First Sovereign Trust Ltd

ANNUAL REPORT 2016/17

Supporting Weekend Heroes who make a difference in our communities
First Sovereign Trust Ltd Annual Report to Directors

2016/17

First Sovereign Trust embraces the changing face of New Zealand and respects and supports our cultural diversity. We do that through a dedicated team that helps community organisations across the following sectors:

- Arts, Community and Culture
- Education
- Health and Welfare
- Sport

We had a $12M Surplus and distributed $11.7M to the community in 2016/17.

This is how the money was spent:

- Government - 26%
- Venues - 16%
- Operating Costs - 10%
- Machine Costs - 8%
- Net Surplus - 41%

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1,337 Grants distributed 2017

- Arts, Community & Culture: 20%
- Education: 16%
- Health & Welfare: 11%
- Sport: 53%

$6,292,979
$2,446,502
$1,859,953
$1,356,341

985 Grants distributed 2016

- Arts, Community & Culture: 22%
- Education: 16%
- Health & Welfare: 14%
- Sport: 48%

$1,759,422
$4,534,283
$1,548,912
$1,123,522

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Region | 2017 Distribution
---|---
Auckland | 12%
Hamilton | 1%
Hauraki | 4%
Hawkes Bay | 4%
Rotorua | 10%
South Waikato | 3%
Taupo | 3%
Tauranga | 4%
Western Bay of Plenty | 3%
Upper North Island - $5.2M | 44%

Region | 2017 Distribution
---|---
Carterton | 2%
Horowhenua | 6%
Kapiti Coast | 1%
Wellington | 28%
Lower North Island - $4.5M | 38%
National - $1.5M | 10%
South Island - $1M | 3%

398 Requests Declined 2017 – 23% of Requests Received
- Arts, Community & Culture – 19%
- Education – 14%
- Health & Welfare – 16%
- Sport – 52%

273 Requests Declined 2016 – 22% of Requests Received
- Arts, Community & Culture – 15%
- Education – 14%
- Health & Welfare – 11%
- Sport – 60%

Supporting Weekend Heroes who make a difference in our communities
Macmillan Accountants

31 White St
PO Box 1206
Rotorua 3040
Ph 07 340 1016
Fax 07 340 1024
email info@macaccounts.co.nz

21 September 2017

The Board of Directors
First Sovereign Trust Limited
PO Box 1629
ROTOMOHA 3040

Dear Directors

In accordance with our engagement letter we confirm we have completed our audit procedures for First Sovereign Trust Limited for the year ending 30 June 2017. This includes the audit of the financial statements, the review of the forecast financial statements and checking the accuracy of the figures in the Gaming Machine Account Summary document required by the Department of Internal Affairs.

This letter sets out the matters noted and conclusions reached by us during the course of the audit.

The primary aim of our audit is to form an opinion as to whether your financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2017, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards Reduced Disclosure Regime (PBEE RDR) issued by the New Zealand Accounting Standards Board. The audit report states our opinion.

Under section 108 of the Gambling Act 2003, holders of a class 4 operator's licence must prepare an annual report that includes financial statements prepared under generally accepted accounting practice (GAAP). Licence holders are deemed to be public benefit entities, and therefore GAAP compliant financial statements are those prepared under PBEE RDR.

There are no major matters arising from our audit that we need to bring to your attention.

In compliance with auditing standards there are certain statements of acknowledgement that should be highlighted on an annual basis, as follows:

<table>
<thead>
<tr>
<th>Matter to be communicated</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant accounting policies adopted or changed.</td>
<td>No significant changes in accounting policies.</td>
</tr>
<tr>
<td>Management judgements and estimates.</td>
<td>No key management judgements or estimates within the scope of this audit that weren't disclosed in the statement of accounting policies.</td>
</tr>
</tbody>
</table>

Disagreements with management: There have been no disagreements with management or staff during the audit.

Adjusted and unadjusted audit misstatements: No audit misstatements identified within the scope of the audit.

Any instances of fraud or non-compliance with legislative, regulatory or contractual requirements: No instances of fraud or non-compliance were detected during the audit.

Matters affecting the governance of the Board of Directors: No matters of significance affecting the governance of the Board of Directors.

Type of audit opinion: Unqualified audit opinion issued.

Significant deficiencies in internal control systems: No significant deficiencies noted within the scope of the audit.

Non-audit fees and our independence: Macmillan Accountants has not conducted any other services on behalf of First Sovereign Trust Limited, and we have complied with relevant ethical requirements regarding independence.

Our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole. Our report cannot, therefore, be expected to include all possible comments and recommendations that a more extensive special examination might indicate.

This letter has been prepared solely for the use of the Board of Directors of First Sovereign Trust Limited. It may not be provided to third parties without our prior written consent.

If you have any queries about this letter or our audit please contact Rossen Leliweld.

Yours faithfully,

MACMILLAN ACCOUNTANTS

John Macmillan
CHARTERED ACCOUNTANT
## First Sovereign Trust Ltd Financial Statements

### 2016/17

**Statement of Comprehensive Revenue and Expenses**

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 $000</th>
<th>2016 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from gaming machine operations</td>
<td>29,230</td>
<td>22,145</td>
</tr>
<tr>
<td><strong>Total Distributable Revenue</strong></td>
<td>29,230</td>
<td>22,145</td>
</tr>
</tbody>
</table>

**Distributions**

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 $000</th>
<th>2016 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants Distributed</td>
<td>11,956</td>
<td>8,961</td>
</tr>
<tr>
<td>Grants Returned</td>
<td>(230)</td>
<td>(100)</td>
</tr>
<tr>
<td><strong>Total Funds Distributed</strong></td>
<td>11,726</td>
<td>8,861</td>
</tr>
</tbody>
</table>

**Other Revenue**

<table>
<thead>
<tr>
<th>Category</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Revenue</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total Other Revenue</strong></td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

**Expenses**

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 $000</th>
<th>2016 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation costs</td>
<td>2,195</td>
<td>1,517</td>
</tr>
<tr>
<td>(Gain) / Loss on sale of Assets</td>
<td>18</td>
<td>33</td>
</tr>
<tr>
<td>Gaming Machine Duty</td>
<td>6,723</td>
<td>5,093</td>
</tr>
<tr>
<td>Interest Costs</td>
<td>104</td>
<td>68</td>
</tr>
<tr>
<td>Licence Fees</td>
<td>385</td>
<td>213</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>2,793</td>
<td>2,402</td>
</tr>
<tr>
<td>Problem Gambling Levy</td>
<td>437</td>
<td>334</td>
</tr>
<tr>
<td>Venue Payments</td>
<td>4,570</td>
<td>3,415</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>17,225</td>
<td>13,075</td>
</tr>
</tbody>
</table>

**Total Surplus for the Year**

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 $000</th>
<th>2016 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Equity</strong></td>
<td>2,051</td>
<td>1,769</td>
</tr>
</tbody>
</table>

**Statement of Financial Position**

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 $000</th>
<th>2016 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>118</td>
<td>486</td>
</tr>
<tr>
<td>Non Current Assets</td>
<td>5,853</td>
<td>5,391</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>5,971</td>
<td>5,877</td>
</tr>
<tr>
<td>Less: Current Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No Term Loans in Place</td>
<td>3,920</td>
<td>4,108</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>2,051</td>
<td>1,769</td>
</tr>
</tbody>
</table>

**Net Assets Represented by:**

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 $000</th>
<th>2016 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Equity</strong></td>
<td>2,051</td>
<td>1,769</td>
</tr>
</tbody>
</table>

**Statement of Changes in Equity**

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 $000</th>
<th>2016 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undistributed funds at the Beginning of the Year</td>
<td>1,769</td>
<td>1,562</td>
</tr>
<tr>
<td>Prior period GST Refund</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Net Undistributed Surplus for the Year</td>
<td>281</td>
<td>207</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>2,051</td>
<td>1,769</td>
</tr>
</tbody>
</table>

The directors resolved, at a meeting held on 26 October 2017, to change First Sovereign Trust Limited's name to One Foundation Limited at a time deemed appropriate by management.

**Summary Cash Flow Statement**

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 $000</th>
<th>2016 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash Inflow from Operating Activities</td>
<td>2,361</td>
<td>3,265</td>
</tr>
<tr>
<td>Net Cash Outflow from Investing Activities</td>
<td>(2,682)</td>
<td>(4,933)</td>
</tr>
<tr>
<td>Net Cash Inflow / (Outflow) from Financing Activities</td>
<td>(54)</td>
<td>1,557</td>
</tr>
<tr>
<td>Net Cash Inflow / (Outflow) from Activities</td>
<td>(375)</td>
<td>(111)</td>
</tr>
<tr>
<td>Add Cash at Bank at Beginning of the period</td>
<td>134</td>
<td>246</td>
</tr>
<tr>
<td><strong>Ending Cash carried forward</strong></td>
<td>(241)</td>
<td>134</td>
</tr>
</tbody>
</table>

Approved on behalf of the Board on the 21st of September 2017:

Malcolm Short  
Chairman

Peter Anaru  
Director

Supporting Weekend Heroes who make a difference in our communities
Chairman's Report

Kia Ora Kotou Katoa

I am pleased to present this report of First Sovereign Trust Limited for the year ended June 2017.

We are pleased to announce that have generated surpluses of $12 million dollars and we have distributed $11.7 million of that surplus in community grants.

I would like to acknowledge our hard-working venues owners and staff and the role that they play in delivering our gaming entertainment platform.

The management of our gaming rooms by our venues is set against a very complex operating environment. Inherent within the number of responsibilities our venues manage is the continual monitoring of our customers to ensure that we can maintain a safe and secure gaming offering.

The management of harm as a consequence of operating our gaming licence has been a significant focus by First Sovereign Trust.
Chairman's Report

We have been working to deliver industry leading tools and the provision of a continual training cycle to ensure that we are prepared as best we can to meet our obligations as required by regulations but more importantly as it is the right thing to do.

The work by the Department of Internal Affairs and the Harm Prevention Agency with the provision of a fit for purpose tool kit, and a legitimate testing and review process, has been the pivot point, upon which the transformation of our harm protocols have been based.

We have trained more than 400 staff members in host responsibility and we will continue to work at improving our understanding of our affected patrons and how best we can support them.
Chairman’s Report

Venue Payments

In October 2016 the commission-based venue payment model was introduced. This provided significant disruption to our industry. This disruption has presented many challenges across our operating model. Along with the many challenges, the commission model has revealed, it has also provided several opportunities to focus and improve the delivery of our support services to our venues. This has been an exciting, dynamic and rewarding challenge for First Sovereign Trust. It is pleasing to see that our hard work continues to be appreciated by our venues.

The commission model does recognise and reward effort. This model does make it apparent to our venues their responsibilities to provide a safe and secure gaming environment.
Chairman’s Report

Industry Advocacy

In support of the industry First Sovereign Trust continues to make submissions in pursuit of a fair and sustainable sector. First Sovereign Trust will continue to advocate on behalf of the sector on issues that impact the sustainability of our community dividend. The significant reduction in gaming machines, gaming venues and gaming trusts constrains community organisations access to community grant funders. Even though significant structural decline (25 thousand gaming machines now 16 thousand: 109 gaming trusts now 38) the problem gambling numbers remain static at less than 0.5% of the population.

Recognition must also be given to the increasing level of sophistication that venues are employing to manage their host responsibility and identification of harmful behaviour.
Chairman’s Report

Council Policy Decisions

To ensure that we can continue to support our weekend heroes who make a difference in our communities we have been active in making submissions to local councils. Councils are the key determinant as to the continued reduction in gaming machine numbers. The policy they adopt impacts directly on the sustainability of the gaming fleet. We will continue to make representations on this front.

I do wish to thank my fellow directors for their ongoing commitment to our communities, and our staff who continue to give their all to ensure that we are fit for purpose.

We are fortunate to meet and interact with so many heroes in our communities. It is indeed a privilege to see the effort and work that is undertaken each and every day. This work is the fabric that binds us a nation.

Nga Mihi

Malcolm Short  OMNZ - Chair