

A black and white photograph of two women standing outdoors. The woman on the left is wearing a dark leather jacket over a light-colored, patterned top. The woman on the right is wearing a white t-shirt with a graphic and multiple necklaces, holding a white mug. They are both smiling and looking towards the camera. The background shows a building with a balcony and a fence.

CORT Community Housing

[COMMUNITY OF REFUGE TRUST]

Financial
Report

—
2020

Who are we?

CORT Community Housing (Community of Refuge Trust) is a registered community housing provider which offers homes for people on very low incomes in Auckland. We are a non-government, not-for-profit community organisation and a registered charitable trust. Any operating surplus created by the trust is used to expand and improve the work we do.

The Trust was founded in 1987 by Auckland's Ponsonby Baptist Church in response to the housing needs of low-income and vulnerable people in its local area. It operates independently of the church and is governed by a board of trustees. CORT's focus has traditionally been on providing homes for people who use mental health services. This has now expanded to include other people in need, including the elderly and small families.

CORT employs eleven staff and provides rental accommodation for over 380 tenants and their whanau. We own or manage over 370 properties across Auckland.

To find out more about CORT and our history visit: www.cort.org.nz

Treasurer's report

The financial performance of CORT in 2020 has been strong, despite the economic impact of COVID-19 that emerged late in the financial year.

Total assets of the Trust at year-end were \$153 million (up from \$124 million in 2019), due to 85 new properties being added to the portfolio and work in progress at year end.

Taking into account total liabilities, the Trust's net equity was \$101 million at the end of 2020, up from \$73 million in 2019. The stronger balance sheet in 2020 largely reflects new dwellings being completed or in progress during the year (\$17 million after additional debt) and a release of \$11 million to grant revenue, which were previously treated as a liability.

Importantly, in 2020 CORT had strongly positive cash flows of \$7.5 million from its operations, after taking into account interest, employee and other operating costs. Cash flows from operating activities are applied to new developments while keeping a prudent cash-flow reserve. The net cash flows in 2020 were lower than in 2019 due largely to reduced grants from the Ministry of Social Development, reflecting the completion of a large number of development projects.

CORT's strong financial performance in 2020, with solid cash flows and a significantly stronger balance sheet, leaves it well placed to continue to serve its current and new tenants. CORT is also exploring means by which it can continue to prudently fund additional dwellings under changed government policies. Of most importance, CORT's solid financial position and proven management and governance expertise leaves it well placed to continue to grow in a changing environment — most immediately in the fallout of the COVID-19 pandemic, but also over the long term.

Refer to the full audited version of the financial statements and associated notes for further information in respect to the narrative set out above.

Alex Duncan
Treasurer, CORT Community Housing

Trust directory

For the year ended 31 March 2020

Purpose of Trust To obtain and maintain affordable accommodation for disadvantaged people with social needs within Auckland

Incorporation Date October 1987

Charities Register Number CC36795

Address 68 Grafton Road
Auckland

CEO Peter Jeffries

Trustees Sue Watson (Chairperson)
Alex Duncan (Treasurer)
Graham Davison
Jody Kilpatrick
John Deyell
Julie Dudfield
Tony McNamara
Zheyne Tahana

Bankers ASB Bank Limited, Auckland

Auditors RSM Hayes Audit
Newmarket
Auckland

Independent Auditor's Report

To the Board of Trustees of Community of Refuge Trust

Opinion

We have audited the financial statements of Community of Refuge Trust (the Trust) which includes its share in associated entities Trust, are comprised of:

- the statement of financial position as at 31 March 2020;
- the statement of comprehensive revenue and expense for the year then ended;
- the statement of changes in net assets/equity for the year then ended;
- the statement of cash flows for the then ended; and
- the notes to the financial statements, which include significant accounting policies.

In our opinion, the accompanying financial statements on pages 4 to 17 present fairly, in all material respects, the financial position of the Trust as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with Public Benefit Entity Standards Reduced Disclosure Regime issued by the New Zealand Accounting Standards Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Trust in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and 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.

We have assisted with financial statement compilation for the Trust, using a trial balance provided by management.

Other than in our capacity as auditor and above, we have no relationship with, or interests in, the Trust or any of its associated entities.

Emphasis of matter

We draw attention to note 6 on page 12 of the financial statements, which indicates that the Trust's Investment Property portfolio valuation adopted is considered to have significant estimation uncertainty. As at 31 March 2020 (valuation date), the independent registered valuer has included a material uncertainty clause due to the COVID-19 pandemic. This clause highlights the difficulties in undertaking valuations due to the absence of relevant transactional evidence to demonstrate current residential property market pricing. Thus, less certainty and a higher degree of caution should be attached to the estimates made in the valuation. Our opinion is not modified in respect of this matter.

Other information

The Board of Trustees are responsible for the other information. The other information comprises the Treasurer's Report and the Trust Directory (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

Responsibilities of the Board of Trustees for the financial statements

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

In preparing the financial statements, the Board of Trustees are responsible, on behalf of the Trust, for assessing the Trust'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 those charged with governance either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole is 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 ISAs (NZ) 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 decisions of users taken on the basis of these financial statements. A further description of the auditor's responsibilities for the audit of the financial statements is located at the XRB's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page7.aspx

Who we report to

This report is made solely to the Board of Trustees, as a body. Our audit has been undertaken so that we might state to the Board of Trustees of Community of Refuge Trust, 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 Board of Trustees as a body, for our work, for this report, or for the opinions we have formed.

The logo for RSM Hayes Audit, consisting of the letters 'RSM' in a stylized, handwritten blue font.

RSM Hayes Audit
Auckland

4 August 2020

Statement of comprehensive revenue and expenses

for the year ended 31 March 2020

	Note	2020 \$	2019 \$
Revenue from exchange transactions			
Rent received		4,040,301	2,906,998
Interest received		2,416	8,125
Directors' fees		–	–
Dividends received		–	40,521
Revenue from non-exchange transactions			
ADHB contract income		589,391	546,607
Grant income		18,266,789	5,472,558
Rental subsidies		2,626,029	2,374,024
Total revenue		25,524,926	11,348,833
Expenses			
Property expenses		3,631,887	2,946,085
Administration expenses		413,213	344,659
Personnel expenses		874,348	1,130,364
Finance costs		1,519,253	852,068
Depreciation		23,855	26,513
Loss on disposal of assets		(3,057)	384,236
Total expenses		6,459,498	5,683,926
Income distribution from limited partnership		54,888	252,000
Urealised net change in the fair value of investment properties	6	8,495,645	8,688,956
Total surplus for the period		27,615,961	14,605,863
Other comprehensive revenue and expense		–	–
Total comprehensive revenue and expenses		27,615,961	14,605,863

CORT's full audited financial report 2019-2020 available at cort.org.nz

Statement of changes in net assets/equity

for the year ended 31 March 2020

Trust	Note	Retained Earnings	Property Reserve	Trust Funds
Balance at 1 April 2019		21,324,679	37,009,762	58,334,441
<i>Net surplus for the year</i>		14,605,863	-	14,605,863
Net transfers to property reserve	4.7	(8,688,956)	8,688,956	-
Balance at 31 March 2019		27,241,586	45,698,718	72,940,304
Net surplus for the year		27,615,961	-	27,615,961
Net transfers to property reserve	4.7	(8,495,645)	8,495,645	-
Balance at 31 March 2020		46,361,902	54,194,363	100,556,265

Statement of financial position

as at 31 March 2020

	Note	2020 \$	2019 \$
Current assets			
Cash and cash equivalents		2,239,423	2,170,822
Accounts receivable		285,923	1,317,037
Prepayments		85,451	29,073
		2,610,797	3,516,932
Non-current assets			
Investment properties	6	140,555,407	99,392,506
Development work in progress	7	9,889,388	20,584,931
Plant and equipment	8	74,347	71,164
Investments	9	396,000	396,000
		150,915,142	120,444,601
Total assets		153,525,939	123,961,533
Current liabilities			
Sundry creditors		279,132	2,867,824
GST payable		3,266	2,541
Tenant funds		9,052	3,127
Loans	11	3,003,821	1,773,923
		3,295,272	4,647,415
Non-current liabilities			
Loans	11	43,456,651	29,148,471
Conditional grants	12	6,217,752	17,225,343
		49,674,403	46,373,814
Total liabilities		52,969,675	51,021,229
Net assets		100,556,265	72,940,304
Trust funds			
Retained earnings		46,361,902	27,241,586
Property reserve	4.7	54,194,363	45,698,718
		100,556,265	72,940,304

For and on behalf of the Executive Committee:



Chairperson

1st July 2020

Date



CEO

1st July 2020

Date



Statement of cash flows

for the year ended 31 March 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Receipts			
Rent (non-subsidised)		4,292,306	2,906,998
Rent subsidies		3,405,138	2,374,024
MSD and ADHB Grants		7,905,891	13,154,164
		15,603,335	18,435,186
Payments			
Suppliers and employees		(5,042,044)	(2,806,779)
Interest		(2,964,955)	(852,068)
Other		-	(17,726)
		(8,006,999)	(3,676,573)
Net cash flows from operating activities		7,596,336	14,758,613
Sale of Investment Properties		-	1,540,901
Purchase of property, plant and equipment		(125)	(48,358)
Property development expenditure		(23,065,688)	(26,796,561)
		(23,065,813)	(25,304,018)
Net cash flows from investing activities		(23,065,813)	(25,304,018)
Cash flows from financing activities			
Loans received		15,538,078	10,378,366
		15,538,078	10,378,366
Net cash flows from financing activities		15,538,078	10,378,366
Net increase/(decrease) in cash and cash equivalents		68,601	(167,039)
Cash and cash equivalents at 1 April		2,170,823	2,337,861
Cash and cash equivalents at 31 March		2,239,423	2,170,823

The accompanying notes form part of these financial statements and should be read in conjunction with the Independent Auditor's Report thereon.

Notes to the financial statements for the year ended 31 March 2020

1 Reporting entity

The reporting entity is Community of Refuge Trust (the "Trust"). The Trust is domiciled in New Zealand and is a charitable organisation incorporated under the Charitable Trusts Act 1957 and subsequently registered with the Charities Commission under the Charities Act 2005 on 13 January 2009.

These financial statements and the accompanying notes summarise the financial results of activities carried out by the Trust. The Trust obtains and maintains affordable accommodation for disadvantaged people with social needs within Auckland.

These financial statements have been approved and were authorised for issue by the Board of Trustees on 1st July 2020.

2 Statement of compliance

"The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). As the primary objective of the Trust is to provide goods or services for community and social benefit, rather than for making a financial return, the Trust is a public benefit entity for the purpose of complying with NZ GAAP.

They comply with Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR). The Trust is eligible to apply PBE Standards RDR standards on the basis that it does not have public accountability and it is not defined as large."

3 Changes in accounting policy

There have been no changes to accounting policies. Where applicable, comparative financial information has been aligned to reflect disclosure consistency to the current financial year.

4 Summary of accounting policies

The significant accounting policies used in the preparation of these financial statements as set out below have been applied consistently to both years presented in these financial statements.

4.1 Basis of measurement

These financial statements have been prepared on the basis of historical cost, as modified by the fair value measurement

of investment properties, non-derivative financial instruments and land and buildings which are measured at fair value.

4.2 Functional and presentational currency

The financial statements are presented in New Zealand dollars (\$), which is the Trust's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest dollar.

4.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Trust and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must be met before revenue is recognised.

Rental income

Rental income is earned from operating leases of investment properties and leased properties. Rental income is recognised as profit or loss on a straight-line basis over the term of the lease.

Government contracts revenue

Revenue from government contracts relates to income received from Auckland District Health Board (ADHB) and is provided as funding for services the Trust provides relating to the Health Board. Revenue is recognised in the period the services are provided.

Development Project Grant Revenue

Funding from the Ministry of Social Development is received to support the Trust with the development of residential units for the provision of social housing. This funding has legally enforceable conditions for which the Trust is required to meet, to avoid the clawback of the funds from the Ministry. Where the Trust has not met these conditions, funding is deferred until such a time where all such conditions have been satisfied.

Interest revenue

Interest revenue is recognised as it accrues, using the effective interest method.

4.4 Financial instruments

Financial assets and financial liabilities are recognised when the Trust becomes a party to the contractual provisions of the financial instrument.

The Trust derecognises a financial asset or, where applicable, a part of a financial asset or part of a Trust of similar financial assets when the rights to receive cash flows from the asset have expired or are waived, or the Trust 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; and either:

- the Trust has transferred substantially all the risks and rewards of the asset; or
- the Trust has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

[1] Financial Asset

Financial assets within the scope of PBE IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets. The classifications of the financial assets are determined at initial recognition.

The category determines subsequent measurement and whether any resulting income and expense is recognised in surplus or deficit or in other comprehensive revenue and expenses. The Trust's financial assets are classified as financial assets at fair value through surplus or deficit, loans and receivables or as available for sale financial assets. The Trust's financial assets include: cash and cash equivalents, short-term deposits, receivables from non-exchange transactions, receivables from exchange transactions, investments and the interest in associate companies.

All financial assets except for those at fair value through surplus or deficit are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or Trust of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include items that are either classified as held for trading or that meet certain conditions and are designated at fair value through surplus or deficit upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments or a derivative that is a financial guarantee contract.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less any allowance for impairment. The Trust's cash and cash equivalents, receivables from exchange transactions and receivables from non-exchange transactions fall into this category of financial instruments.

Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Trust's available-for-sale financial assets include its share in its subsidiaries, associate and limited partnership.

[2] Impairment of financial assets

The Trust assesses at the end of reporting date whether there is objective evidence that a financial asset or a Trust of financial assets is impaired. A financial asset or a Trust of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the Trust of financial assets that can be reliably estimated.

For financial assets carried at amortised cost, if there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the surplus or deficit for the reporting period.

In determining whether there are any objective evidence of impairment, the Trust first assesses whether there are objective evidence of impairment for financial assets that are individually significant, and individually or collectively significant for financial assets that are not individually significant. If the Trust determines that there is no objective evidence of impairment for an individually assessed financial asset, it includes the asset in a Trust of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment

loss is or continues to be recognised are not included in a collective assessment for impairment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. If the reversal results in the carrying amount exceeding its amortised cost, the amount of the reversal is recognised in surplus or deficit.

[3] Financial liabilities

The Trust's financial liabilities include sundry creditors, tenant funds, related party loans and conditional grants.

All financial liabilities are initially recognised at fair value [plus transaction cost for financial liabilities not at fair value through surplus or deficit] and are measured subsequently at amortised cost using the effective interest method except for financial liabilities at fair value through surplus or deficit.

4.5 Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

4.6 Short term investments

Short term investments comprise term deposits which have a term of greater than three months and therefore do not fall into the category of cash and cash equivalents.

4.7 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for supply of goods or services or for administrative purposes. Investment properties are measured initially at cost, including transaction costs. Investment properties acquired through non-exchange transactions is measured at its fair value at the date of acquisition.

Subsequent to initial recognition, investment properties are measured at fair value. Fair value is determined without any deductions for transaction costs it may incur on sale or other disposal. Any gain or losses arising from a change in the fair value of the investment property are recognised as a surplus or deficit in the period that it is incurred. When the investment property becomes an owner-occupied property, the cost for subsequent accounting is its fair value at the date of the change in use.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party.

Property Reserve

The Trust captures the unrealised movements in the fair value of its investment properties in a notional property reserve for reporting purposes. Fair value movements are transferred from the Trust's retained earnings to the reserve annually.

4.8 Plant and equipment

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Where an asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

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

Motor vehicles	5 years
Furniture and equipment	2.5 - 10 years

4.9 Leases

Payments on operating lease agreements, where the lessor retains substantially the risk and rewards of ownership of an asset, are recognised as an expense on a straight-line basis over the lease term.

4.10 Significant judgments and estimates

In preparing the financial statements, the Board of Trustees is required to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The uncertainty from these assumptions and estimates could result in outcomes that may result in a material adjustment to the carrying amount of the asset or liability.

The Trust base its assumptions and estimates on parameters available when the financial statements are prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Trust. Such changes are reflected in the assumptions when they occur. The key significant judgements and estimates used in the preparation of these financial statements are as follows:

Fair Value Measurements

"The Trust's Investment Property requires measurement at fair value with changes in fair value being recognised in surplus or deficit. Fair values are categorised into different levels in a fair value hierarchy based on inputs used in the valuation technique adopted as follows:

Level 1: Quoted prices [unadjusted] in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly [i.e. as prices], or indirectly [i.e. derived from prices].

Level 3: Inputs for the asset or liability that are not based on observable market data [unobservable inputs]

Areas involving a high degree of judgement or areas where the assumptions are significant to the Trust are as follows:"

4.10 Significant judgments and estimates continued

Investment Properties

Residential property held to provide social housing are classified as investment properties on the basis that rental income derived from the letting of these properties is at market value (including a subsidy) and not incidental to the Trust's purpose. Hence, treated as investment properties. Investment properties are carried at market value as estimated by an independent valuer using observable data on recent transactions and rental yields for similar properties.

"Investment Properties for the Trust are carried at market value as estimated by an independent valuer using observable data on recent transactions for similar properties. As at 31 March 2020, the real estate markets to which the Trust's investment properties belong were impact by significant market uncertainty caused by the Novel Coronavirus [COVID-19] pandemic.

The valuation states that it is reported on the basis of material valuation uncertainty due to COVID-19. The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, is causing heightened uncertainty in both local and global market conditions.

In New Zealand, a state of emergency was declared on 26th March 2020 with the government enforcing lockdown. This included implementing strict travel restrictions, a range of quarantine, and "social distancing" measures.

This has had many immediate impacts on the property market including;

- Evidence that transactions are being placed on hold or renegotiated in light of government action;
- Anecdotal evidence that values may be declining;
- An inability to undertake appropriate due diligence, by some purchasers or their advisors;
- A change in sentiment from categories of property investors, such as syndicators, private investors and institutional buyers.

This has resulted in the valuation of the Trust's investment properties being prepared on the basis on 'material valuation uncertainty' as recommended by the New Zealand Institute of Valuers to highlight the difficulties in undertaking valuations in the current environment.

At the valuation date, the valuer has drawn attention to the material valuation uncertainty advising users of the information to apply a higher degree of caution for its use than would normally be the case.

This includes a forewarning that values may change more rapidly and significantly than would normally be the case. If economic and property market conditions deteriorate in the future, the market value of the asset is likely to decline. This inherent risk factor should be considered in any lending or investment decisions.

Whilst the valuation considers the impact of COVID-19, the adopted metrics assumed in the calculations have not been altered due to the inherent uncertainty and paucity in market data. Refer to Investment Property [Note 6] for more details.

At the date of issuing these financial statements, New Zealand is at Alert Level 1 and a sense of normality has returned to society as this essentially represents pre-COVID-19 societal conditions. Border restrictions remain in place and the resulting impact on property prices is yet to be fully established.

Going Concern

"The outbreak of COVID-19 has significantly impacted local markets with the implementation of strict travel restrictions and a range of quarantine and "social distancing" measures. The impact on tenants, financial position, trade, businesses, market rents and the wider economy is constantly evolving. Subsequent to balance date, New Zealand has returned to Alert Level 1, which essentially represents pre-COVID-19 societal conditions though with border restrictions still in place.

The Board of Trustees have considered all information available at the date of signing the financial statements (refer subsequent event note 17) and is of the opinion that the Trust is a going concern based on available liquidity levels and forecast operating cashflows being sufficient to cover future obligations when they fall due. Forecast cashflows have taken into consideration known circumstances for existing tenants, expected future expenses and provisions to fund any anticipated cash requirements in the current environment. The Trustees have deemed there to be no significant impact from COVID-19 on the Trust's tenancy and government contract sustainability and the Trust's cost base for at least 12 months subsequent to the date of these financial statements being authorised for issue.

The financial statements have been prepared under the going concern assumption, which assumes the Trust will be able to pay its debts as they fall due in the normal course of business. "

4.11 Income tax

Due to its charitable status, the Trust is exempt from income tax.

	2020	2019
	\$	\$
5 Components of net surplus		
Net surplus includes the following specific revenue and expenses:		
Auditors remuneration - audit services	28,000	25,000
Leasing and rental costs	89,942	86,343

6 Investment Properties

Investment properties - at market value	140,555,407	99,392,506
---	-------------	------------

Investment properties comprise residential units located across various suburbs of Auckland.

The fair value of investment property was determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued. The independent valuer provides the fair value of the entity's investment property portfolio annually. The investment properties were valued at fair value as at 31 March 2020 by M McNamara, independent registered valuer of the firm Property Sphere Consultancy. M McNamara is a member of the New Zealand Institute of Valuers Inc.

Fair values were determined using a direct sales comparison approach establishing floor area of the subject properties and comparing this to recent sales data to arrive at a comparative \$per square metre rate. The comparative rate was then applied to the subject property's floor area to determine the fair value. Consideration was given to the subject property's condition and location in arriving at a comparable \$per square metre rate.

"The valuer notes that their report is on the basis of an 'elevated level of uncertainty' due to the Novel Coronavirus (COVID-19) and advises users of the information to apply a higher degree of caution for its use than would normally be the case. The valuer has forewarned users that values may change rapidly and significantly as the impact of the COVID-19 crisis unfolds - refer to note 4.10 (Critical accounting estimates, assumptions and judgements).

The valuation notes that the valuation date falls within a forced government lockdown at COVID-19 Alert Level 4 and a declared state of emergency. This was an extraordinary event which placed severe restrictions on the domestic economy with only those businesses essential to the 'necessities of life' allowed to operate.

The Government signalled that the real estate market did not fall into the 'essential' category and so the market was effectively frozen during this period. Accordingly, these circumstances contradicted the definition of Market Value which is predicated on willing market participants and proper marketing for which clearly these elements did not exist as at 31 March 2020.

CORT Community Housing Financial Report 2020

Despite a hypothetical sale of property being unable to be completed as at 31 March 2020, by necessity the valuation specifically assumed a short-term aberration that a 'functioning market' existed where proper marketing and due diligence occurred and agreement could be reached between a willing buyer and willing seller in order to meet the definition of Market Value. This was on the basis that the severe measures under Alert Level 4 are temporary. The valuation has not made any allowances for any 'discount' to comparable \$per square metre rates applied, due to there being a paucity in market data to warrant such an adjustment to the valuation.

Subsequent to balance date, New Zealand has come out of Alert Level 4 and returned to Alert Level 1, which essentially represents pre-COVID-19 societal conditions though with border restrictions still in place. Sales transactions have occurred in the Auckland residential property market under Alert Level 1 and 2 conditions. "

Changes to the carrying amounts are as follows:

	2020	2019
	\$	\$
Balance at beginning of year	99,392,506	72,047,000
Transfers from developments in progress	32,667,256	20,451,530
Disposals	-	(1,794,980)
Gain on property revaluation	8,495,645	8,688,956
Balance at end of the year	<u>140,555,407</u>	<u>99,392,506</u>

Some investment properties are held as security by registered first mortgages from HNZC (Housing New Zealand Corporation), Kiwibank and ASB.

Properties are leased out on operating leases of varying lengths. No contingent rent has been recognised as income in the period (2019: nil).

The Trust has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

7 Development work in progress

Investment properties - in development	<u>9,889,388</u>	<u>20,584,931</u>
--	------------------	-------------------

Relates to the purchase of land and development of residential units for social housing provision at various sites around Auckland.

Project costs not directly related to the construction of the assets, are expensed in the year in which they are incurred.

Variations to the contract price are submitted by the contractors as a normal part of the development process. These claims are assessed against the contract by the engineer to the contract and approved or rejected accordingly with variation costs only recognised when approved in the financial statements. The cash flows related to all the property development, have been separately disclosed in the Statement of Cash Flows.

"Development work in progress is measured at cost, as the fair value of investment property under construction is not reliably determinable. The fair value of investment property under construction is determined once construction is complete. Costs incurred on each development are reviewed for impairment at each balance date, with any impairment loss being recognised in the Statement of Comprehensive Revenue and Expense.

Development costs are transferred to Investment Property when the respective project is complete. "

**8 Plant and equipment
2020**

	Motor vehicles	Furniture and equipment	Total
	\$	\$	\$
Cost	92,197	42,137	134,334
Accumulated depreciation	(39,185)	(20,801)	(59,988)
Net book value	53,012	21,335	74,346
2019	Motor vehicles	Furniture and equipment	Total
	\$	\$	\$
Cost	98,708	31,524	130,232
Accumulated depreciation	(45,012)	14,055	(59,068)
Net book value	53,696	17,469	71,164
	Motor vehicles	Furniture and equipment	Total
	\$	\$	\$
Reconciliation of the carrying amount at the beginning and end of the period:			
Opening balance	53,696	17,469	71,164
Additions	22,033	10,750	32,784
Disposals	(5,745)	-	(5,745)
Depreciation	(16,972)	(6,883)	(23,857)
Closing balance	53,012	21,336	74,346

9 Investments

The trust has an interest in the following entities:

- | | |
|---|---|
| a. Waimahia Inlet Neighbourhood Limited Partnership | Limited partnership - 25% share |
| b. Puhinui Park Limited Partnership (PPLP) | Limited partnership - 33.33% share |
| c. Tamaki Makaurau Community Housing Limited | Associate company - 25% shareholding |
| d. Puhinui Park GP Limited | Associate company - 33.33% shareholding |

	\$	\$
Investment reconciliation - (PPLP)	2020	2019
Opening Position	396,000	-
Share of profit/(loss)	-	-
Capital introduced	-	396,000
Distributions	-	-
Closing Position	396,000	396,000

CORT's share in the Waimahia Inlet Neighbourhood Limited Partnership had residual assets of \$54,888 which had not been previously recognised, was distributed to CORT during 2020.

CORT Community Housing Financial Report 2020

The Trust is a limited partner in Waimahia Inlet Neighbourhood Limited Partnership and Puhinui Park Limited Partnership, entities that are involved in the development of social housing in Waimahia and Puhinui.

The Waimahia Inlet Neighbourhood Limited Partnership has been wound up and disestablished. The Trust has received its final distribution of profits in the current financial year.

Tamaki Makaurau Community Housing Limited is a general partner in the Waimahia Inlet Neighbourhood Limited Partnership. This is a dormant entity.

Puhinui Park GP Limited is a general partner in the Puhinui Park Limited Partnership. This is a dormant entity.

All these entities operate or have operated in New Zealand. The Trust has no capital commitments or contingent liabilities from the interests held in these entities.

10 Related Party Loan

There were no related party loans during the period under review (2019: nil).

	2020	2019
	\$	\$
11 Loans		
Housing New Zealand Corporation (HNZC) - mortgage loans	872,905	927,418
KiwiBank - mortgage loan	180,595	186,029
ASB - mortgage loans	40,466,742	23,425,074
ASB Credit Facility	4,940,230	6,383,873
	46,460,471	30,922,394
Current Portion - payable within 12 months	3,003,821	1,053,142
Term Portion - payable after 12 months	43,456,650	29,869,252

The HNZC, Kiwibank and ASB mortgages are secured by registered first mortgages over the Trust's investment properties.

HNZC loans are interest free for 10 years and thereafter interest is payable at market rates. The interest free period ceases on 25th February 2021.

"The ASB Credit Facility and mortgage loans bear interest at rates between 3.55-5.62% p.a. (2019: 4.49-5.59% p.a.). Maturity dates range from April 2027 to July 2034 for these facilities and loans.

The Kiwibank mortgage loan bears interest at 5.35% p.a. and is repayable in fixed monthly instalments of \$1,274.

12 Conditional Grants

ASB Community Trust	(i)	600,000	600,000
Government Grants	(ii)	5,617,752	16,625,343
		6,217,752	17,225,343

(i) The grant from ASB Community Trust is received towards Housing Innovation Fund projects and if within the period of 10 years after the grant is made, the Trust sells the properties or alters their use so that they no longer provide affordable rental accommodation to persons with social needs, then the Trust will repay the conditional grants to ASB Community Trust.

(ii) Government grant funding is primarily related to funding received from the Ministry of Social Development for development projects. This funding has legally enforceable use or return conditions, which require the Trust to meet specified performance objectives defined in the underlying funding agreements. Where the Trust has not met the specified conditions, funding is deferred accordingly.

13 Related Party Transactions

Ponsonby Baptist Church is a related party as it has the right to appoint four members of the Board of Trustees. There were no transactions between the Trust and Ponsonby Baptist Church during the year under review [2019: nil].

The Trust has received directors fees from its associate, Tamaki Makaurau Community Development Limited in respect of services rendered.

No related party debts have been written off or forgiven during the year [2019: nil].

Key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Trust. Compensation paid to key management personnel is comprised of short-term employee benefits only. Total key management personnel compensation paid for the year is \$276,079 for 1.75 full time equivalent employees [2019: \$277,740 for 1.75 employees]

14 Contingent Assets and Liabilities

Contingent Liabilities

The Trust has received approximately \$39.1 million development project grants from the Ministry of Social Development towards the construction of residential property for the provision of social housing. If the Trust sells the properties or alters their use so that they no longer achieve their purpose of providing social housing, then the Trust may have to re-invest the funds into social housing or repay the funds to the Ministry of Social Development.

Contingent Assets

here are no contingent assets as at 31 March 2020 [2019: nil]

15 Capital and operating commitments

(a) Capital commitments

At 31 March 2020, the Trust had contracted to purchase land and/or social housing units at various developments under construction at various locations across Auckland at a cost of \$5.5m (2019: \$21m) which is to be funded through borrowings, grant income and surplus trust funds.

(b) Operating commitments

As at the reporting date, the Trust has entered into the following operating commitments in respect of office equipment and office premises:

	2020	2019
	\$	\$
No later than one year	66,873	66,548
Later than one year and no later than five years	16,718	80,024
Later than five years	-	-
	83,591	146,572
	83,591	146,572

No significant restrictions are placed on the Trust by entering into these leases.

16 Categories of Financial Assets and Liabilities

The carrying amounts of financial instruments presented in the statement of financial position relate to the following categories of assets and liabilities:

	2020	2019
	\$	\$
Financial assets		
Loans and receivables		
Cash and cash equivalents	2,239,423	2,170,822
Receivables from non-exchange transactions	285,923	1,317,037
	2,525,346	3,487,859
Financial liabilities		
Trade and other creditors	279,132	2,867,824
Loans	46,460,472	30,922,394
	46,739,604	33,790,218
	46,739,604	33,790,218

17 Events after the reporting date

"As disclosed in Note 4.10, New Zealand was placed into lockdown on the 26th March 2020 as a result of the COVID-19 pandemic. Subsequent to balance date, New Zealand has come out of lockdown. Refer to Note 4.10 for the assessment of the impact of COVID-19 on the Trust and primarily the validity of the going concern assumption.

The Board of Trustees are not aware of any other matters or circumstances that have occurred subsequent to balance date that have significantly or may significantly impact the operations of the Trust. [2019: \$Nil]"

CORT values the contribution of our partners in assisting us to create great homes for our tenants. We work in a range of partnerships to share and gain valuable experience and expertise.

- Accessible Properties
- ACOS
- Affinity Services
- ASB Bank
- ASB Community Trust
- Auckland City Mission
- Auckland Community Housing Provider Network
- Auckland DHB
- Australasian Housing Institute
- Bays Community Housing Trust
- Beacon Pathway Inc
- Buchanan Rehabilitation Centre
- Crossroads Clubhouse
- Community Housing Aotearoa
- Cornwall House CMHC
- De Paul House
- Ember
- Emerge Aotearoa
- Equip Mental Health Services
- Habitat for Humanity
- Isa Lei
- Kainga Ora
- Kiwibank
- Lifewise
- Link People
- Mahitahi Trust
- Manaaki House CMHC
- Matariki CMHC
- Ministry of Business Innovation and Employment
- Ministry of Housing and Urban Development
- Ministry of Social Development
- New Zealand Housing Foundation
- New Zealand Property Council
- Monte Cecilia Housing Trust
- Pathways
- Penina Health Trust
- Ponsonby Baptist Church
- St Lukes CMHC
- Taylor Centre
- Tamaki Collective
- Te Mahurehure Marae
- Te Puea Memorial Marae
- Te Tumu Kainga
- Te Tumu Paeroa
- The Salvation Army
- VisionWest Community Trust
- Waitemata DHB
- Westpac Bank



68 Grafton Road
Grafton, Auckland 1010
New Zealand

p +64 9 376 3049
e info@cort.org.nz
w cort.org.nz