homes of choice

Annual Report 2021

Contents

Chair report

As we commenced our new financial year in July 2020, New Zealand had experienced lockdowns and, by early August of that year, had 102 days without any reported Covid-19 cases. In August 2020, Auckland experienced moving to Level Three lockdown due to community outbreaks and eventually joined the rest of the country in Alert Level One in October.

After a great summer enjoying freedoms within our country borders to see whānau and friends, Auckland returned to lockdown in February 2021. And here we are again in August 2021 through to October in lockdown scenarios due to the Delta Covid-19 outbreak. Hence, this has been an extremely challenging year on a professional and personal level for all of us. The Homes of Choice team have literally battled through, ensuring emergency work was undertaken in a timely manner while our planned maintenance work seesawed due to Covid Alert Level changes. A similar course was taken in our disposals and acquisitions of homes during the period. However, one thing remained constant and that was the dedication of the Homes of Choice team to do all they could to ensure the business continued successfully. Like so many businesses in the property sector, product availability has been a significant issue, which has seen shortages in timber, steel and general building materials which are expected to continue for some considerable time. We are also experiencing cost escalation of approximately two per cent compounded monthly up to as much as 20 per cent increases for some materials. This will have a far-reaching effect on stretching our budgets in the coming months and into 2022. Similar to most businesses and sectors in New Zealand, we are experiencing labour shortages for contractors to actually be available to complete repair work or build new homes where delays are now a reality.

Another point to note relates to the occupants of our homes. With the continuing Covid Alert Levels in Waikato, Auckland and Northland, our occupants are required to remain within the properties. However, this is also occurring during their daily lives to some degree. Homes of Choice needs to consider the impact this has on people’s lives to ensure our homes are fit for purpose in many of these circumstances. The amenities need to be assessed to ensure there is provision within the property for enrichment both within the grounds and within the home. We believe there is a real opportunity for creative design and innovation to influence these outcomes.

Two pillars of our refreshed Strategic Plan (2021-25) are to ‘House People Better’ and ‘House More People’.

The review of our entire portfolio is near completion, giving us direction with regard to homes that require refurbishment, repositioning or disposal. This is being undertaken in consultation with Spectrum Care to ensure we provide homes in the right locations with the right facilities based on people's needs. The third pillar relates to 'Growth through Partnerships and Funding'. We have engaged with Kirva Trust, Emerge and Ministry of Housing and Urban Development (MHUD) to be part of a 75 unit apartment development in Wellington, of which Homes of Choice will manage 24 one-bedroom apartments for people with disabilities who have access to Income Related Rent Subsidy (IRRS). The Kirva philanthropic arrangements and relationship have also enabled Alleys Way House and the Porirua Respite House for which we are truly grateful. In the coming year, Homes of Choice will reach out to property developers and those with other housing solutions to enhance our portfolio, based on the requirements of Spectrum Care and the people they support.

Turning now to the Board. On the inception of Spectrum Foundation as at 1 July 2021, Sean's role as Chief Executive of the Group allowed a board vacancy to occur. Kerridge and Partners have been engaged to fill this vacancy and we hope to be able to announce this appointment in the coming weeks. We would also like to advise of the resignation of Colin Theyers from the Homes of Choice Board, effective in August 2021, after serving eight years. Aroha Hudson has stepped into this vacancy whilst we undertake a search process for this particular board vacancy, where financial accreditation is a requirement.

We are pleased to report the net surplus for the year ended 30 June 2021 is $2M, double the surplus from the previous year; hence our accumulated surplus is now just over $4M. This was mostly attributed to the planned sale of four homes to enable future development opportunities. Our share capital moved from $45M to $60M with the conversion of the term liability of $15M. Due to the market revaluation that occurs every two years, the portfolio value added nearly $11M, with the market value now reported as $81M.

The Board accepted the resignation of Peter Sanders, effective 31 October 2021. Peter joined Spectrum Care in October 2012. One of his initial roles was to separate the property activities from the support activities to enable the formulation of Homes of Choice in April 2014, when he became General Manager. Over the next seven years, Peter has been instrumental in registering Homes of Choice as a Community Housing Provider, reviewing and reshaping our housing portfolio based on a benchmarking methodology and increasing our portfolio by more than 30 per cent to over 40 rental properties. Peter has shown leadership through the pandemic, ensuring his team and those engaged by Homes of Choice are supported with the business continuing to thrive. His work has been nothing short of exemplary. The Board is very grateful for his efforts over the past nine years, and wishes him all the best for his next endeavours. The new General Manager, Ratenesh Sharma, will commence on 26 October 2021 and we look forward to welcoming him to the team to lead the delivery of the strategic plan.

The Homes of Choice portfolio is now at 107 homes that we own and a further 41 are rented from third parties. These numbers also include 11 respite properties in both Auckland and Wellington. In these homes, we help to support 435 people, with a further 500 people supported in respite housing. This year, we have also embarked on delivering new housing to meet a universal design in Mangere and will continue to develop and embrace new technologies in house design and delivery.

Looking forward sees Homes of Choice building a sound relationship with Spectrum Foundation as the head of the Group embarks on the journey to drive transformational change for all people who live with disability by breaking the barriers they face to achieve good health, housing, education, employment and life outcomes. Homes of Choice will continue with our strategic goals of being recognised in the residential sector as a trusted housing provider who partners, delivers and manages innovative housing solutions to the evolving needs of people with disabilities. Homes of Choice is seeking wide engagement with the disability sector to enable housing provision for many service providers, so we continue to walk alongside people with disabilities. We have shown that we respond to Spectrum Care's ongoing and changing housing needs by engaging in a three-year rolling planning cycle to determine and deliver a successful housing pipeline. Our team has commenced successful engagements with philanthropic funders and we look to continue to leverage existing (and establish new) partnerships to raise capital for our growth in the housing sector.

In closing, I would like to thank all Board members, the Foundation and the management team for their dedication towards ensuring Homes of Choice thrives in these continuing uncertain and challenging times. This unwavering support has very much been appreciated.

Louise Ward
Chair Homes of Choice Board of Directors

General Manager's report

As noted by our Board Chair, the 2020-21 financial year has not been without its challenges. The Delta outbreak and associated rapid escalations in our pandemic alert levels have impacted our ability to undertake planned maintenance, and the market's capacity to accommodate property disposals and acquisitions.

Supply chain issues for all types of construction materials and labour shortages have further hampered our ability to complete projects within planned timelines and associated cost escalations have added to the COVID-related headwinds we've faced over the past 12 months – effects we'll no doubt see continue over the coming financial year.

Despite these hurdles, we've remained focused on delivering positive results in six key strategic domains, being tenancy satisfaction, benchmarking our property portfolio against a uniformly high standard, meeting the housing needs of our stakeholder/partner Spectrum Care, ensuring health and safety compliance, maintaining a strong balance sheet, and pursuing growth through partnerships and funding.

A number of key projects have progressed over the past 12 months, including a two-level, universally designed apartment block in South Auckland, aimed at providing housing options for people with disabilities by mid-2022; a 14-level, 75-apartment complex in Wellington, developed in partnership with Kirva Trust, Emerge and the Ministry of Housing and Urban Development, with an expected completion date of March 2023; a bespoke respite development in Porirua, again in partnership with Kirva Trust; and a custom-designed 'planned break' respite facility for people with physical support needs, such as those recovering from accidents, developed in partnership with Spectrum Care, Kainga Ora and the Ministry of Health and expected to open in February 2022.

Our property benchmarking process has identified a number of opportunities to improve the overall universal design standard of our portfolio and increase the housing options for disabled people. While, as noted, some disposal and acquisitions have been delayed due to COVID-19, we've made significant progress in identifying houses that don't meet our long-term requirements, are not easily maintained, lack universal accessibility standards and/or don't have potential for site redevelopment. Several properties have also been identified that would support intensification developments.

Since joining Spectrum Care Trust Board in 2012 and then launching Homes of Choice as a wholly owned subsidiary 2014, I've taken great pleasure in seeing our portfolio grow and our approach mature, and am in no doubt that Homes of Choice will continue to thrive under the leadership of its new General Manager, Ratenesh Sharma.

As it moves forward into a new chapter, Homes of Choice remains steadfast in its commitment to finding a way together to support freedom, choice and independence for people and whānau, and delivering our Vision of 'Great homes enabling choice and affordability for people with disabilities.'

Peter Sanders
General Manager Homes of Choice

Our vision

To provide great homes enabling choice and affordability for people with disabilities.

Our strategic intent

Increase housing supply to deliver 10 new Homes of Choice universal design residential support homes and an additional 20 independent living options by 2023 within community settings for people with disabilities that meet their needs, and offer the highest levels of choice and control over daily life

Our objectives

House People Better

Provide holistic solutions aligned with our social mandate to deliver viable housing for people with disabilities.

Create progressive and innovative housing solutions in response to the evolving needs of people through each stage of their journey.

House More People

Grow our housing portfolio through developments and rental solutions to meet disability sector needs and provide independent living options.

Support the 'Living Options Plan' led by our sister organisation, Spectrum Care, which aims to address the requirements of people with high and complex needs, ageing in place and transition to independent housing.

Growth through Partnerships and Funding

- Lead and influence the design, build and provision of housing opportunities for people with disabilities.
- Enhance and grow strategic partnerships to drive:
  - development of mixed communities and environments
  - economies of scale
  - understanding of diversity and cultural needs
  - access and participation in funding opportunities
- Leverage our portfolio to maximise housing opportunities to meet the evolving needs of people with disabilities.

Our operating principles

- We listen to our customer needs to deliver sustainable, innovative solutions.
- We proactively promote and model safety for the people we support, our staff, volunteers and our partners.
- We apply Enabling Good Lives principles to ensure disabled people and their whānau have more choice and control over their lives and supports.
- We use operational efficiency, continuous improvement and evidenced-based best practice to guide our decision making.

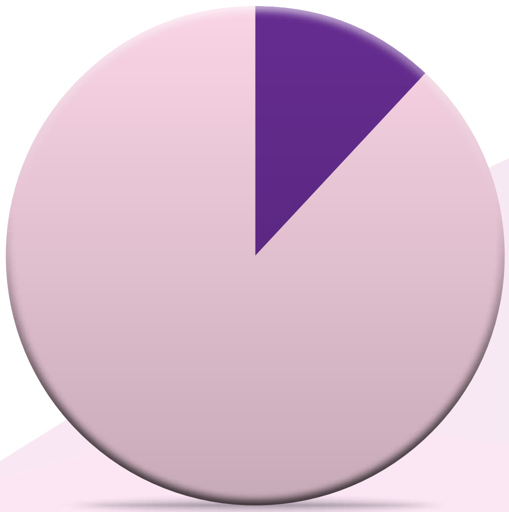
Financial overview

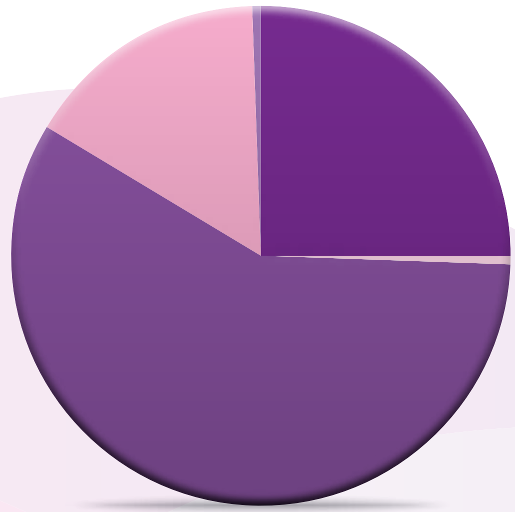
Expenditure

	$000	%
Employee costs	5371	12
Supplies	3,826	88
Total expenditure	4,362	100

Breakdown of Supplies

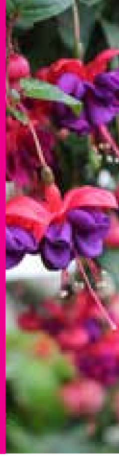
	$000	%
Administration	964	25
Transport	15	0
Property repairs and maintenance	2,225	58
Utilities, rates, rent	611	16
Depreciation	11	0
Total supplies	3,826	100





This financial information has not been audited. It is a summary of financial information extracted from full audited financial statements starting on page 13.

Corporate information



Directors

L Ward Chair
B Donnelly
C D Theyers
S Stowers
A Hudson

Registered Office

205 Great South Road
Greenlane
Auckland 1051
New Zealand

Principal place of business

205 Great South Road
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Bankers

BNZ
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Auckland 1010
New Zealand

Auditor

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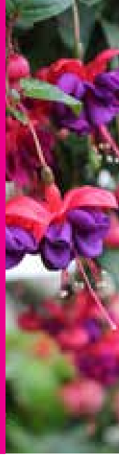
152 Fanshawe Street
Auckland 1010
New Zealand



Directors

The names and details of Homes of Choice Directors in office during the financial period and until the date of this report are as follows. Trustees were in office for this entire period unless otherwise stated.

Louise Ward BBS

Louise was appointed as the Homes of Choice Board Chair in 2019 and brings with her over 30 years of business and management experience.

She currently holds a number of governance roles in housing, health and property focused organisations, including Care Group Limited and Te Tumu Kianga.

Louise previously consulted to and chaired major housing projects for Housing New Zealand (now Kainga Ora), and led the conceptual feasibility for significant infrastructure in East Cape on behalf of Ngati Porou Holding Company.

Her focus is on financial acumen, relationship management and innovative thinking. Louise is of Ngati Porou descent and places importance on Māori values.

Brian Donnelly

Brian joined the Homes of Choice board in 2019 and has extensive governance knowledge and experience in commercial business property asset management and development.

He has been the Board Chair on several housing and property management boards, as well as similar board level positions for ministerial advisory groups.

Brian has a wide range of board experience balancing commercial drivers, business efficiencies and social deliverables .

Sean Stowers MBA CMInstD

Sean has been an active contributor to the disability support sector for more than 25 years, in a variety of roles primarily focused on the strategic and operational management of support delivery.

Since joining the Homes of Choice Board of Trustees in 2018, Sean has sought to build on the strong, person-focused foundation upon which the organisation is based, and ensuring people with disabilities and their families have access to housing options that enable choice and affordability.

Sean is a Chartered Member of the Institute of Directors, current Chair of the New Zealand Disability Support Network and current Chief Executive of Spectrum Care.

Aroha Hudson ACA, MBA

Aroha joined the Homes of Choice Board in August 2021. Her current role is the Chief Executive Officer of HealthWEST, a non-government organisation, and is also a chartered accountant with a Masters of Business Administration.

Aroha holds other governance positions on the boards of the Spectrum Foundation, the Heart Foundation and Te Hononga o Tamaki me Hoturoa, and is currently chair of Auckland PHO.

Colin Theyers CA, GDip (Finance), FInstD

Resigned 22 October 2019

Colin joined the Homes of Choice Board in June 2014 and resigned from office in August 2021.

A professional director and business strategist, Colin sits on eight other boards in professional services, property, finance, investment and logistic companies.

Colin was also a Trustee of Spectrum Care Trust Board and was the Chair of the Finance and Audit Committee.

Financial Statements

Statement of Comprehensive Revenue and Expenses

For the year ended 30 June 2021

	Notes	2021 $000	2020 $000
Rental income		3,746	3,541
Service Revenue		1,529	1,591
Gain on sale on disposal of assets		1,123	-
Interest Revenue		-	-
Revenue		6,398	5,132
Cost of services provided	12	(3,406)	(2,725)
Operating Surplus		2,992	2,407
Depreciation		(11)	(42)
Administrative expenses	13	(535)	(784)
Finance expenses		(410)	(496)
Total expenses		(956)	(1,322)
Surplus for the year		2,036	1,085
Other comprehensive revenue and expenses			
Gain on revaluation of land and buildings		13,072	-
Total comprehensive revenue and expenses for the year		15,108	1,085
Attributable to the owners of the controlling entity		15,108	1,085

The above statement of comprehensive revenue and expenses should be read in conjunction with the accompanying notes.

Statement of Changes in Net Assets

For the year ended 30 June 2021

	Share Capital $000	Asset Revaluation Reserve $000	Accumulated Surplus (RE) $000	Total Equity $000
Balance as at 1 July 2020	45,000	8,155	2,246	55,401
Surplus for the year	-	-	2,036	2,036
Other Comprehensive Income	-	13,072	-	13,072
Total comprehensive income for the year	-	13,072	2,036	15,108
Derecognition of property revaluation on sale	-	219	(219)	-
Transactions with Owners				
Shared Capital Issuance	15,000	-	-	-
Balance as at 30 June 2021	60,000	21,446	4,063	70,509
Balance as at 1 July 2019	45,000	8,294	1,022	54,316
Surplus for the year	-	-	1,085	1,085
Other Comprehensive Income	-	-	-	-
Total comprehensive income for the year	-	-	1,085	1,085
Derecognition of property revaluation on sale	-	(139)	139	-
Balance as at 30 June 2020	45,000	8,155	2,246	55,401

The above statement of changes in net assets should be read in conjunction with the accompanying notes

Statement of Financial Position

As at 30 June 2021

The above statement of financial position should be read in conjunction with the accompanying notes.

For and on behalf of the Board, who authorised the issue of these financial statements on 20 October 2021.

Louise Ward
Board Chair

Aroha Hudson
Chair, Finance and Audit Committee

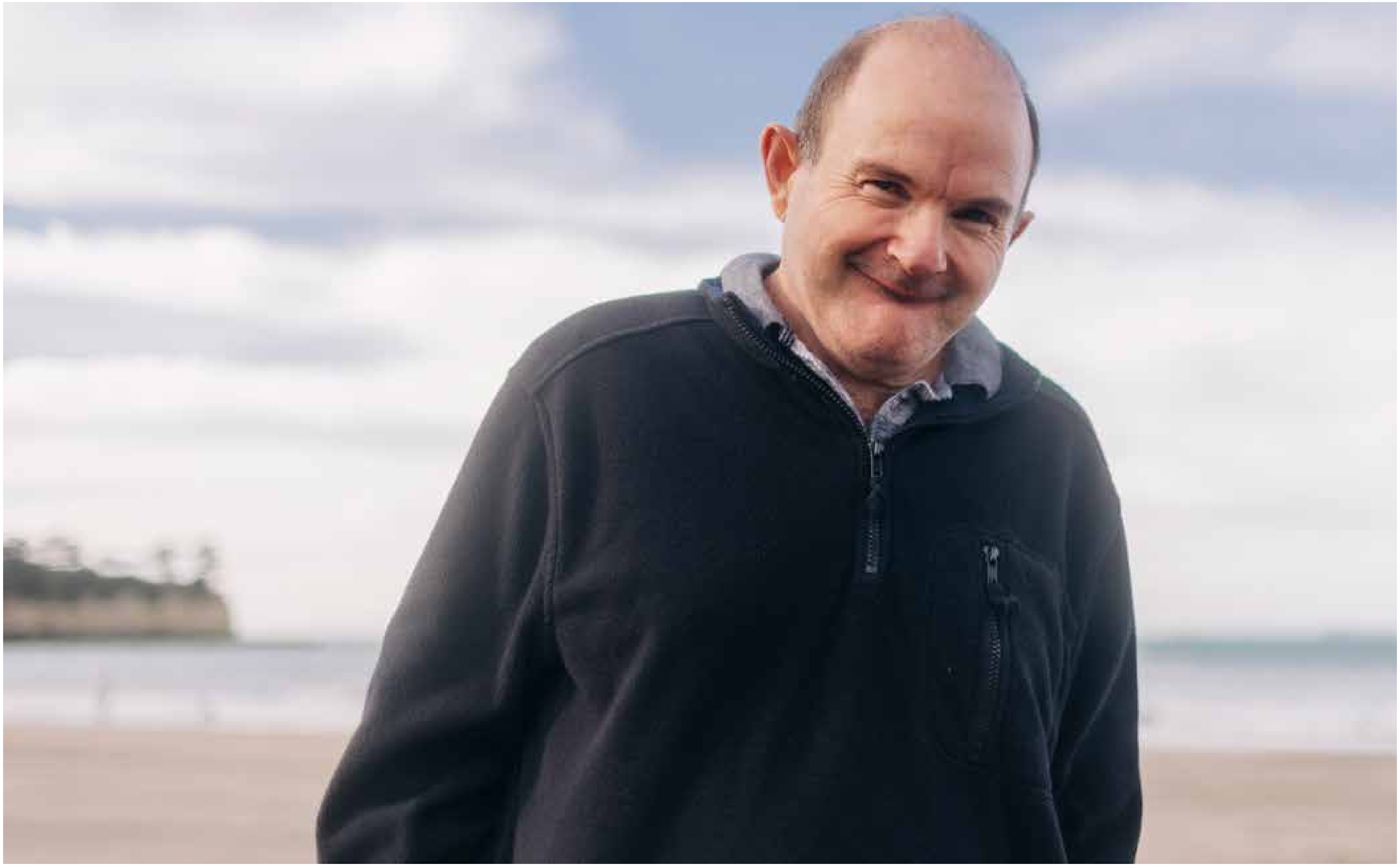
	Note	2021 $000	2020 $000
ASSETS			
Current assets			
Cash and cash equivalents		4,373	7
Receivables from exchange transactions	5	460	449
GST receivable		-	42
Other assets		26	66
Total current assets		4,859	564
Non-current assets			
Property, plant and equipment	6	81,392	70,481
Total Assets		86,251	71,045
LIABILITIES			
Current liabilities			
Trade and other payables	7	619	565
PAYE payable		9	10
GST payable		29	-
Provisions		1	1
Employee benefits	8	84	68
Current loan		-	-
Total current liabilities		742	644
Non-current liabilities			
Non-current loan		-	15,000
Total non-current liabilities		-	15,000
TOTAL LIABILITIES		742	15,644
NET ASSETS		85,509	55,401
EQUITY			
Share capital	10	60,000	45,000
Revaluation reserve		21,446	8,155
Accumulated surplus		4,063	2,246
TOTAL EQUITY		85,509	55,401

Cash Flow Statement

For the year ended 30 June 2021

	Note	2021 $000	2020 $000
Cash flows from operating activities			
Receipts from rental and other services (inclusive of GST)		6,443	5,125
Payments to suppliers and employees (inclusive of GST)		(5,008)	(3,742)
Interest (Paid) / Received		(341)	(496)
Net cash flows from/(used in) operating activities	11	1,094	887
Cash flows from investing activities			
Sale of property, plant and equipment		4,407	824
Purchase of property, plant and equipment and intangible assets		(1,135)	(2,363)
Investment in term deposits		-	-
Net cash flows from/(used in) Investing Activities		3,272	(1,539)
Cash flows from financing activities			
Cash receipts to/from parent company		-	1,800
Repayment of accrued interest		-	(2,156)
Net cash flows from/(used in) Financing Activities		-	(356)
Net increase/(decrease) in cash during the year		4,366	(1,008)
Cash balances at beginning of year		7	1,015
Cash balances at end of year		4,373	7

The above cash flow statement should be read in conjunction with the accompanying notes.



Notes to the Financial Statements

For the year ended 30 June 2021

1. General information

The reporting entity is Homes of Choice Limited (herein referred to as “Homes of Choice” or “the Company”). It is a public benefit entity and domiciled in New Zealand. It is a wholly owned subsidiary of Spectrum Care Trust Board (the “Trust”) and was established to manage and grow the Trust’s residential housing portfolio, providing quality housing options for people with disabilities.

This document contains the financial statements of Homes of Choice as a stand-alone entity. Homes of Choice was registered as an independent limited liability company on 10 April 2014 and with the Charities Commission under the Charities Act 2005 in 2014. These financial statements are for the year ended 30 June 2021. Comparative information presented is for the year ending 30 June 2020.

These financial statements were authorised for issue by the Board of Directors on 20 October 2021

2. Summary of significant accounting policies

A) Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and the Financial Reporting Act 2013. They comply with Public Benefit Entity International Public Sector Accounting Standards (“PBE IPSAS”) and other applicable financial reporting standards as appropriate that have been authorised for use by the External Reporting Board for Not-For-Profit entities. For the purposes of complying with NZ GAAP, Homes of Choice is a public benefit not-for-profit entity and is eligible to apply Tier 2 Not-For-Profit PBE IPSAS on the basis that it does not have public accountability.

The Board has elected to report in accordance with Tier 2 Not-For-Profit PBE Accounting Standards and in doing so has taken advantage of all applicable Reduced Disclosure Regime ("RDR") disclosure concessions except for the requirements set out on PBE IPSAS 30 Financial Instruments: Disclosures.

B) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for land and buildings which have been measured at fair value. Whilst preparing these financial statements, management have also made an assessment of the entity's ability to continue as a going concern.

C) Functional and presentational currency

The financial statements are presented in New Zealand dollars which is the Company's functional currency. All values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

D) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash. These are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

E) Investments

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. Investments are held with registered trading banks and are classified as current assets if they have maturities of less than one year from reporting date. Those with maturities greater than 12 months after the reporting date are classified as non-current assets. After initial recognition, investments are measured at amortised cost using the effective interest method less impairment.

F) Property, plant and equipment

Plant and equipment is measured at historical cost less accumulated depreciation and any 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.

Land and buildings are carried at revalued amounts which are the fair values at the date of the revaluation. The fair value of land and buildings is estimated using the revaluation process on a two yearly basis with the last revaluation performed in March 2021. Land and buildings are generally not depreciated as the residual value of property is expected to be higher than the current carrying value. Building improvements are depreciated.

Fair value is determined with reference to market based evidence, which is the amount for which the assets could be exchanged between a willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date.

Any revaluation gain/(deficit) is recognised in Other Comprehensive Revenue and Expense and credited/(debited) to the asset revaluation reserve in equity to the extent of the revaluation reserve balance accumulated from previous year gains. When no revaluation reserve balance is available to offset a revaluation loss the revaluation deficit is reported in the surplus or deficit for the reporting period.

Revaluation surplus and deficit are offset for assets within the same class of asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is reclassified to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

- Land – zero-rated
- Buildings – depreciation is zero-rated as the future residual value of property is not expected to be less than carrying value
- Building improvements – costs are presented together with the revalued buildings and are depreciated at three to ten years
- Plant and equipment – three to four years.

Depreciation is charged at rates calculated to allocate the cost of the asset less any estimated residual value. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date, and are adjusted if there is a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset.

De-recognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

G) 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 are recognised as an expense in the Statement of Comprehensive Revenue and Expenses on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Homes of Choice earns rental income from its property portfolio that it directly leases to Spectrum Care Trust Group at market rate. Rental income is recognized on a straight-line basis over the term of the lease.

H) Impairment

Assets are checked for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Homes of Choice revalues its properties every two years to fair value and monitors its plant and equipment for indications of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

I) Trade and other payables

Trade and other payables are carried at amortised cost however due to their short term nature they are not discounted. They represent liabilities for goods and services provided to Homes of Choice prior to the end of the financial year that are unpaid and arise when Homes of Choice becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

J) Interest-bearing loans and borrowings

All interest bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

K) Employee entitlements

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

L) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company 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 revenue

Rental revenue arising from rental of premises is accounted for on a straight-line basis over the lease term.

Interest revenue

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

Service revenue

Service revenue is recognised in the period when the company provides the services. These services include property management, repairs & maintenance recharges and service level agreement charges.

M) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the IRD is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the IRD.

N) **Financial instruments**

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through surplus or deficit, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets other than those designated as hedging instruments are classified into the following categories upon initial recognition:

- financial assets at fair value through surplus or deficit
- loans and receivables
- held to maturity investments
- available for sale assets

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income. The Company's financial assets include loans and receivables.

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 group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

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 provision for impairment. Homes of Choice's cash and cash equivalents and trade and other receivables fall into this category of financial instruments.

Financial liabilities

Homes of Choice financial liabilities include trade and other payables and interest-bearing loans and borrowings. All financial liabilities are measured subsequently at amortised cost using the effective interest method.

O] Income tax

Homes of Choice is a registered charity and is exempt from income tax.

P] Operating expenses

Operating expenses are recognised in the Statement of Comprehensive Revenue and Expenses upon utilisation of the service or at the date of their origin.

Q] Cash flow Statement

The Cash Flow Statement has been prepared using the direct approach. 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.

Operating activities included are the principal revenue-producing activities of Homes of Choice and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the equity and borrowings of Homes of Choice.

R] Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that Homes of Choice can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

S] Equity

Accumulated surplus include all current and prior period retained surplus/ (deficit).

Gains and losses due to the revaluation of property, plant and equipment are accounted for in the revaluation reserve account within equity.

3. Financial risk management objectives and policies

Homes of Choice's principal financial instruments comprise receivables, payables, cash and short-term deposits and interest bearing borrowings.

Primary responsibility for identification and control of financial risks rests with the General Manager under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including interest rate risk and future cash flow forecast projections.

The carrying amounts of financial instruments presented in the Statement of Financial Position relate to the following categories of assets and liabilities:

2021	Weighted Average Effective Interest Rate %	0-6 Months $000	7-12 Months $000	1-2 Years $000	3-5 Years $000	5+ Years $000	Total Carrying Amount
Financial assets (Loans and receivables)							
Cash and cash equivalents	0.00	4,373	-	-	-	-	4,373
Related party receivable	0.00	-	-	-	-	-	-
Trade and other receivables	0.00	460	-	-	-	-	460
		4,833	-	-	-	-	4,833
Financial liabilities (at amortised cost)							
Parent company loan	2.20	-	-	-	-	-	-
Trade and other payables	0.00	619	-	-	-	-	619
		619	-	-	-	-	619

2020	Weighted Average Effective Interest Rate %	0-6 Months $000	7-12 Months $000	1-2 Years $000	3-5 Years $000	5+ Years $000	Total Carrying Amount
Financial assets (loans and receivables)							
Cash and cash equivalents	0.00	7	-	-	-	-	7
Related party receivable	0.00	-	-	-	-	-	-
Trade and other receivables	0.00	449	-	-	-	-	449
		456	-	-	-	-	456
Financial liabilities (at amortised cost)							
Parent company loan	3.30	-	-	15,000	-	-	15,000
Trade and other payables	0.00	565	-	-	-	-	565
		565	-	15,000	-	-	15,565

Interest rate risk

Interest rate risk is not material as Homes of Choice's cash and cash equivalents as well as the investments are all held at market rates. Reasonable changes in interest rates do not result in material exposure to interest income or expense.

Credit risk

Credit risk arises from the financial assets of Homes of Choice, which comprise cash and cash equivalents, short term investments and trade and other receivables. Homes of Choice's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at the reporting date is addressed in each applicable note. Homes of Choice trades only with New Zealand registered banks that have a Standard and Poor rating of A or better, as published by the Reserve Bank of New Zealand and as such collateral is not requested.

In addition, receivable balances are monitored on an on-going basis with the result that Homes of Choice exposure to bad debts is not significant. Management considers that all financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality. The majority of the receivables are from the Parent who is in good financial condition.

Maximum credit risk	2021 $000	2020 $000
Financial assets and other credit expenses		
Cash and cash equivalents	4,373	7
Trade and other receivables		
Not more than 3 months	460	449
More than 3 months but not more than 6 months	-	-
Related party receivable	-	-

Concentration risk

There is a significant concentration of credit risk with respect to receivables of which the majority is owed by Homes of Choice parent company, Spectrum Care Trust Board. Receivables from Spectrum Care Trust Board as at 30 June 2021 are $443,732 (2020: $439,731).

Liquidity risk

Homes of Choice objectives are to maintain a balance between continuity of operations from internal cash reserves and rental earned from Spectrum Care Trust. The actual cash flows will include interest based on the contractual interest rates applicable to each financial asset/liability. The interest earned is compounded to the principal upon maturity for renewal. The interest expenses are recognised in the surplus or deficit.

The risk implied from the values reflects a balanced view of cash inflows and outflows. The Board continuously monitors and reviews the investment position and is in the process of formally extending the length of the parent company loan to ensure Home of Choice is able to continue to operate as a standalone subsidiary of Spectrum Care Trust Board.

Basis for determining fair values

The fair value of instruments are expected to be the same as their carrying values.

Cash and cash equivalents/trade and other receivables

Due to their relatively short term nature, the carrying amounts of these items are considered a reasonable approximation of fair value.

Trade and other payables

Due to their relatively short term nature, the carrying amounts of these items are considered a reasonable approximation of fair value.

Loans and borrowings

Loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the loans and borrowings. After initial recognition loans and borrowings are subsequently measured at amortised cost using the effective interest method.

The Spectrum Board in collaboration with the Homes of Choice Board will revisit the interest rate on the loan on a regular basis and if necessary it will be adjusted accordingly to ensure it reflects the market rate for loans that have comparable terms.

4. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires Management and the Board of Directors to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Significant accounting judgements

Impairment of non-financial assets

Homes of Choice assesses impairments of its non-financial assets on a regular basis by evaluating conditions specific to its use in terms of age, safety and efficiency. The performance of plant and equipment is monitored for operating efficiency and effectiveness and upgraded or replaced as appropriate. Houses are subject to a schedule of maintenance and upgrades to meet safety and building standards and resident's outcomes and goals. There was no significant impairment recognised on these assets during the year (2020: Nil).

Estimation of useful lives of assets

The estimate of the useful lives of assets has been based on historical experience. In addition, the retention of the assets is regularly assessed against the remaining useful life, cost of on-going maintenance and replacement. Adjustments to useful lives are made when considered necessary.

Fair Value of Land and Buildings

The land and buildings are measured at fair value for financial reporting purposes. In March 2021 the company engaged with third party qualified valuers to perform the valuation. The fair value of the assets were determined using either the market approach or the income approach, both of which uses market-observable data for similar properties adjusted to recognise specific circumstances surrounding the properties ie date of sale, size, location, quality, condition, and marketability among other factors, which requires judgement and estimates. Further information on the valuation of land and buildings are disclosed on Note 6. It is the judgement of the Directors that the revaluation of property is performed every 2 years to ensure carrying values of property do not differ materially from a fair value undertaken at reporting date.

5. Receivables from exchange transactions

	Notes	2021 $000	2020 $000
Intercompany receivable	15	444	440
Other receivable		16	9
		460	449

Allowance for impairment loss

Receivables from exchange transactions balance, does not contain impaired assets.

6. Property, plant and equipment

2021	Freehold Land $000	Freehold Buildings $000	Plant and equipment $000	Intangibles $000	Total $000
At 1 July 2020 net of accumulated depreciation	44,952	25,519	8	-	70,480
Additions	814	282	20	20	1,135
Disposals	(2,841)	(443)	(32)	-	(3,317)
Revaluations*	11,129	1,943	-	-	13,072
Depreciation on disposal	-	-	32	-	32
Depreciation charge for the year	-	-	(11)	-	(11)
At 30 June 2021 net of accumulated depreciation	54,054	27,301	17	20	81,392
At 30 June 2021					
Cost or fair value	54,054	27,301	452	20	81,826
Accumulated depreciation	-	-	(435)	-	(435)
Net carrying amount after revaluation	54,054	27,301	17	20	81,392

2020	Freehold Land $000	Freehold Buildings $000	Plant and equipment $000	Intangibles $000	Total $000
At 1 July 2019 net of accumulated depreciation	45,026	23,785	150	-	68,961
Additions	396	1,967	-	-	2,363
Disposals	(470)	(233)	(180)	-	(883)
Revaluations	-	-	-	-	-
Depreciation on disposal	-	-	82	-	82
Depreciation charge for the year	-	-	(42)	-	(42)
At 30 June 2020 net of accumulated depreciation	44,952	25,519	10	-	70,481
At 30 June 2020					
Cost or fair value	44,952	25,519	466	-	70,937
Held for sale	-	-	-	-	-
Accumulated depreciation	-	-	(456)	-	(456)
Net carrying amount after revaluation	44,952	25,519	10	-	70,481

*The Group engaged NH Valuers (an accredited independent valuer) to determine the fair value of all freehold land and building. The revaluation was performed in March 2021 and is the most recent revaluation of the land and buildings.

7. Trade and other payables

	2021 $000	2020 $000
Trade payables	109	214
Intercompany payables	45	30
Other payables	465	321
	619	565

8. Employee entitlements

	2021 $000	2020 $000
ACC levy	3	4
Accrued salaries and wages	17	13
Annual leave	61	49
Other	3	2
	84	68

9. Loan

In the previous year, the loan was treated as a current liability as it was initially offered for a term of five years commencing 1 April 2015 and expired within a year from 30 June 2019. The loan was previously extended until 30 April 2022. As of 30 June 2021, this loan was converted to equity by way of a deed of conversion of debt. The Spectrum Care Trust Board agreed to subscribe for $15,000,000 ordinary fully paid up shares in Homes of Choice Limited at a price of $1.00 per share, consideration of which was offset against the outstanding debt.

10. Equity

Capital management

Homes of Choice's capital is made up of Share Capital and its Retained Earnings. When managing capital, the Board and Management's objective is to ensure the entity continues as a going concern as well as to maintain optimal benefits for its stakeholders. The Board and Management monitor capital through the gearing ratio (total liability/equity) and working capital ratio. There are no externally imposed financial covenants or other such requirements.

Homes of Choice's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Homes of Choice uses annual cash flow to fund its activities and achieve its annual objectives. Any surplus cash flow may be carried over to the next year to facilitate future activities.

	2021	2020
Beginning of the year	100	100
Share issue	15,000,000	-
Total shares authorised at 30 June	15,000,100	100

11. Statement of cash flows reconciliation

	2021 $000	2020 $000
Reconciliation of net surplus to net cash flows from operations		
Surplus for the period	2,036	1,085
Adjustments for:		
Depreciation	11	42
Net (gain) / loss on disposal of property, plant and equipment	(1,123)	(22)
Loss on revaluations	-	-
Provision for Long term maintenance	-	-
Related parties interest	-	-
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	45	(8)
(Decrease)/increase in trade and other payables	125	(210)
Net cash from operating activities	1,094	887

12. Cost of service provided

	2021 $000	2020 $000
Occupancy expenses	2,870	2,244
Staff expenses	536	481
	3,406	2,725

13. Administrative expenses

	2021 $000	2020 $000
Management services	324	324
Consultants	110	51
Recruitment	9	17
Marketing expense	9	7
Loss on disposal of fixed asset	-	7
Other expenses	83	378
	535	784

14. Operating leases

As at 30 June 2021 Homes of Choice was leasing 86 (2020: 85) of its residential properties to Spectrum Care Trust Board. The agreed rental income is $252,631 (2020: $252,013) per month. Homes of Choice also has agreements to lease thirteen (2020: six) residential properties from external parties. Four of these leases do not have a fixed maturity date and are on a periodic basis on a one month's notice for termination. The total amount the Company expects to pay each year for these leases is $124,718 (2020: $174,200). The future minimum lease amounts include the rental expense expected to be paid for the four properties on periodic lease as the Company expects to be leasing the properties on a continuing basis at least for the next twelve months after balance date. The remaining nine leases are for fixed terms expiring between 4 November 2021 and 1 July 2023.

Future minimum lease expense is shown below:

	2021 $000	2020 $000
Less than one year	374	205
Between one and two years	83	31
Between two and five years	-	31
More than five years	-	-
Total minimum lease payments	457	267

15. Related party transactions

Homes of Choice is a wholly owned entity of Spectrum Care Trust Board. At 30 June 2021, the remaining payable to the Trust amounts to $44,631 (2020: $30,179). The remaining receivable from the Trust amounts to $443,732 (2020: $439,731)

The Trust is the Company's major source of revenue. Total rental revenue during the period amounted to $3,053,407 (2020: $3,063,368). Total receivable in relation to the above arrangement at 30 June 2021 amounted to $252,631 (2020: $252,012).

A Service Level Agreement exists between the two entities for administrative services provided by the Trust to Homes of Choice for which a monthly fee of $27,000 (2020: $27,000) was agreed. Total expense during the period in relation to this agreement is $324,000 (2020: $324,000). There is an outstanding payable in relation to this at year end of $27,000 (2020: $27,000) as it is paid a month in arrears.

A Service Level Agreement also exists between the two entities for administrative services and property service provided by Homes of Choice to the Trust, a monthly fee of $31,570 (2020: $63,371) is charged, total for the year $378,842 (2020: $760,453). There is an outstanding receivable in relation to this at year end of $31,570 (2020: $57,988) as it is paid a month in arrears.

During the year, cash was transferred from Spectrum Care Trust to Homes of Choice to cover short term cashflow requirements. The total amount borrowed was $500,000, this was repaid in full leaving a nil balance outstanding (2020: nil). Interest for this borrowing was $10,949 (2020: nil)

During the year Home of Choice managed repairs for the Trust. For the year this amounted to $1,204,883 (2020: $895,812). The Trust provided a lawn mowing service to Homes of Choice and the costs of this were $23,530 (2020: $19,380).

In 2020, a loan amounting to $15,000,000 was outstanding (Note 9). In June 2021, subject to a deed of conversion of debt, the company issued share capital to Spectrum Care and offset the balance of the loan. Interest for this loan was $330,000 (2020: $496,356).

Homes of Choice and Spectrum Care Trust have one Director in common on their Board of Trustees (2020: one). Spectrum Care Trust made no payments to the Directors during the year (2020: nil) on behalf of Homes of Choice.

Compensation to Key Management Personnel in the form of short term employee benefits totalled $254,112 (2020: $223,742). Key Management Personnel is comprised of four Directors and one General Manager (2020: five).

16. Events after the reporting period

There were no events subsequent to the reporting period that would materially affect the financial statements (2020: nil).

17. Auditor's remuneration

	2021 $000	2020 $000
Amounts paid or payable to Grant Thornton New Zealand Audit Partnership for:		
Audit of the financial statements	29	23
	29	23

18. Contingent Liabilities and Contingent Assets

There are no contingent assets and liabilities as at 30 June 2021 (2020: nil).

19. Capital Commitments

During the year the Group entered into several construction contracts with unrelated parties. Due to COVID 19 lockdown and the subsequent delays, there is work still to be completed on some of these contracts. As at 30 June 2021, total capital commitments are $181,794 (2020: $202,000).

20. COVID-19 impact

COVID-19 continued to impact worldwide during the period. Several vaccinations were developed and approved with rollout commencing worldwide. In New Zealand, there were heightened alert levels in both the Auckland and Wellington regions requiring temporary alterations to care services and delaying routine maintenance activities on owned properties for a time. Responding to changes in alert levels became a more routine activity this year, with the ability to move between alert levels with relative ease well established.

During the period, surety of funding ended, with the Ministry of Health (MOH) reverting to regular billing practices. A mechanism was provided by MOH to allow billing to normal levels during the heightened alert levels. A claims mechanism for additional costs incurred due to COVID-19 was also provided. Support continued to be provided from Government with access to wage subsidies for affected employees.

As a wholly owned subsidiary of Spectrum Care Trust Board and the major provider of rental properties to Spectrum Care, Homes of Choice was also protected by financial support provided by the MOH for essential healthcare services and by the Government.

While the duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses engenders a degree of uncertainty, overall, the operations of Home of Choice is not significantly impacted and that the ability of the company as a going concern is not affected.

Independent auditor’s report

To the Shareholder of Homes of Choice Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Homes of Choice Limited (the “Entity”) on pages 13 to 37 which comprise the statement of financial position as at 30 June 2021, and the statement of comprehensive revenue and expenses, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Homes of Choice Limited as at 30 June 2021 and its financial performance and cash flows for the year then ended in accordance with Public Benefit Entity International Public Sector Accounting Standards (Not For Profit) 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)) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity 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.

Our firm carries out other assignments for the Entity in the area of taxation advice. The firm has no other interest in the Entity.

Other Information

The Directors are responsible for the other information accompanying the financial statements. The other information comprises of the Corporate Information and Directors' details but does not include the financial statements and our auditor's report thereon.

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 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 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.

Directors' Responsibilities for the Financial Statements

The Directors are responsible on behalf of Homes of Choice Limited for the preparation and fair presentation of these financial statements in accordance with Public Benefit Entity International Public Sector Accounting Standards (Not for Profit) Reduced Disclosure Regime issued by the New Zealand Accounting Standards Board, and for such internal control as those charged with governance 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, those charged with governance on behalf of the entity are responsible for assessing the Entity'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 Entity 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 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 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 economic 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 on the External Reporting Board's website at: https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-8/

Restriction on use of our report

This report is made solely to the Entity's shareholders, as a collective body. Our audit work has been undertaken so that we might state to the Entity's shareholders, as a collective body those matters which 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 Entity and the Entity's shareholders, as a collective body, for our audit work, for this report or for the opinion we have formed.

Grant Thornton

Grant Thornton New Zealand Audit Limited
Auckland, New Zealand
20 October 2021

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