are between 1 and 20 years from 31 July 2020. It has been assumed that these employees will remain in the employment of HRNZ or RIUL until retirement. A discount rate of 1.60% (31 July 2018: 1.67%) has been applied, as well as an estimated 0.90% (FY 2019: 1.72%) increase in pay rates, in the calculation of the estimated retirement fund liability. No increase in pay rates is included for RIUL.

Retirement entitlements payable beyond 12 months have been calculated based on the following:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements; and
- the present value of the estimated future cash flows. These amounts are discounted to their present value.

NOTE 14 TRADE AND OTHER LIABILITIES

Accrued and trade liabilities represent payables for goods and services provided to HRNZ prior to the end of the financial year that are unpaid and normally payable on a 30-day term. 2020: \$1,005,000; (2019: \$869,000)

Other liabilities include stakes payable 2020: \$358,000; (2019 \$405,000).

NOTE 15 CONTINGENCIES, COMMITMENTS, GUARANTEES AND INDEMNITIES

OPERATING LEASES	2020 \$,000 (thousands)	2019 \$,000 (thousands)
0-1 year	280	583
1-5 years	777	1,985
5+ years	1,445	2,460
	2,502	5,028

The lease for HRNZ's offices in Birmingham Drive commenced on 1 February 2018 with three rights of renewal of five years each, and a final expiry date of 31 January 2034. There are certain restrictions imposed by the landlord on the Birmingham Drive property, for example sub lease of floor space requires their prior approval.

Notes to the Financial Statements

With the exception of the operating leases above, there were nil commitments at 31 July 2020 (2019: nil).

HRNZ holds cover for Directors and Officers Liability, General and Statutory Liability and Professional Indemnity insurance cover in respect of liability for losses incurred by a member of the Board or an employee of HRNZ in the course of their duties to HRNZ.

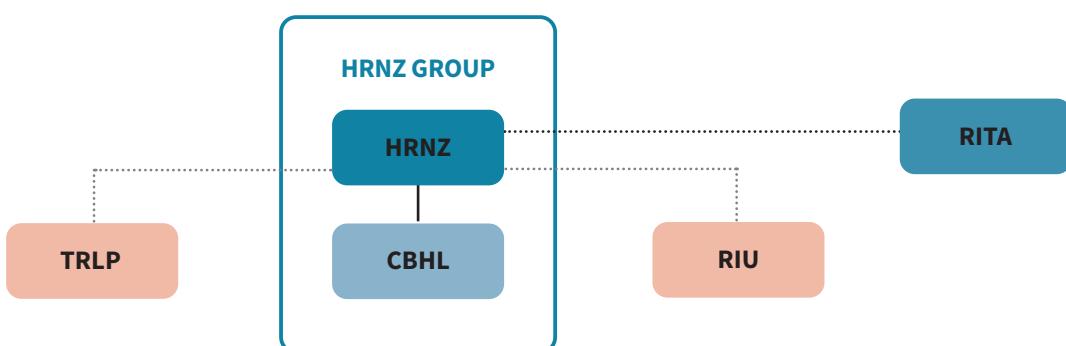
CONTINGENT GUARANTEES: HRNZ are the guarantor on three of the property leases for Cardigan Bay Holdings Ltd for various terms up to 30 November 2028.

NOTE 16 RECONCILIATION OF NET DEFICIT WITH NET OPERATING CASHFLOW

	2020 \$,000 (thousands)	2019 \$,000 (thousands)
Net Surplus / (Deficit) For The Period	351	(688)
Depreciation	175	197
Fair Value Adjustment (<i>Auckland Trotting Club loan interest</i>)	-	(25)
Writedown of Goodwill	360	-
Share of Surplus in Associates RIUL and TRLP	(166)	(277)
Net loss after tax from discontinued operations	469	-
Net Changes In Non-Cash Items	838	(105)
Other Financial Assets	295	100
Net Changes in Investing & Financing Activities	295	100
Asset Held for Sale	(277)	-
Trade Receivables	(212)	764
Inventory	46	(16)
Trade and Other Liabilities	95	(550)
Income Received in Advance	111	(6)
Employee Benefit Liabilities	(103)	(101)
Net Changes in Working Capital	(340)	91
Net Cashflows from (used in) Operating Activities	1,144	(602)

NOTE 17 RELATED PARTIES

Related Party Transactions - HRNZ Structure and Interest in Other Entities



HRNZ undertakes transactions with its related parties noted above. No material transactions were entered into with related parties except as disclosed below.

	% Interest	Nature of Relationship	\$,000 (thousands)	
			Transactions & Balances 2020	2019
<i>Cardigan Bay Holdings Ltd</i>	100%	Controlled entity		
Funding			170	150
<i>Racing Integrity Unit Ltd</i>	25%	Associate		
Other services			(11)	(24)
Retirement payable			(90)	(90)
<i>RITA</i>	n/a	RITA manages HRNZ's payments to Clubs		
Distribution Account Funding to HRNZ			3,045	3401
Harness Code Distribution Account Balance			35	195
<i>The Races Ltd Partnership</i>	50%	Associate	177	301

HARNESS RACING CLUBS AND KINDRED BODIES: As part of its normal operations, HRNZ transacts with Harness Racing clubs and Harness Racing Kindred Bodies across New Zealand; these transactions include receipt of stakes, other fees, and the administration of RITA to the Harness Code. However, these entities are not related parties of HRNZ for financial reporting purposes and it does not exercise control, joint control or significant influence over these entities.

HRNZ BOARD: Transactions took place in the ordinary course of HRNZ's business where a member of the Board is also a member of the governing body of a Club or Kindred Body.

TRANSACTIONS AND BALANCES WITH KEY MANAGEMENT PERSONNEL: HRNZ's key management personnel includes members of the Board, the Management Team and their immediate families. Providing HRNZ's Rules do not exclude them; members of the Management Team of HRNZ and Board Members or their immediate families, may race horses and be eligible for stake money from Harness Racing Clubs. Board Members and members of the Management Team may have a horse, licencing and other transactions with HRNZ.

From time to time HRNZ have claims from Employees for employment matters. At balance date there is one claim outstanding (2019: 1).

HRNZ holds a 25% ownership interest and voting rights in the RIUL, and has the ability to appoint a director to its Board. HRNZ does not have control of the RIUL and consequently considers the RIUL to be an associate.

HRNZ holds a 50% ownership interest and voting rights in TRLP, and has the ability to appoint two of the four directors to its Board. HRNZ does not have control of the TRLP and consequently considers the TRLP to be an associate.

Transactions and balances relating to key management personnel of HRNZ are as follows:

<u>Transactions with Key Management Personnel</u>	2020	2019
	\$,000 (thousands)	
Board Remuneration	130	160
Management Salaries, Wages and Other Benefits	963	1,163
	1,093	1,323

Notes to the Financial Statements

NOTE 18 FINANCIAL INSTRUMENT RISK MANAGEMENT

CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Categories of Financial Instruments

	Measurement basis	\$,000 (thousands)	
		2020	2019
Loans and Receivables			
Cash and Cash Equivalents	Amortised cost	2,753	1,925
Loans and Advances	Amortised cost	-	300
Trade and Other Receivables	Amortised cost	799	587
		3,552	2,812
Held-To-Maturity Investment			
Other Financial Assets	Amortised cost	271	266
		3,823	3,078
Total Financial Assets			
Financial Liabilities at Amortised Cost			
Trade and Other Liabilities	Amortised cost	1,677	1,472
		1,677	1,472

The Board considers that the carrying amount of financial instruments recorded in the financial statements represents their fair value.

Financial instruments in Note 18 do not include assets held for sale of which \$337,000 pertains to financial assets and \$136,000 pertains to financial liabilities at amortised costs.

Financial Risks are those associated with the financial assets and liabilities of HRNZ which include market risk (capital risk and interest rate risk), liquidity risk and credit risk. These are discussed as follows:

18.1. CAPITAL RISK: The Board manages its capital resources to ensure that HRNZ will be able to continue as a going concern whilst promoting the advancement of the Harness Racing Code. This strategy remains unchanged from the previous year. The capital structure consists of accumulated surplus, code distribution reserve, cash and cash equivalents and investments.

HRNZ prepares a Business Plan for the Harness Code as a whole for each season. This plan incorporates input from RITA, and details how the Code funding will be allocated during the season. The Board regularly review performance during the season. HRNZ does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. HRNZ does not have externally imposed capital requirements.

18.2. INTEREST RATE RISK: Interest rate risk relates to the risk that the fair value of a fixed debt instrument will not fluctuate due to changes in the underlying market interest rate.

HRNZ is exposed to interest rate risk in relation to its interest bearing financial assets. The risk is managed by monitoring the timing and amount of investments to minimize impact of interest rate changes.

Interest Rate Re-Pricing Analysis

2020	Carrying Amount	Interest Rate Re-pricing			
		< 1 year	1-2 years	2-5 years	5+ years
Cash and Cash Equivalents	2,753	2,753	-	-	-
Other Financial Assets	271	271	-	-	-
	3,024	3,024	-	-	-

2019	Carrying Amount	Interest Rate Re-pricing			
		< 1 year	1-2 years	2-5 years	5+ years
Cash and Cash Equivalents	1,925	1,925	-	-	-
Other Financial Assets	566	566	-	-	-
	2,491	2,491	-	-	-

Interest Rate Sensitivity

	2020	2019
	Surplus (pre-tax)	Surplus (pre-tax)
100 Basis Point Increase	30,251	21,906
100 Basis Point Increase	(30,251)	(21,906)

Interest rate sensitivity: Variable interest rated financial assets have sensitivity to changes in the underlying interest rates. The sensitivity to a change in interest rates results to an increase or decrease in pre-tax net surplus or deficit.

18.3. LIQUIDITY RISK: Liquidity risk is the risk that HRNZ will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

In general HRNZ generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities.

HRNZ's exposure to liquidity risk based on undiscounted contractual cash flows is as follows:

2020	Carrying Amount	\$,000 (thousands)				
		Total	< 1 year	1-2 years	2-5 years	5+ years
Cash and Cash Equivalents	2,753	2,753	2,753	-	-	-
Other Financial Assets	271	271	271	-	-	-
Trade and Other Receivables	799	799	799	-	-	-
Employee Benefit Liability	(473)	(473)	(325)	-	-	(148)
Income Received in Advance	(132)	(132)	(132)	-	-	-
Trade and Other Liabilities	(1,545)	(1,545)	(1,545)	-	-	-
Other Provisions	(90)	(90)	(90)	-	-	-
	1,583	1,583	1,731			(148)

2019	Carrying Amount	\$,000 (thousands)				
		Total	< 1 year	1-2 years	2-5 years	5+ years
Cash and Cash Equivalents	1,925	1,925	1,925	-	-	-
Other Financial Assets	566	566	566	-	-	-
Trade and Other Receivables	587	587	587	-	-	-
Employee Benefits Liability	(487)	(487)	(348)	-	-	(139)
Income Received in Advance	(22)	(22)	(22)	-	-	-
Trade and Other Liabilities	(1,450)	(1,450)	(1,450)	-	-	-
Other Provisions	(90)	(90)	-	-	-	(90)
	1,029	1,029	1,258	-	-	(229)

Notes to the Financial Statements

18.4. CREDIT RISK: Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to HRNZ.

In order to manage this risk, HRNZ places its available cash and short-term investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution in accordance with the treasury policies of the respective entities. HRNZ does not hold any collateral as security or other credit enhancements with respect to its exposures.

There is a concentration of credit risk with respect to current receivables outside HRNZ in that the Code Funding Receivable from RITA represented approximately 5% (2019 approximately 33%) of the total current receivables balance.

	Carrying amount	Credit rating	
		AA-	Unrated
		\$,000 (thousands)	
Cash and Cash Equivalents	2,707	2,707	-
Trade Receivables	799	-	799
	3,506	2,707	799

	Carrying amount	Credit rating	
		AA-	Unrated
		\$,000 (thousands)	
Cash and Cash Equivalents	1,582	1,582	-
Trade Receivables	587	-	587
Loans and Advances	300	-	300
	2,469	1,582	887

NOTE 19 CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or liabilities as at 31 July 2020 (31 July 2019: nil).

NOTE 20 EVENTS SUBSEQUENT TO BALANCE DATE

CBHL continues to operate its venues up until ownership transferred post balance date. As at the date of this report the venue sales were unconditional.

Impact of Racing Act 2020

The Racing Industry Act 2020 which came into effect on 1 August 2020 provides for the establishment of TAB NZ, Racing New Zealand and the Racing Integrity Board (RIB). TABNZ will pay the total code funding to Racing New Zealand which will then distribute the agreed amount to each racing code. The RIB consolidates the functions of the RIU and the Judicial Council Authority (JCA). The Act provides that the assets, liabilities, rights, operations and employees of RIU will be transferred to the RIB upon its formal establishments which is currently expected to occur within the 2020/21 financial year.



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Independent auditor's report to the Members of Harness Racing New Zealand Incorporated Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Harness Racing New Zealand and its subsidiaries ('The Group') on pages 3 to 22, which comprise the consolidated statement of financial position of the Group as at 31 July 2020, and the consolidated statement of comprehensive revenue and expenses, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 3 to 22 present fairly, in all material respects, the financial position of the Group as at 31 July 2020 and its financial performance and cash flows for the year then ended in accordance with Public Benefit Entity Standards.

This report is made solely to the Group's members as a body. Our audit has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Group Financial Statements* section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Ernst & Young provides taxation and other assurance related services to the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group.

Information other than the consolidated financial statements and auditor's report

The Directors are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the 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



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consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed on the other information, 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.

The Board of Directors' responsibilities for the consolidated financial statements

The Directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with Public Benefit Entity Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing on behalf of the entity the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

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

Our objectives are 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 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 International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>. This description forms part of our auditor's report.

Chartered Accountants
Christchurch
9 November 2020

APPENDIX**FINANCIAL RESULT COMPARED TO BUDGET**

The following table summarises the comparison of HRNZ's operational results against budget.

HRNZ OPERATIONS COMPARED TO BUDGET**31 July 2020**

	ACTUAL 2019/2020	BUDGET 2019/2020	ACTUAL 2018/2019	BUDGET 2018/2019				
	<i>Unaudited</i>		<i>Unaudited</i>					
HRNZ ADMINISTRATION								
Revenue								
Covid19 Wage Subsidy	426	-	-	-				
Fees	884	884	883	900				
Fines	75	100	106	85				
Funding from RITA	2,747	3,180	2,927	3,082				
Interest Income	9	5	36	35				
Sales of Goods and Services	427	375	803	369				
Administration Revenue	4,568	4,544	4,755	4,471				
Expenditure								
Corporate Services	1,306	1,399	1,403	1,234				
Education	239	280	258	297				
Governance	226	280	317	323				
Horse Welfare and Rehoming	40	180	31	30				
Information and Technology	536	590	715	700				
Marketing and Media	704	917	933	1,131				
Racing	760	749	775	797				
Depreciation	175	181	163	145				
Total Expenditure	3,986	4,576	4,595	4,657				
NET HRNZ ADMINISTRATION	582	(32)	160	(186)				
HRNZ OPERATIONS								
Revenue								
Sale of Goods and Services (CBHL)	1,887	2,541	2,361	2,720				
Surplus (Loss) In Associates (RIUL & TRLP)	165	-	277	-				
Funding from RITA	1,046	813	926	614				
Total Revenue	3,098	3,354	3,564	3,334				
Expenditure								
Cost of Sales (CBHL)	2,167	2,505	2,484	2,388				
CBHL Depreciation	-	-	34	32				
ATC Venue Services	138	230	228	60				
Breeders and Owners Support	96	130	130	130				
Interdominions	200	200	227	200				
St Johns Contract	191	253	223	224				
Club & Youth Support, Lobbyist, Projects, Sundry	413	-	596	105				
Total Expenditure	3,205	3,318	3,922	3,139				
NET HRNZ OPERATIONS	(107)	36	(358)	195				
Impairment of Investment	(360)	-	-	-				
NET HRNZ ADMINISTRATION AND OPERATIONS	116	4	(198)	9				
HARNESS DISTRIBUTION ACCOUNT								
Revenue From RITA	35,350	44,100	44,155	43,800				
Funding Policy - Payment to Clubs	(35,115)	(44,200)	(44,645)	(43,985)				
DISTRIBUTION ACCOUNT MOVEMENT	235	(100)	(490)	(185)				
NETT SURPLUS (DEFICIT)	351	(96)	(688)	(176)				



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