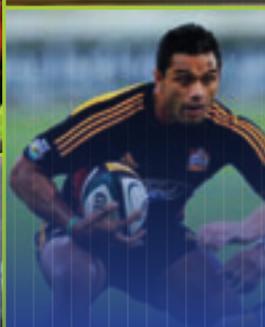


NEW ZEALAND RACING BOARD
ANNUAL REPORT

2011 







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Financial Highlights

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	\$m							
Betting turnover	1,232	1,273	1,364	1,436	1,528	1,513	1,583	1,533
Net Dividends	994	1,026	1,106	1,166	1,255	1,244	1,304	1,261
Surplus before Industry Expenditure & Distributions	85	82	83	118	127	115	127	124
Total funding to industry	78	83	88	116	132	141	125	128
Races per year								
Greyhound	3,022	3,194	3,288	3,621	3,955	4,149	4,271	4,879
Harness	2,332	2,299	2,409	2,485	2,743	2,822	2,767	2,715
Thoroughbreds	2,791	2,807	2,855	2,863	2,970	3,088	3,068	3,052
Total	8,145	8,300	8,552	8,969	9,668	10,059	10,106	10,646
Imported	12,774	14,402	15,613	15,811	20,880	25,506	35,323	42,280
Exported	843	1,133	1,180	1,186	4,480	4,807	6,790	10,509

AT A GLANCE

TURNOVER OF

\$1.533billion

THE SECOND BEST EVER RESULT FOR THE TAB

\$128million

RETURNED TO THE NEW ZEALAND RACING INDUSTRY
(UP \$3M ON 2009/10)

INCREASE IN FIXED ODDS BETTING

UP 26% TO **\$148.7million**

IMPORTED RACING TURNOVER

UP 1.5%

ON MORE BETTING OPPORTUNITIES

FIXED ODDS BETTING ACROSS RACING AND SPORT
GROWING AND NOW ACCOUNTS FOR

22% OF TURNOVER

GROSS BETTING MARGIN SUCCESSFULLY MAINTAINED
(16.9% IN 2010/11 COMPARED TO 16.7% IN 2009/10)

NEW TOTE BET TYPES CONTINUED STRONG GROWTH –

FIRST 4 **UP 85%**

AND QUADDIE **UP 26%** ON LAST YEAR

PICK6 **GREW 20%**

HELPED BY SPECIAL TERMINATING GUARANTEES

EXTENDED IMPORT RACE GROWTH WITH
FIRST FULL YEAR OF TAB TV AND NO-TV RACES

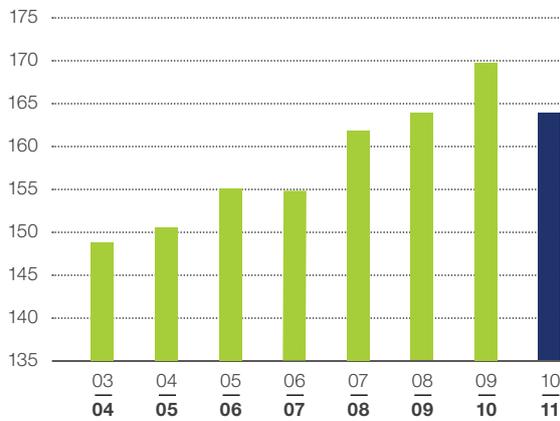
**131,000
BETTING ACCOUNTS**

UP 23% IN TWO YEARS

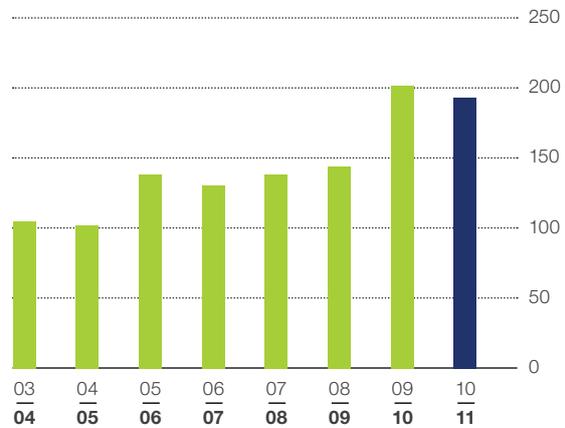
INTERNET BETTING

UP 12% IN 2010/11

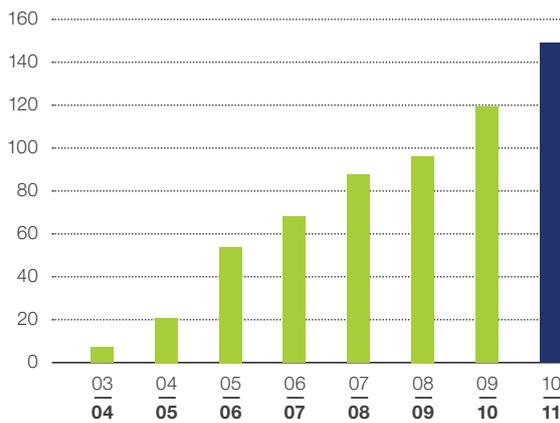
TICKETS ISSUED (millions)



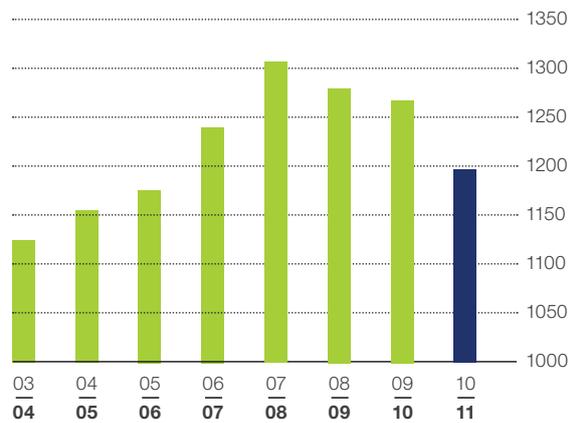
SPORTS FIXED ODDS BETTING (Turnover \$millions)



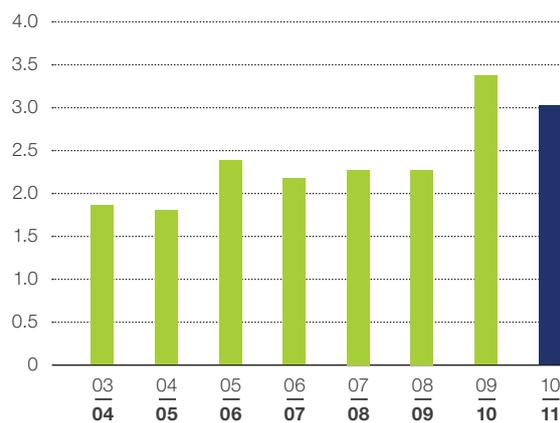
RACING FIXED ODDS BETTING (Turnover \$millions)



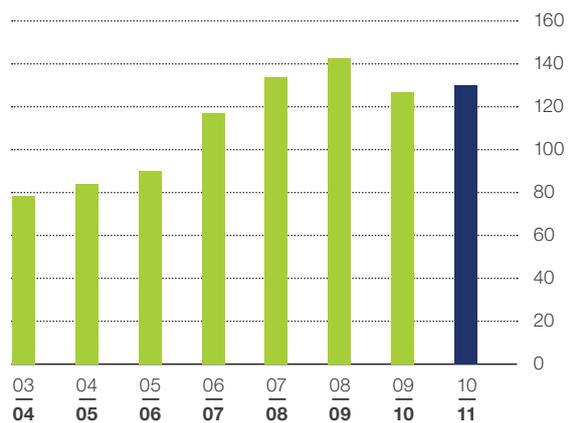
RACING TOTE (Turnover \$millions)



SPORTS LEVIES (\$millions)



FUNDING TO THE RACING INDUSTRY (\$millions)





About Us

Bet with the TAB on the gallops, trots or greyhounds, take a punt on the All Blacks or European football, the majority of your betting dollar is contributing to the sustainability, development and growth of New Zealand racing and sport, as well as supporting the thousands of New Zealanders who derive their livelihoods from these sectors.

The New Zealand Racing Board was established in 2003 under the Racing Act as the organisation to administer all racing and sports wagering in New Zealand.

We are a major entertainment business with more than 131,000 TAB account holders and a nationwide presence with more than 640 retail outlets. As well as a rapidly growing Internet betting service – tab.co.nz – we also operate two digital television channels, a radio station and a range of mobile and telephony channels.

Our operations are diverse and reflect the complexity, size and scope of the organisation, as well as its reliance on technology to maximise performance and efficiency.

We support betting on more than 10,500 domestic races and 42,000 imported races each season, as well as offering betting on a wide range of domestic and international sporting events.

The vast majority of our personnel run the many facets that make up the TAB operation – scheduling daily racing for customers in New Zealand and Australia, selling bets through our retail network or via the telephone and Internet, and transmitting racing and industry information and product on our national broadcast channels television channels Trackside TV, TAB TV and Radio Trackside.

After operating costs and expenses, our profit is distributed to the three New Zealand Racing Codes – thoroughbred, harness and greyhounds – in accordance with an agreed funding model. We also pay levies to sporting bodies.

The industry expenses paid for by the NZ Racing Board include the laboratory analysis of swabs, funding for the Judicial Control Authority, on-course marketing and promotion, as well as contributions to the Equine ITO and equine research through Massey University. The 2010/11 season was the fourth year of the existing funding allocation model. The Racing Codes are responsible for determining the model for the consequent on-funding of their respective Clubs and other initiatives.

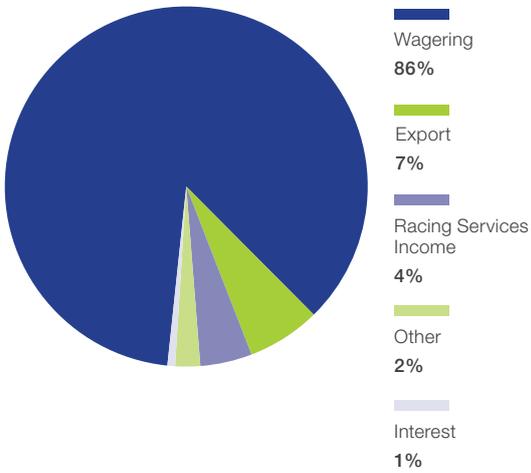
The NZ Racing Board also provided transitional funding for the establishment and operation of the Racing Integrity Unit in the financial year to July 31, 2011.



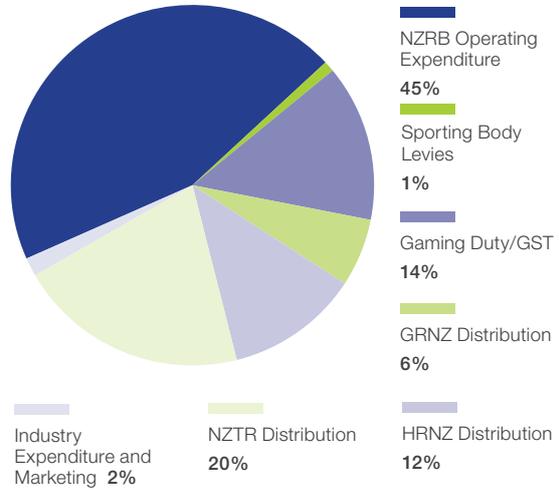


Distribution

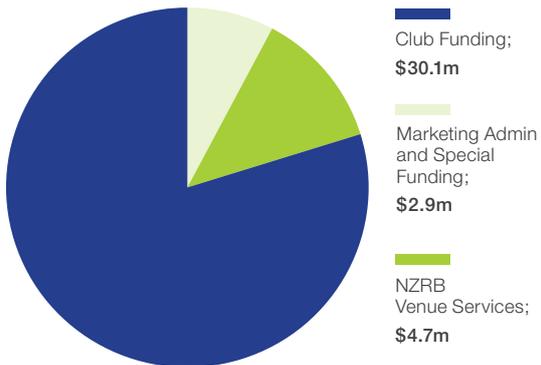
\$318.4M INDUSTRY REVENUE



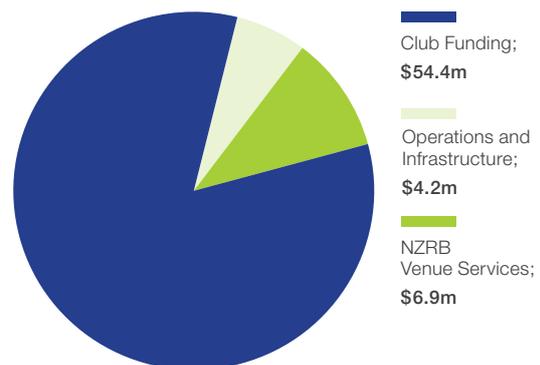
\$318.4M REVENUE APPLICATION



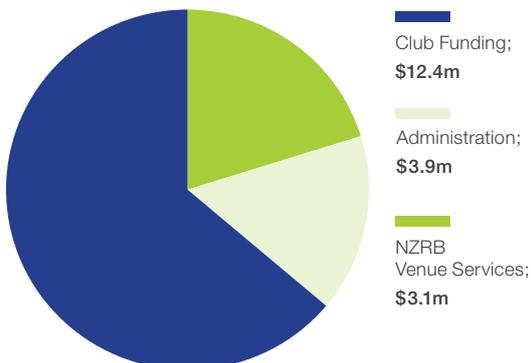
\$37.7M HARNESS DISTRIBUTION



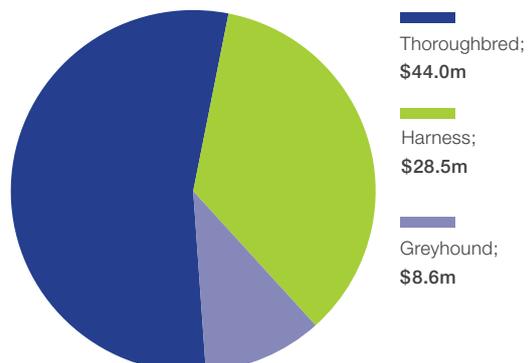
\$65.5M THOROUGHBRED DISTRIBUTION



\$19.4M GREYHOUND DISTRIBUTION



\$81.1M NET STAKES TO OWNERS





Chairman's Report



Fill the Basin Charity Cricket Match.

Along with most New Zealand businesses, the New Zealand Racing Board faced significant challenges in 2010/11.

Continued global instability, sluggish domestic GDP growth and the considerable impact of the Canterbury earthquakes left few businesses unscathed.

But by steering a prudent fiscal path the NZ Racing Board returned \$128 million to the industry during the 2011 season – a pleasing result given challenging circumstances.

By necessity, economic conditions dictated a review of the strategic plan and recalibration of some planned initiatives. These included slowing down the rollout of the physical infrastructure upgrade in TAB stores, which was essential in order to maximise returns to the industry.

The upgrade of next-generation self-serve terminals and the installation of digital display systems in key locations remains a top priority. The rollout of

these upgrades proceeded well in 2010/11 and will continue in 2011/12. Allied to this has been enhancements in our retail network, with important strategic sites opened, relocated or upgraded.

To further combat the effects of a weak economic environment, the NZ Racing Board has reassessed priorities, concentrating on developing new products and expanding offers in areas that recognise customer preferences and which are proven performers.

Fixed odds betting, sports betting and our internationalisation strategy, for example, have all stood the industry in good stead, providing solid growth to offset declines in domestic racing turnover. While economic data paints an uncertain picture, it is likely these initiatives will remain key priorities in the year ahead.

In addition, and given the success of the Football World Cup, post-year performance around the Rugby World Cup 2011 has been pleasing.

This year, the New Zealand racing industry has demonstrated renewed resilience, with stakeholders demonstrating a desire to work together for mutual benefit.

There is an increasing acceptance of the need for collaboration and co-operation to develop strategies and solutions required to ensure the future success of the racing industry.

As a result, and despite the difficult economic environment, the industry itself is in better heart than it was 12 months ago.

It is pleasing to note that constructive partnership between the NZ Racing Board and the three Codes to improve the integrity and public perception of the industry has been evident this year.

A notable example of this was the establishment of the Racing Integrity Unit. Launched in February 2011, the Racing Integrity Unit is one of only a handful of tri-Code integrity units internationally. As such, it is a significant milestone for New Zealand's racing industry and has already gained a welcome public profile for policing and enforcing the rules of racing.

It has been gratifying to see the industry come together to support the creation of the RIU, united in the collective desire to improve racing's reputation.

In addition, the introduction of Class 4 Gaming Audits and a number of community-based initiatives have all received cross-Code support.

The NZ Racing Board had a positive response to the new betting licence condition for the 2011/12 season that required Racing Clubs to submit an independent audit of any grants received from, or any relationships they have with, Class 4 gaming societies.

This move was welcomed by the Department of Internal Affairs and has served to ensure industry operations are transparent and can confidently withstand public scrutiny. These measures are at the heart of our

integrity platform. If racing is to weather sustained economic pressure in the year ahead it is imperative that the industry continues to act as one to support all initiatives that promote transparency, build confidence and improve perceptions.

Key to this was the NZ Racing Board's move to secure a Class 4 operator's licence in regard to gaming machines at TAB venues, as permitted under the Gambling Act 2003. A move welcomed by the DIA, the licence has been approved and the transition of Class 4 gaming machines at TAB venues has commenced.

In a year characterised by a number of tragic events, the NZ Racing Board was glad to play a role in supporting communities affected by the Pike River Mine disaster and the Canterbury earthquakes.

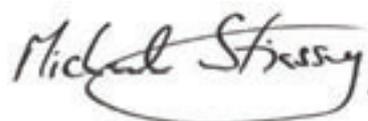
The industry raced on the West Coast for Pike River, broadcast the "Fill the Basin" charity cricket match for Christchurch and, together with the three Codes, purchased a fully equipped ambulance for the long-term benefit of the Canterbury community.

Racing is an iconic New Zealand institution – particularly in these two locations – and the industry's contribution was a fitting tribute to those who directly suffered as a result of these disasters.

Earlier this year, Chief Executive Andrew Brown resigned for family reasons and the Board was fortunate to be able to appoint someone of Bill Colgan's calibre as Interim CEO while a permanent successor was sought. I would like to thank Bill for his continued contribution and, indeed, all staff for delivering a solid result in a year that had more than its share of challenges.

In closing, I wish to pay tribute to Alistair Sutherland who retired from the Board earlier this year. Alistair worked tirelessly to build consensus and improve benefits to all racing industry participants.

There is an increasing acceptance of the need for collaboration and co-operation to develop strategies and solutions required to ensure the future success of the racing industry.



**Michael Stiasny,
Chairman**



Governance Statement

The Racing Act 2003 sets out the authority, responsibilities, membership and operation of the NZ Racing Board.

BOARD STRUCTURE AND COMPOSITION

The management of the business and affairs of the NZ Racing Board takes place under the direction of its governing body, the Board. Under Section 11 of the Racing Act 2003, the Minister for Racing appoints a Board of seven members, consisting of:

- an independent Chairperson;
- three members appointed on the nomination of each Racing Code – one of each of: New Zealand Thoroughbred Racing Inc, Harness Racing New Zealand Inc and the New Zealand Greyhound Racing Association Inc; and
- three members recommended by a nomination advisory panel consisting of the Minister, the Board Chairperson and the Chairpersons of the three Racing Codes.

Board members are appointed for terms not exceeding three years, but may be eligible for reappointment.

As at July 31, 2011, the full Board consists of:

- Michael Stiasny (Chairman, independent member)
- Warren Bell (independent member)
- Liz Dawson (independent member)
- Thayne Green (greyhound racing representative)
- Alan Jackson (thoroughbred racing representative)
- Simon Moutter (independent member)
- Ray O'Connor (harness racing representative)

Alan Jackson replaced Alastair Sutherland as thoroughbred representative during the year, with the latter's last day of duty being September 21, 2010.

BOARD RESPONSIBILITIES

The Board is responsible for the overall direction and control of the NZ Racing Board's activities. Its key responsibilities are:

- establishing goals and strategies with associated business plans;
- monitoring performance against budget and other performance indicators;

- ensuring integrity and transparency in reporting;
- communicating with Racing Codes on a regular basis through Combined Racing Industry Group (CRIG) meetings, and annual Statement of Intent, Annual Report and other relevant reporting;
- implementing policies to enhance the NZ Racing Board's performance;
- identifying and managing business risks, including statutory compliance;
- ensuring appropriate internal controls and the quality and independence of the external audit function;
- monitoring management and its performance, including Chief Executive appointment, review, development, succession planning and delegations; and,
- fostering an organisational culture that requires Board members, management and staff to adhere to high standards of ethics and corporate behaviour.

In accordance with Section 19 of the Racing Act 2003, the Board submits a Statement of Intent for the coming financial year(s), setting out the NZ Racing Board's overall objectives, intentions and financial and performance targets. After due consultation with recognised industry organisations, the Statement of Intent is presented to the House of Representatives.

BOARD PROCESSES

The Board met 11 times during the year to July 31, 2011. Policies are in place to ensure meetings are subject to formal agendas and reporting procedures. Meeting agendas are prepared by the Chief Executive in conjunction with the Chairperson, with papers circulated in advance of meetings.

The NZ Racing Board maintains an Interests Register in which the interests of its members are recorded. Members are expected to manage any conflicts of interest responsibly and to act ethically and in a manner consistent with the values of the NZ Racing Board and its objectives. These objectives, as set out in Section 8 of the Racing Act 2003, are:

- to promote the racing industry;
- to facilitate and promote race betting and sports betting; and,
- to maximise profits for the long-term benefit of New Zealand racing.

BOARD COMMITTEES

The Board has formally constituted four committees to July 31, 2011 – the Dates Committee, the Audit and Finance Committee, the Compensation and Developments Committee and the Sports Committee. In addition, a new committee – the Net Proceeds Committee – has been established.

These committees support the Board by considering relevant issues at a suitable detailed level and reporting back to the Board.

All committees have written charters setting out their roles and responsibilities, membership, functions, reporting procedures and the manner in which they

operate. Matters considered by the committees are reported back to the Board as recommendations, except where specific decision-making authority has been delegated by the Board.

The structure and membership of each committee is reviewed annually.

DATES COMMITTEE

The Dates Committee is established in accordance with Section 42 of the Racing Act 2003, which requires the committee to determine, in consultation with each of the recognised industry organisations:

- all of the dates in the subsequent racing year on which domestic betting races will occur;
- the allocation of those dates among Racing Clubs; and,
- any conditions of allocation.





Governance Statement

The Dates Committee consists of Thayne Green (Chairperson), Ray O'Connor, Michael Stiasny, Liz Dawson and Alan Jackson. Alastair Sutherland was a member of the committee till September 21, 2010, before resigning from the Board and being replaced by Alan Jackson.

AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee assists the Board in discharging its responsibilities with respect to financial reporting and the risk management practices of the NZ Racing Board, the work of the internal audit function and the NZ Racing Board's external auditor, PwC.

The Audit and Finance Committee meets at least four times a year and consists of Warren Bell (Chairperson), Ray O'Connor and Michael Stiasny.

The NZ Racing Board's internal audit function conducts independent reviews that assist the Board and management to meet their statutory and other obligations. The internal audit function is part of the Risk, Legal and Audit area, which has reporting lines to both management (the Chief Financial Officer and the Chief Executive) and to the Chairperson of the Audit and Finance Committee.

The internal audit function conducts or oversees independent appraisals of:

- the continued operation and effectiveness of internal controls in place to safeguard and monitor all material risks to the NZ Racing Board;
- the completeness and accuracy of the financial and other records of the NZ Racing Board;
- compliance with Board policies and management directives;
- the economic and efficient management of resources; and,
- the effectiveness of operations undertaken by the NZ Racing Board.

In performing this role, the internal audit function adopts a risk-based approach and a Strategic Audit Plan is developed annually covering each business area of the NZ Racing Board, with greater emphasis placed on those areas where the highest risk exists. The Plan is approved by the Audit and Finance Committee.

COMPENSATION AND DEVELOPMENT COMMITTEE

The Compensation and Development Committee monitors issues and determines policies and practices relating to the remuneration of the Chief Executive and the Senior Executive Committee, as well as overseeing management development and succession

BOARD MEMBERS AND REMUNERATION YEAR ENDED 31 JULY 2011

	MEMBER'S REMUNERATION	BOARD MEETINGS	AUDIT & FINANCE COMMITTEE	COMPENSATION & DEVELOPMENT COMMITTEE	DATES COMMITTEE	SPORTS COMMITTEE
MICHAEL STIASSNY	\$80,875	11*	4	4	3	3
WARREN BELL	\$40,250	10	4*			
LIZ DAWSON	\$47,667	10		4	3	3*
SIMON MOUTTER	\$42,375	10		4*		2
RAY O'CONNOR	\$44,875	11	4		3	3
THAYNE GREEN	\$45,875	11		4	3*	
DR ALAN JACKSON	\$30,500	7			3	
ALISTAIR SUTHERLAND	\$6,781	2		1*		
NUMBER OF MEETINGS		11	4	4	3	3

* Chairperson during the year.

Alistair Sutherland left the Board and was replaced by Dr Alan Jackson.

During the year the Chair of the Compensation & Development Committee changed from Alistair Sutherland to Simon Moutter.

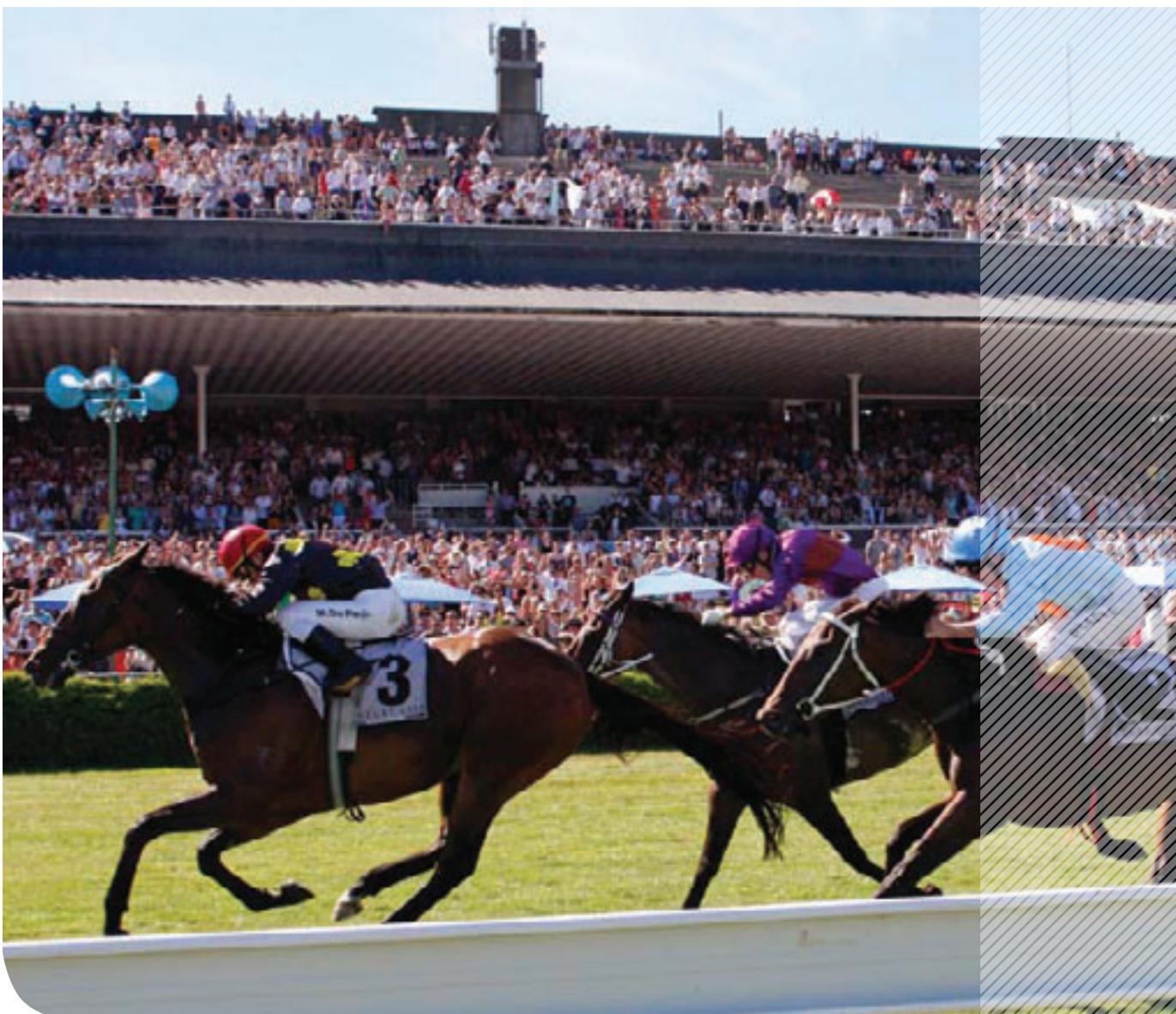
planning processes. In 2010/11 the Compensation and Development Committee consisted of Simon Moutter (Chairperson), Liz Dawson, Thayne Green and Michael Stiassny.

SPORTS COMMITTEE

The Sports Committee monitors issues relating to the NZ Racing Board's partnerships with sporting bodies and sports betting. The Sports Committee consists of Liz Dawson (Chairperson), Simon Moutter, Ray O'Connor and Michael Stiassny.

NET PROCEEDS COMMITTEE

The Net Proceeds Committee has been established to allocate the proceeds of the NZ Racing Board's Class 4 gaming activity to racing and amateur sports bodies for authorised purposes. It will commence in the 2011/12 year and will consist of the Board's four independent members.





Board Members

The Board comprises an independent Chairperson, three independent members and three members nominated by each of the Racing Codes.

MICHAEL STIASSNY

(INDEPENDENT CHAIRPERSON)
BCom, LLB, CA



Michael Stiasny is a chartered accountant and senior partner with KordaMentha in Auckland. He has significant experience in investigating accountancy work, company restructuring, due diligence and insolvency. He is a director of a number of public and private companies, including DNZ, and is Chairperson of Vector Ltd. He is also a Fellow of the Institute of Directors and Auckland Branch Committee member for the Institute of Directors. He was appointed NZ Racing Board Chairperson in January 2007.

LIZ DAWSON

(INDEPENDENT MEMBER)
BCom



Liz Dawson has extensive experience in professional sports administration and marketing with the New Zealand Rugby Union and the successful Rugby World Cup 2011 bid, as well as with the Warriors rugby league franchise and Hurricanes Super rugby organisation. She was appointed to the Board in August 2007 and brings a wealth of retail marketing and corporate management experience.

WARREN BELL

(INDEPENDENT MEMBER)
MCom, CA



Warren Bell is a former senior partner in chartered accountancy firm Deloitte, with considerable experience in corporate mergers and acquisitions, auditing and company valuations. He was appointed to the Board in March 2006. He has directorship experience, including roles with Hallenstein Glassons Holdings Ltd and the Ryman Healthcare Group. He is also a director of a number of private companies and district council businesses.

THAYNE GREEN

(GREYHOUND CODE NOMINEE)



Thayne Green has widespread racing administration experience and ownership across all three Racing Codes. He was appointed to the Board in August 2003. He has represented the greyhound Code on the Racing Industry Board, the Racing Authority and the TAB, and is a former president of the Auckland Greyhound Racing Club. He is now retired but previously held positions in the hospitality, motor and transport industries.

BOARD MEMBERS' INTERESTS REGISTER

DR ALAN JACKSON
(THOROUGHBRED CODE NOMINEE)
BEng, PhD, MBA



Dr Alan Jackson was appointed to the Board as thoroughbred Code nominee in October 2010*. Until 2009 he was chairperson Australasia, senior vice-president and director of The Boston Consulting Group and has been an international management consultant since 1987, with experience at the most senior levels of international and government business. He has worked across a range of industries, including resources, industrial and building. He is Chairperson of Housing New Zealand Corporation and a director of Fletcher Building Industries.

* Replacing Alistair Sutherland

SIMON MOUTTER
(INDEPENDENT MEMBER)
BSc, ME



Simon Moutter is Chief Executive of Auckland International Airport Ltd. Appointed to the Board by the Minister in November 2009, he is an engineer with more than 25 years' experience in the management of public infrastructure and utility services companies. He has held senior management roles in areas spanning operations, technology, sales, marketing and corporate services, including as Chief Executive of Powerco in the 1990s and Chief Operating Officer for Telecom for several years up to 2008.

MICHAEL STIASSNY
(Chairperson)
KordaMentha, *Partner*
Vector Limited,
Chairperson
Gadol Corporation Limited,
Director
DNZ Property Group
Limited, *Director*

WARREN BELL

No applicable
interests to declare

LIZ DAWSON

Hurricanes Limited,
Director
Wellington Regional
Stadium Trust, *Trustee*

THAYNE GREEN

No applicable
interests to declare

DR ALAN JACKSON

Broadway Racing
Breeding Partnership,
Director
Broadway Trust,
Director
Broadway Operations,
Director
Burnet Jackson
Partnership,
Partner

SIMON MOUTTER

No applicable
interests to declare

RAY O'CONNOR

Harness Racing
New Zealand, Finance
Chairperson
Cambridge Raceway,
Director
Cambridge/Te Awamutu
Harness Club, Executive
Waipa Workingmen's
Club (TAB licence holder),
Secretary
Cambridge Cosmopolitan
Club (TAB licence holder),
Accountant

RAY O'CONNOR
(HARNESS CODE NOMINEE)
BCom, CA



Appointed to the Board in December 2006, Ray O'Connor is a senior partner in Te Awamutu accounting practice Kelly and Bryant. He is a chartered accountant and also holds a Certificate of Public Practice. He has more than 30 years' experience in racing and is a director of Cambridge Raceway Ltd. He was elected to the Harness Racing New Zealand Board in 1999 and is its current Finance Chairman.



Chief Executive's Report



Co-operation and innovation have helped ensure positive results in what has been a challenging year for the country and the racing industry.

With indicators suggesting a marked improvement in economic conditions, the budget for 2010/11 was set in expectation of a buoyant second half, with a range of initiatives planned to take advantage of growing economic confidence.

However, by December 2010 it was apparent the anticipated warming of the economic climate would not eventuate, with the first of the devastating Canterbury earthquakes also significantly impacting confidence.

Despite these difficult circumstances, wagering turnover of \$1.533 billion in 2010/11 was the second best result ever for the TAB, but still below the target set of \$1.694b at the start of the financial year.

In late 2010 the NZ Racing Board engaged with the Racing Codes to reset industry funding expectations in light of these circumstances. The amount available for distribution was revised \$5m lower to \$128m.

Despite the ongoing financial crisis and the even more damaging earthquakes in Christchurch, the NZ Racing Board delivered the \$128m from its declared profits of \$127.03m, before impairment, and reserves.

CHANGING TRENDS

While still providing the bulk of volume, racing totalisator turnover continues to decline. In 2010/11 racing totalisator turnover dropped 5.7% to \$1.193b on the previous year. This decline has been offset by a large increase in fixed odds race betting, up 26% to \$148.7m on the back of the introduction of more fixed odds betting opportunities.

The decline in racing tote turnover has been most noticeable in domestic racing, which fell 10.3%. Again, this decline has been somewhat mitigated by the performance of imported racing, up 1.5% as a result of more betting opportunities.

Sports wagering continues to go from strength-to-strength. Although turnover was down just 4% (\$7.9m) in 2010/11, the figure recognises the “one-off” impact of the Football World Cup – one of the TAB’s biggest earning events every four years – in the 2009/10 financial year.

Fixed odds betting is also performing well, increasing its proportional share of turnover to 22% as the mix of totalisator and fixed odds products continues to shift. Despite the trend of growth in fixed odds betting, gross betting margin was successfully secured at 16.9% in 2010/11 compared to 16.7% the previous year.

The NZ Racing Board’s net betting revenue (excluding GST) fell \$9m on the previous year with lower volume of sales.

The legislated rise in GST from October 1, 2010, impacted on profit available for distribution. The rise equated to an additional payment of \$3.7m by the NZ Racing Board in 2010/11 over and above the figure for the previous year.

EXPORT BENEFITS

In 2010/11 the NZ Racing Board’s internationalisation strategy has been important in insulating the New Zealand racing industry from the impacts of weak economic conditions domestically and the Canterbury earthquakes.

It is testament to the calibre, quality and integrity of the New Zealand racing industry that export of our product has generated growing income for the three New Zealand Racing Codes and the NZ Racing Board.

In 2010/11 the NZ Racing Board’s international broadcast and wagering partner, Tabcorp–Sky Racing Channel, significantly increased its broadcast of New Zealand racing to the Australian wagering market.

As a result, revenue to the NZ Racing Board and, ultimately, the three domestic Racing Codes, increased from \$13.5m in 2009/11 to \$20.7m in 2010/11.

INNOVATING OUR OFFERING

The TAB is the income arm of the NZ Racing Board and, therefore, the national racing industry. It also pays levies to affiliated national sports bodies based on turnover and profit on sports betting.

To meet changing customer expectations, it is important for the NZ Racing Board to significantly invest in optimising its retail and betting product offering, providing service levels and products to engage new and emerging customers while retaining a traditional

customer base. In 2011 a major project to revamp TAB retail stores, PubTABS and ClubTABS nationwide commenced with the rollout of next-generation, easy-to-use self-serve terminals and the introduction of new digital display services. This project has been well received and represents the NZ Racing Board’s commitment to offering more to customers.

A major challenge during the year was the planned transition to a new wagering system. The reliable, but legacy, Jetbet system – now three decades old – has served the business well but limits the NZ Racing Board in its drive to grow business.

The integration of a new wagering system proved slower and more costly to develop and implement than anticipated. Some of the software did not meet the functionality the NZ Racing Board required for future developments and the decision was made to fully review the project toward the end of 2011. As a result of the review, an amount of \$3.2m has been impaired.

WORKING TOGETHER

In 2010/11 the co-operative relationship between the NZ Racing Board and the three Racing Codes was significantly enhanced to drive benefits for the national racing industry and its stakeholders.

This collaborative and transparent approach ensured agreement to the distribution model, with \$122.54m in profit delivered to the racing industry and the allocation of \$5.3m for industry development in industry sectors such as tri-Code integrity services, training, research and on-course activity and promotion.

This approach of collaboration and consensus, and the “whole industry” approach on critical issues, reflects the importance and benefits of industry stakeholders working together to ensure the viability and sustainability of racing in New Zealand.

Only by working together will we ensure racing remains an important part of the New Zealand economy and psyche in what is a challenging and competitive environment.



Bill Colgan,
Interim Chief Executive



Retail Transformation



Our extensive national retail transformation project is a key development in our continuing commitment to enhance customer service.

In the 2010/11 financial year significant investment and resource was committed to upgrading and developing stand-alone TAB retail outlets, PubTABs and ClubTABs nationwide to drive customer engagement, reduce ongoing service costs and increase financial performance.

Underpinning the retail transformation has been the introduction of new technology to enhance customer engagement and experience in a more modern context, representing the single biggest retail investment programme undertaken by the TAB.

Key developments in the transformation have been the development and ongoing delivery of self-serve terminals (SSTs) and enhanced retail digital display services (RDS).

SELF-SERVE TERMINALS

Following extensive development, design and build work, a total of 660 next-generation, easy-to-use SSTs were secured for deployment at TAB agencies, PubTABs and ClubTABs nationwide.

Beginning in December 2010, the deployment saw 464 SSTs installed across 347 outlets throughout the country by July 2011.

The modern, fast and intuitive SSTs have significantly enhanced customer engagement, providing a full complement of betting options, services and information at customers' fingertips. A low cost-to-serve channel, SSTs allow for targeted provision of services to meet customer demand while reducing labour costs.

Most importantly, SSTs have helped the TAB engage with a rapidly growing number of customers demanding interactive services that allow them to wager how they want, when they want.

RETAIL DISPLAY SERVICES (RDS)

Another key aspect of the retail transformation project is the development and delivery of a brand new, world-leading on-screen wagering information system.

Extensive work developing, building and testing a brand new retail display service was undertaken in 2010/11, with successful trials conducted at a number of TAB sites.

As well as serving as a response to the technical limitations of the aging Teletext service, the RDS system offers vibrant, colourful and complete race and sports wagering information using large, high-definition television displays that reflect the TAB's drive for a more modern retail offering that is more attractive to customers.

The cutting-edge technology employed by the RDS system will also deliver significant cost savings as

a result of a reduction in the need for paper odds displays.

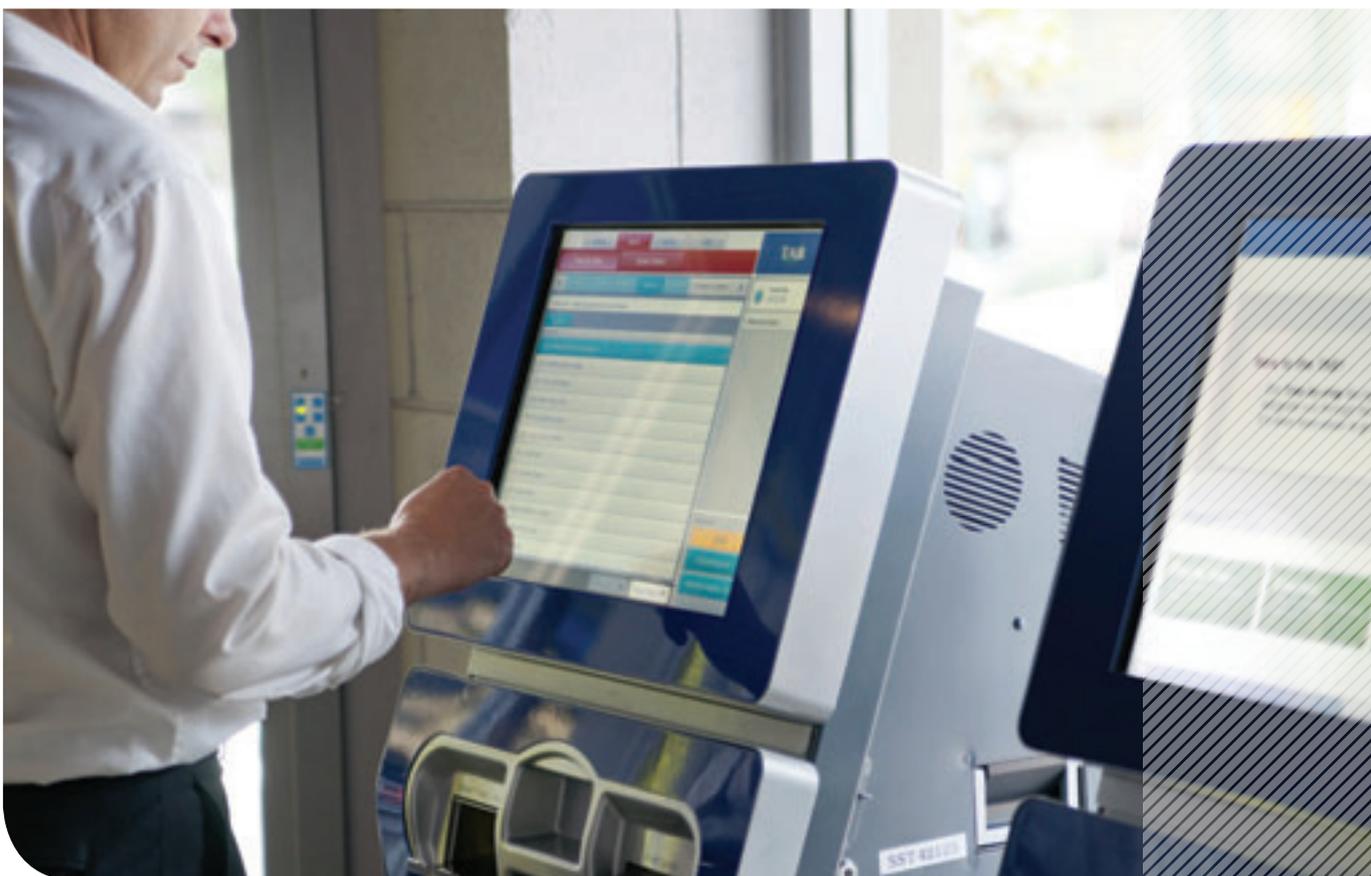
The rollout of RDS into the TAB's wider retail network has progressed well, with turnover results and customer feedback providing strong endorsement of the project. Further development of the system is continuing.

CHRISTCHURCH RECOVERY

The Christchurch earthquakes in late 2010-early 2011 had a significant impact on the TAB's retail operations in the region.

Key outlets in the city's central business district were severely damaged, or subject to restricted access. As a result, an earthquake recovery strategy was launched to re-establish TAB facilities for customers formerly serviced by those outlets affected.

Alongside the development of new strategic sites in the region, the recovery strategy has proved successful despite the challenging circumstances and will continue going forward.





Supporting Communities



Fill the Basin.

As an organisation with close and important links to communities nationwide, the NZ Racing Board has a strong commitment to being a socially responsible corporate citizen.

In 2010/11 the NZ Racing Board led and supported a range of community and charity initiatives to assist people and agencies in the community. Most notably, key activity was in response to two major national catastrophes – the devastating Canterbury earthquakes and the Pike River mining disaster. These two major initiatives were well supported by the three racing Codes in conjunction with the NZ Racing Board.

In 2010/11 the NZ Racing Board also established a fundraising and support partnership with New Zealand Riding for the Disabled.

SUPPORT FOR CANTERBURY

Like all New Zealand citizens and businesses, the NZ Racing Board was deeply affected by the two devastating earthquakes the struck the region, the first

on September 4, 2010, and the second on February 22, 2011.

As a heartland of New Zealand racing, Canterbury has strong and long-standing importance to the industry. The NZ Racing Board sought to support earthquake recovery efforts in a way that would assist not only racing industry participants but all people in the region affected by the disaster.

In recognition of the sterling efforts of the men and women of the St John ambulance service in caring for the people of Canterbury in the fallout of the quakes, the NZ Racing Board and the racing Codes decided to fundraise for the provision of a new, fully-equipped ambulance – worth more than \$200,000 – to serve the region in its recovery and as a lasting way of assisting them in the years to come.



Support for Canterbury.

Fundraising was achieved in two key ways – a contribution from all bets placed nationwide with the TAB during the finals weekend of The Christchurch Casino and Sky City Auckland Inter Dominion Finals in April 2011 and from activity in association with the Fill the Basin charity cricket match at the Basin Reserve in Wellington.

As well as making a cash donation to recovery efforts from activity at the event, a more significant contribution came by way of providing full event and outside broadcast services by way of the NZ Racing Boards' national broadcasting service, Trackside, in association with Sky Television.

Trackside supplied technical and broadcasting resource and expertise, screening the event nationwide via the Trackside channel on its digital and UHF (including free-to-air) platforms.

The broadcast of the hugely successful charity cricket match, featuring international celebrities and sports stars including Sir Richard Hadlee, Stephen Fleming, Martin Crowe and Shane Warne, raised more than \$500,000 for earthquake recovery efforts and crucially acted as a call-to-action to people in New Zealand and overseas.

The new St John ambulance was presented to the people of Canterbury by representatives from the NZ Racing Board and racing Codes at a feature harness racing meeting at Addington Raceway in Christchurch in May, 2011.

RACING FOR THE COAST

The New Zealand racing industry also rallied to the cause when 29 men lost their lives in the Pike River mining disaster on the West Coast on November 19, 2010.

Like racing, mining plays a pivotal role in life in communities on the West Coast, spurring the NZ Racing Board to get behind relief efforts by supporting the Pike River Disaster Relief Fund.

The TAB donated 5c for every tote bet placed off-course on West Coast racing events during the summer

holidays as part of the Racing for the Coast initiative, also establishing a special West Coast Racing Appeal Account for TAB account customers to donate into.

Racing for the Coast comprised a series of harness and thoroughbred racing events held at West Coast race Clubs between December 26 and January 15. Owners and trainers from around the country gathered in Westport, Reefton, Kumara, Hokitika and Greymouth to rally support and make the events bigger than ever.

The series raised \$54,000 for support efforts and to alleviate financial hardship for those affected by the tragedy.

Perhaps more importantly, Racing for the Coast provided welcome respite to devastated Coasters by offering them a uniquely Kiwi opportunity to come together as communities to help them deal with the aftermath of the tragedy with the racing industry's steadfast support.

RIDING FOR THE DISABLED

In 2010 the NZ Racing Board selected New Zealand Riding for the Disabled as its major charity partner.

Riding for the Disabled provides therapeutic interaction with horses in order to develop increased ability and self-esteem for children and adults with physical and intellectual difficulties via a nationwide association of 56 member groups offering:

- therapy and rehabilitation
- education, behaviour modification and social contact
- horse riding for sport and recreation for people with disabilities

The NZ Racing Board provided flexibility and support to staff to undertake fundraising initiatives, which it then matched financially. The range of activities undertaken in the first year of the partnership included a major charity golf tournament as well as a series of one-off events organised by staff.

In 2010/11 RDA received \$50,000 as a result of staff fundraising and the NZ Racing Board will continue and further build the partnership in 2011/12.



Technology

As our business has grown so too has the need for the development and delivery of more effective and innovative wagering channels.

Accelerating customer demand for online and mobile services has seen the NZ Racing Board make major strides in 2010/11 in meeting this demand.

INTERNET

Rapid growth in customer demand via the online channel necessitated the need to improve the functionality, look and feel of the tab.co.nz website in 2010/11. Major upgrades introduced during this period include:

- modernisation of racing and sports pages
- introduction of a more intuitive layout and navigation process to allow customers to place bets more easily
- improved facility for customers to “personalise” their interaction with tab.co.nz, for example the display of specific and relevant information to individual customers including form/racing silks
- introduction of “News Alerts” to complement online content and wagering opportunities
- “News and Tips” section updated, allowing for more effective and valuable presentation of racing, sports and feature information to promote wagering

MOBILE

With smartphones currently making up 19% of the mobile market and forecasts this share will increase to 65% by 2013, the NZ Racing Board has invested in developing an effective mobile wagering platform. The m.tab.co.nz channel has proved extremely popular with “modern” and “emerging” customer segments, providing significant revenue growth

BROADCASTING

In late July 2011 the New Zealand Racing Board’s Trackside television broadcast service completed the switch to a fully digital service, resulting in better broadcast quality and reliability for all viewers.

The switchover meant the NZ Racing Board took the lead in making the change to a 100% digital service as part of the Government’s initiative to switch off the UHF

analogue service nationwide in a phased approach beginning September 2012. It has also delivered significant operational and cost efficiencies to the NZ Racing Board.

WAGERING SYSTEM

In recognition of future business development constraints inherent in the legacy Jetbet wagering system, which is now three decades old, the NZ Racing Board continued a major information technology and business transformation project in 2010/11 tasked with the ongoing development of a new, modern wagering computer system.

However, the integration of a new wagering system proved slower and more costly to develop than anticipated, with the implementation not meeting the functionality required by the NZ Racing Board for future business needs.

As a result, an in-depth independent assessment and review of the project is underway.





Code Champions

JIMMY CHOUX – THOROUGHBREDS

Hawke's Bay hero Jimmy Choux started 10 times in his three year-old career for seven sensational wins. His three Group 1 victories in the New Zealand 2000 Guineas, Telecom New Zealand Derby and Rosehill Guineas saw him canter to the three-year-old of the year title. His wins in both the 2000 Guineas and Derby saw the rare classic double achieved for first time since 1990, propelling Jimmy Choux to NZ Thoroughbred Racing Horse of the Year in a very strong season for New Zealand-trained thoroughbreds.

Owner: Chouxmaani Investments Ltd

Trainer: John Bary

Breeding: Thorn Park (AUS)/Cierzo (NZ)

Breeder: Chouxmaani Investments Ltd



CARABELLA – HARNESS

A sensational season of six Group 1 titles had Carabella crowned New Zealand's premier standardbred for 2010/11. Her 11-start season was punctuated with success in the Group 1 Pascoe's The Jewellers Northern Oaks during Auckland Cup Week, as well as the three-year-old Diamond at the Ashburton Harness Jewels meeting in June.

Owner: Cavalla Bloodstock Limited

Trainer: Brendon Hill

Breeding: Bettor's Delight (USA)/Andress Blue Chip (USA)

Breeder: Cavalla Bloodstock Limited



SERGIO – GREYHOUNDS

A treble of Group 1 victories in a season of 12 wins from 15 starts made Sergio an easy pick for Greyhound of the Year. Arriving from Australia for trainer/owner Gary Harding, Sergio's 12 wins included the Group 1 Challenge Service Stations New Zealand Cup, Group 1 Waterloo Cup and Group 1 Spion Rose. In a rare feat, the super-chaser notched up elite wins in all three regions, as well as qualifying for the final of the world's richest greyhound race, the A\$475,000 Golden Easter Egg.

Owner: Gary Harding

Trainer: Gary Harding

Breeding: Collision (Aus)/Tarawi Tess (Aus)

Breeder: Lorraine Atchison





Racing in New Zealand

While the New Zealand racing industry faces challenges, a report commissioned by the New Zealand Racing Board underlines the value and importance of the industry to the country and its economy.

The findings of the Size and Scope of the New Zealand Racing Industry report, published by IER Pty Ltd in 2010, confirmed the domestic racing industry's significant contribution to the New Zealand economy, generating economic activity of more than \$1.6 billion in gross domestic product (almost 1% of the country's total GDP) and creating almost 17,000 fulltime jobs.

The report outlined racing's strong links in communities the length and breadth of the country, with more than 52,000 people actively involved in the sport, from breeding and training to volunteering and wagering.

More than one million New Zealanders attend a race meeting at least once a year, spending more than \$70 million on food and beverage, entertainment and hospitality on-course. The NZ Racing Board continues to make a significant investment in assisting racing Clubs in maximising on-course activity and revenue, with promotions including Christmas At The Races.

The industry also generates significant and growing export income for New Zealand, with export earnings in excess of \$160 million annually.

As an important and traditional part of New Zealand culture, the industry is strong in regional centres, where it is a mainstay of local employment and productivity.

However, the report highlighted the challenges facing the racing industry in light of similar research conducted in 2003/04. Racing's relevance and contribution in economic and employment terms has slowly declined, though in 2010/11 the NZ Racing Board has led initiatives to inject new optimism and prosperity into the industry.

A COLLABORATIVE APPROACH

The NZ Racing Board sought to establish close collaborative and co-operative relationships with industry stakeholders in 2010/11.

Strengthened relationships built of trust and understanding have been established most notably with the three

racing Codes – NZ Thoroughbred Racing, Harness Racing NZ and Greyhound Racing NZ.

A programme of regular consultative meetings between key representatives from the four major racing organisations has helped establish consensus on a range of issues, from funding distribution and other financial matters to enhancing perceptions and promotion of the racing industry.

This "whole industry" approach on issues of critical importance to the industry reflects the recognition, willingness and commitment of industry stakeholders to work together to ensure the New Zealand racing industry remains viable, sustainable and able to grow.

RACING INTEGRITY UNIT

Underpinning the racing industry's commitment to enhancing perceptions of New Zealand racing was the establishment of the Racing Integrity Unit (RIU).

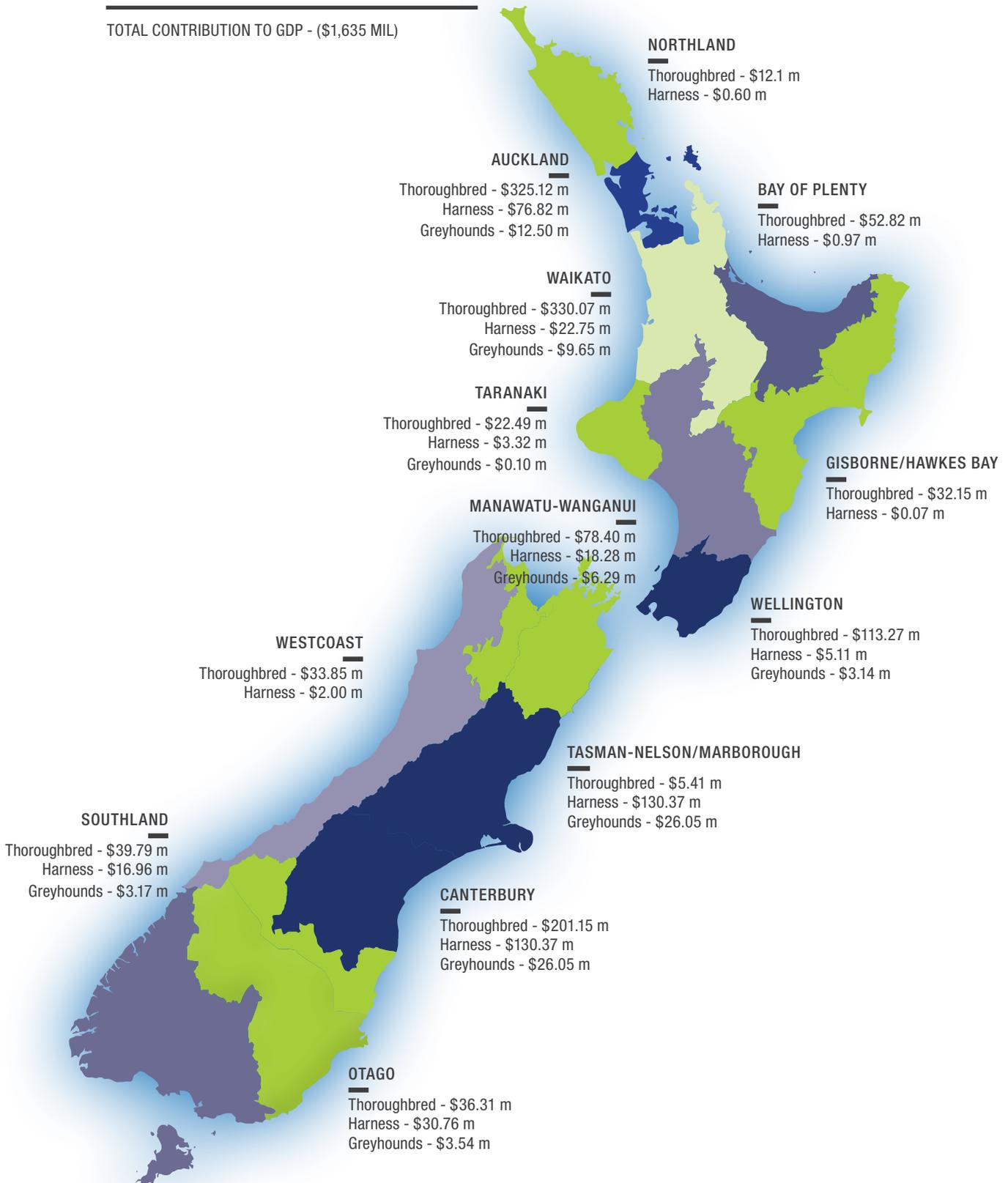
This industry body commenced operation on February 1, 2011, bringing together the Stipendiary Steward and Racecourse Investigator functions for each New Zealand racing Code and assuming responsibility for investigating and prosecuting breaches of the Rules of Racing.

It is an independent organisation responsible for integrity matters in the New Zealand racing industry. The formation of the RIU means New Zealand is one of only a few jurisdictions internationally to have a tri-Code integrity unit.

With the establishment of the unit a clear delineation has been established between the agencies responsible for rule making (the three Codes), policing (the Racing Integrity Unit), and the judiciary for integrity issues (the Judicial Control Authority www.jca.org.nz).

Funded by the NZ Racing Board, the RIU has allowed for a more efficient pooling of resources and sharing of best-practice procedures. A total of 34 staff members are employed by the RIU in offices in Auckland, Hamilton, Wellington and Christchurch, as well as regionally throughout New Zealand.

TOTAL CONTRIBUTION TO GDP - (\$1,635 MIL)





Responsible Gambling

The NZ Racing Board is committed to taking proactive steps to minimise harm caused by problem gambling. We have a statutory responsibility under the Racing and Gambling acts to report on programmes for minimising problem gambling and its impact, provide information and advice on problem gambling and provide problem gambling training to all staff who sell wagering products to customers.

FOCUS ON HARM PREVENTION AND MINIMISATION

We have taken measures during the year to ensure compliance with regulation and to ensure our TAB outlets meet the rigorous standards required by training policies and compliance procedures.

During the 2010/11 year the NZ Racing Board's investment in responsible gambling measures was \$1.38 million (\$1.62 million in 2009/10). Of this, approximately \$1.29 million (\$1.54 million in 2009/10) was paid to the Crown to recover the costs of Ministry of Health's problem gambling management services.

The NZ Racing Board endorses the Ministry of Health's strategies and programmes in this area, illustrated by our representation in the Stakeholder Reference Group co-ordinated by the Department of Internal Affairs, with participation with the Ministry of Health.

This is an important opportunity to contribute, alongside other industry providers and parties, to the discussion on key issues within our sector from a harm prevention and minimisation perspective. The NZ Racing Board also maintains strong relationships with government officials, as well as working alongside problem gambling support agencies to better understand customer needs.

In 2010/11 approximately \$99,000 (\$78,000 in 2009/10) was predominantly invested in the provision of training in harm minimisation and prevention procedures for staff in customer-contact roles within the NZ Racing Board and the wider racing industry in order to ensure leadership continues to be taken in this area.

It is a requirement in our Retail Agency Contracts that all TAB store management staff, and those who work in "sole operator" positions, undertake appropriate and robust problem gambling training to help meet our responsibilities around harm prevention and minimisation.

Face-to-face classroom-based training of staff is conducted at regional centres by appropriate external facilitators on a regular basis. During the 2010/11 year, 367 TAB operators received and passed problem gambling training.

In addition, the NZ Racing Board is piloting a complementary training programme developed in conjunction with the Problem Gambling Foundation, allowing staff to undertake problem gambling awareness and refresher training online.

IDENTIFICATION AND MANAGEMENT

The NZ Racing Board has developed both proactive and reactive approaches to the identification and investigation of potential problem gambling situations.

In addition to situations where customers directly contact us the request exclusions from holding and using a TAB account or placing a bet at a TAB retail outlet, we also rely on the training of TAB operators to identify and report matters requiring further investigation with regard to problem gambling behaviour. Further, we conduct exception reporting aimed at identifying any significant changes or concerns around the betting behaviour of account customers.

In the 2010/11 year we investigated 298 potential problem gambling incidents. Of this, 116 customers

were issued with exclusion notices, while 10 account customers were placed in the *Set Your Limits* betting restriction programme. These numbers represent an extremely small percentage of our customer base.

Since the introduction of the Racing Act 2003, we have acted on 333 requests from customers for self-exclusion, while also excluding a further 27 customers deemed to be a risk.

SET YOUR LIMITS PROGRAMME

The *Set Your Limits* programme is available to all TAB account customers, allowing them to request the NZ Racing Board place a limit or cap on account betting activity.

The limitations on betting activity can be either a request to limit the amount of money able to be spent through the account each week, or a request to limit the level of losses through the account. Once the agreed limit has been reached, no further bets will be accepted on the nominated account for that week.

Changes to the agreed limits can only be made after customer consultation with the NZ Racing Board.

To date, 40 account customers have taken advantage of the programme. Feedback from these customers has been overwhelmingly positive, in that the *Set Your Limits* programme had provided them with a practical way of helping them control their betting behaviour while still allowing them the enjoyment of wagering







Income Statement

	Note	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
REVENUE AND OTHER INCOME				
Betting turnover (including GST)	1a	1,533,401	1,693,892	1,582,734
Net dividends (including GST)		(1,260,608)	(1,397,557)	(1,304,341)
Betting deductions (including GST)	1b	(44,636)	(49,922)	(41,205)
Net betting revenue (excluding GST)		228,157	246,413	237,188
Interest income	1c	2,177	2,500	2,348
Other income	1d	43,413	35,779	33,908
		45,590	38,279	36,256
Total revenue and other income		273,747	284,692	273,444
EXPENSES				
Operating expenses	2	146,716	152,644	145,063
Software impairment	12	3,200	–	–
Net return before industry expenditure and distributions	20a	123,831	132,048	128,381
ON-COURSE PROJECTS				
On-course projects and other expenditure funded	20b	1,515	1,750	1,377
Total on-course projects		1,515	1,750	1,377
Surplus available for distribution		122,316	130,298	127,004
FUNDING TO THE RACING INDUSTRY				
Fixed code funding	20c	85,000	90,000	84,261
Domestic market share code funding	20c	1,167	3,454	7,690
Variable code funding	20c	36,368	34,398	28,366
Research and integrity funding	20c	3,820	3,373	3,365
Total funding	20c	126,355	131,225	123,682
Net (deficit)/surplus after funding		(4,039)	(927)	3,322
(Deficit)/surplus attributable to:				
New Zealand Racing Board reserves		(4,039)	(927)	3,322

The accompanying accounting policies and notes form part of these financial statements.



Statement of Comprehensive Income

	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
Net (deficit)/surplus after funding	(4,039)	(927)	3,322
Other comprehensive income	–	–	–
Total comprehensive income	(4,039)	(927)	3,322
Total comprehensive income attributable to:			
New Zealand Racing Board reserves	(4,039)	(927)	3,322



Statement of Changes in Equity

	Note	General reserve NZ\$000	Budget NZ\$000
Balance as at 1 August 2009		81,526	107,637
Adjust budget for actual carried forward		–	(26,111)
Other comprehensive income		–	–
Total comprehensive income for the year		3,322	8,240
Balance as at 31 July 2010		84,848	89,766
Adjust budget for actual carried forward		–	(4,918)
Other comprehensive income		–	–
Total comprehensive income for the year		(4,039)	(927)
Balance as at 31 July 2011	19	80,809	83,921

The accompanying accounting policies and notes form part of these financial statements.



Statement of Financial Position

	Note	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
CURRENT ASSETS				
Cash and cash equivalents	3	10,002	9,015	6,048
Trade and other receivables	4	8,836	9,796	8,715
Other financial assets	5	31,467	37,608	46,462
Other current assets	6	1,804	1,537	1,224
Total current assets		52,109	57,956	62,449
NON-CURRENT ASSETS				
Property, plant and equipment	11	48,037	45,263	44,446
Intangible assets	12	17,330	20,157	14,220
Other financial assets	5	10,943	11,090	10,680
Total non-current assets		76,310	76,510	69,346
TOTAL ASSETS		128,419	134,466	131,795
CURRENT LIABILITIES				
Trade and other payables	7	18,886	23,846	20,168
Account betting deposits and vouchers	5	15,082	15,581	14,385
Other financial liabilities	8	9,075	7,766	7,601
Taxes payable		3,386	2,610	3,653
Provisions	9	237	78	257
Total current liabilities		46,666	49,881	46,064
NON-CURRENT LIABILITIES				
Other financial liabilities	8	-	-	-
Provisions	9	944	664	883
Total non-current liabilities		944	664	883
TOTAL LIABILITIES		47,610	50,545	46,947
Net assets		80,809	83,921	84,848
EQUITY				
General reserve	19	80,809	83,921	84,848

The members of the New Zealand Racing Board authorised these Financial Statements for issue on 20 December 2011.

Michael Stiassny
Chairman of the New Zealand Racing Board

Warren Bell
Chairman of the Audit and Finance Committee of the New Zealand Racing Board

The accompanying accounting policies and notes form part of these financial statements.



Statement of Cash Flows

	Note	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Inflows				
Betting turnover		1,533,392	1,693,998	1,582,760
Racing services income		14,666	14,982	14,845
Jackpot retentions and account deposits (net)		281	1,399	1,402
Interest received		2,128	2,328	2,083
International racing fees and other income		26,960	19,418	15,316
		1,577,427	1,732,125	1,616,406
Outflows				
Dividends paid		1,260,735	1,397,557	1,304,265
Fixed and domestic market share funding		108,426	123,979	111,282
On-course and Industry projects		1,825	1,750	2,526
Variable code, research and integrity funding		32,048	20,270	29,962
Payments to suppliers		80,125	85,898	79,022
Payments to employees		33,757	33,334	32,326
Goods and services tax (net)		33,826	37,912	30,185
Betting duty paid		10,771	13,023	10,045
Sports bodies' levies		3,474	1,973	2,697
		1,564,987	1,715,696	1,602,310
Net cash provided by operating activities	15	12,440	16,429	14,096
CASH FLOWS FROM INVESTING ACTIVITIES				
Inflows				
Repayment of short-term deposits on maturity		15,282	8,782	28,000
Disposals of property, plant and equipment		72	318	84
Disposals of intangible assets		1,028	–	–
Repayments of club loans		66	66	37
		16,448	9,166	28,121
Outflows				
Investments of short-term deposits		–	–	34,313
Purchases of property, plant and equipment		14,530	13,189	5,134
Purchases of intangible assets		10,323	9,371	9,396
Drawdowns of club loans		14	–	165
		24,867	22,560	49,008
Net cash used in investing activities		(8,419)	(13,394)	(20,887)
CASH FLOWS FROM FINANCING ACTIVITIES				
Outflows				
Interest paid		29	30	28
Repayments on finance leases		38	38	545
Net cash used in financing activities		(67)	(68)	(573)
Net increase/(decrease) in cash and cash equivalents		3,954	2,967	(7,364)
Cash and cash equivalents as at 1 August 2010		6,048	6,048	13,412
Cash and cash equivalents as at 31 July 2011	3	10,002	9,015	6,048

The accompanying accounting policies and notes form part of these financial statements.



New Zealand Racing Board Statement of Accounting Policies

REPORTING ENTITY

The New Zealand Racing Board is a statutory body established pursuant to the Racing Act 2003. The New Zealand Racing Board is domiciled in New Zealand, with its head office located at 106–110 Jackson Street, Petone, Wellington.

The principal objectives of the New Zealand Racing Board are:

- (a) to promote the racing industry; and
- (b) to facilitate and promote racing betting and sports betting; and
- (c) to maximise its profits for the long-term benefit of New Zealand racing.

These financial statements are prepared in accordance with the Racing Act 2003. The Racing Act 2003 requires disclosure of budgeted amounts approved by the Board and that the financial statements are prepared in accordance with generally accepted accounting practice.

STATEMENT OF COMPLIANCE

For financial reporting purposes, the New Zealand Racing Board is designated a profit-oriented entity.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards.

BASIS OF PREPARATION

These financial statements have been prepared on the basis of historical cost except for those assets and liabilities recognised at fair value as outlined in the accounting policies below. Cost is based on the fair value of the consideration given in exchange.

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

The accounting policies and computation methods set out below have been applied in preparing the financial statements for the year ended 31 July 2011 and the information presented for the comparative period.

The financial statements are parent and group financial statements. The group comprises the New Zealand

Racing Board, Racing Integrity Unit Limited and the Betting Accounts and Betting Vouchers Trust. The financial statements of the group are the same as those of the parent as all assets and liabilities of the Trust are held by New Zealand Racing Board as trustee.

Racing Integrity Unit Limited was established on 1 February 2011 and their expenses are included in "Funding to the Racing Industry" in the Income Statement and disclosed in note 20.

CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all material entities controlled by the New Zealand Racing Board as at 31 July 2011 and the results of the operations of such entities for the year then ended. The New Zealand Racing Board and such entities are together referred to in these financial statements as the New Zealand Racing Board.

Controlled entities are those entities over which the New Zealand Racing Board has the power to govern the entity's financial and operating policies of that entity.

Controlled entities are consolidated from the date on which control is transferred to the New Zealand Racing Board. They are de-consolidated from the date that control ceases.

Balances between controlled entities, including inter-entity transactions, are eliminated.

APPLICATION OF NEW AND AMENDED ACCOUNTING STANDARDS

There are no new and amended accounting standards, applicable to the New Zealand Racing Board's annual reporting period beginning on or after 1 August 2010.

KEY SOURCES OF ESTIMATION UNCERTAINTY

There are no key assumptions concerning the future, or other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, with exception of the assessment of carrying value of the new wagering system in note 12.

SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

(a) Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the New



Statement of Accounting Policies

SIGNIFICANT ACCOUNTING POLICIES continued

(a) Revenue recognition continued

Zealand Racing Board and the revenue can be reliably measured. The following general and specific recognition criteria must also be met before revenue is recognised:

The wagers placed on a betting event are recognised as deferred revenue (pre-sales) until the outcome of the betting event is determined, at which time the revenue is brought to account.

Net Betting Revenue

Net Betting Revenue consists of resulted turnover less dividends paid and payable to customers, and less duty and GST payable to the Inland Revenue Department. Except where otherwise noted Net Betting Revenue is recognised once the outcome of the betting event is confirmed.

Totalisator Revenue

Totalisator revenue is recognised once the outcome of the betting event is confirmed.

Fixed Odds Betting Revenue

Revenue is recognised as the net win or net loss on an event. Open betting positions are carried at fair market value and gains and losses arising on these positions are recognised in revenue.

International Racing Fees

International Racing Fees is income earned by the New Zealand Racing Board through the export of New Zealand racing events to international betting agencies. This revenue is based on the turnover taken by the international betting agencies on the exported racing events and is recognised at the time that the racing event takes place.

Interest Income

Interest Income is recognised using the effective interest method.

Racing Services Income

Racing Services Income refers to income the New Zealand Racing Board derives from providing on-course race day services to racing clubs, recovered as part of the funding arrangements from the Code Bodies. This revenue is recognised at the time that the racing event takes place.

Contributions Towards Assets

Contributions towards assets received from the Racing Code Bodies for laboratory equipment purchased by the New Zealand Racing Board are recognised as deferred income over the estimated useful life of the laboratory assets.

(b) Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Foreign currency differences are recognised in the income statement in the period in which they arise.

The functional and presentation currency is the New Zealand dollar.

(c) Goods and Services Tax (GST)

The income statement and statement of cash flows are prepared on a GST exclusive basis except for betting turnover and dividends paid to customers. The GST component in betting turnover represents the GST payable on betting deductions and net betting revenue as outlined in section 53 of the Racing Act 2003. All items in the Statement of Financial Position and Statement of Changes in Equity are stated net of GST, with the exception of trade receivables and payables which are recognised inclusive of GST.

(d) Income Tax

The New Zealand Racing Board is exempt from income tax pursuant to section CW47 of the Income Tax Act 2007.

(e) Inventories

Inventories, including betting slips, are valued at the lower of cost and net realisable value, as determined on a weighted average basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(f) Financial assets (other than derivatives)

Initial recognition

Financial assets are initially recognised at their fair value when the New Zealand Racing Board becomes a party to the contractual provisions of the financial instrument. Initial fair value is considered to be the cost price of the instrument except in the circumstances described below.

Club loans

Where club loans are advanced at an interest rate that is below the market rate for an investment on similar terms and of similar credit quality, the loan's fair value is less than its cost. Consequently, these loans are initially recognised at their fair value rather than cost. Fair value is determined by reference to



Statement of Accounting Policies

SIGNIFICANT ACCOUNTING POLICIES continued

(f) Financial assets (other than derivatives) continued

Club Loans continued

bank lending rates for loans on similar terms and of equivalent credit quality.

Trade date recognition for investments

Investments are recognised and derecognised on trade date where purchase or sale of the investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. These investments are initially measured at fair value, net of transaction costs.

Subsequent measurement

Financial assets (other than derivatives) are classified into the following specified categories: loans and receivables' and 'held-to-maturity investments'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables comprising cash and cash equivalents, trade receivables, club loans and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The loans and receivables with a maturity date within twelve months of the reporting date are recognised in current assets in the Statement of Financial Position while those with maturities greater than twelve months are recognised as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method less any impairment.

Held-to-maturity investments

Held-to-maturity investments, comprising corporate bonds and certain short-term deposits, are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity (other than those instruments classified as loans and receivables).

Held-to-maturity investments are carried at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that

exactly discounts estimated future cash flows over the expected life of the financial asset, or where appropriate over a shorter period, to the net carrying amount of the financial asset.

Cash and cash equivalents

Cash and cash equivalents are financial assets comprising cash on hand, cash at bank and investments with an initial term of less than three months.

(g) Impairment of financial assets

At the end of each reporting period and whenever circumstances warrant, financial assets are assessed for objective evidence of impairment.

Any financial asset impairment losses are recognised within "Operating expenses" in the Income Statement.

(h) Financial liabilities (other than derivatives)

Initial recognition and subsequent measurement
Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Trade and other accounts payable

Trade and other accounts payable are recognised when the New Zealand Racing Board becomes obliged to make future payments resulting from the purchase of goods and services.

Unpaid dividends

Unpaid dividends represents the liability due to winning customers that has yet to be claimed. Unpaid dividends are recognised at the time the related revenue is recognised.

Jackpot retentions

Jackpot retentions are established in accordance with the Racing Rules pursuant to section 52 of the Racing Act 2003. These comprise amounts set aside from the dividend pools of certain specified bet types. The funds accumulated are used solely for supplementing some of the future dividend pools for the originating racing or sports code.

Other financial liabilities

Other financial liabilities are measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

(i) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-valued to their fair value at each reporting date. The resulting gain or loss on revaluation is recognised in the Income Statement within "Other income". The New Zealand Racing Board does not hedge account.



Statement of Accounting Policies

SIGNIFICANT ACCOUNTING POLICIES continued

(i) Derivative financial instruments continued

Fixed odds betting positions: Fixed odds betting positions are considered derivative financial instruments for financial reporting purposes.

(j) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any impairment.

The deemed cost for land and buildings is the valuation on the inception of the New Zealand Racing Board in 2003.

Depreciation is calculated on a straight line basis so as to allocate the cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The current annual depreciation rates are as follows:

Buildings and fit out (at deemed cost)	2.5% – 10%
Computer hardware	14.3% – 33.3%
Furniture, office equipment and plant	10.0% – 20.0%
Leasehold improvements	14.3% – 20.0%
Motor vehicles	14.3% – 33.3%
Operations and trackside equipment	20.00%

Gains and losses on disposals are determined by comparing the sale proceeds with the asset's carrying amount at the disposal date. The resulting gain or loss is recognised in the Income Statement within "Other income" or "Other expenses" as appropriate.

(k) Lease assets

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases: Assets held under finance leases are initially recognised at their fair value, or if lower, at amounts equal to the present value of the minimum lease payments, determined at the inception of the lease.

The corresponding obligation to the lessor is included in the Statement of Financial Position as a finance lease liability.

Finance lease payments are apportioned between finance charges and reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets subject to finance leases are depreciated on a straight-line basis over the shorter of the asset's estimated useful life or the lease term.

Operating leases: Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

(l) Intangible assets

Broadcasting licences, software and other intangible assets are finite-life intangible assets carried at cost less accumulated amortisation and any impairment. Amortisation is charged on a straight-line basis over their estimated useful lives and is recognised within "Operating expenses" in the Income Statement. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

The current annual amortisation rates are as follows:

Broadcasting licences	5.0% – 38.5%
Other intangible assets	16.70%
Software	14.3% – 33.3%

(m) Impairment of non-financial assets

At each reporting date, the New Zealand Racing Board reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

Where the asset does not generate cash flows that are independent from other assets, the New Zealand Racing Board estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the



Statement of Accounting Policies

SIGNIFICANT ACCOUNTING POLICIES continued

(m) Impairment of non-financial assets continued

risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Any impairment loss is recognised immediately in the Income Statement. If an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the Income Statement.

(n) Provisions

Provisions are recognised when the New Zealand Racing Board has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(o) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, retirement gratuities and sick leave when it is probable that settlement will be required and the benefits are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within twelve months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within twelve months are measured as the present value of the estimated future cash outflows to be made by the New Zealand Racing Board. Future cash flows

have been estimated based on service completed to date, expected length of service and estimated future remuneration rates. The discount rates used are government stock rates consistent with the term of the obligation.

(p) Netting in the Statement of Cash Flows

The movements in Jackpot retentions and in Goods and Services Tax have been presented net in the Statement of Cash Flows as the transactions are settled over a short period of time.

The movements in Account deposits has been presented net in the Statement of Cash Flows as these movements represent customer transactions rather than transactions of the New Zealand Racing Board.

(q) Funding

Funding payments are made based on the contractual funding agreements between the New Zealand Racing Board and the Racing Codes.

(r) New financial reporting standards and amendments not yet applied

The following financial reporting standards and amendments have been issued and have not been applied in the preparation of these financial statements. The New Zealand Racing Board considers that the application of these standards and amendments will have a non-material recognition and disclosure impact on the financial statements.

NZ IFRS 9 Financial Instruments (effective for reporting periods commencing on or after 1 January 2013) NZ IFRS 9 requires the re-classification of financial assets into two categories – those recognised and measured at amortised cost and those recognised and measured at fair value. Classification is dependent upon the business model adopted for managing the financial assets and upon specified criteria.

The New Zealand Racing Board intends to apply the standard for the financial period ending 31 July 2014.

NZ IAS 24 Related Party Disclosures amendments (effective for reporting periods commencing on or after 1 January 2011)

The amendments simplify the definition of a related party and provide further clarification of its intended meaning. Early application of the amendments to NZ IAS 24 is permitted. The New Zealand Racing Board intends to apply these amendments for the financial period ending 31 July 2012.



Notes to the Financial Statements

	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
1. REVENUE			
REVENUE FROM CONTINUING OPERATIONS:			
(a) Betting turnover (including GST)			
Off-course racing — totalisator	1,128,091	1,279,515	1,195,243
Off-course racing — fixed odds	144,495	138,726	110,905
On-course racing	69,453	75,363	77,271
TOTAL RACING TURNOVER	1,342,039	1,493,604	1,383,419
Sports — totalisator	1,649	1,909	2,337
Sports — fixed odds	189,713	198,379	196,978
TOTAL SPORTS TURNOVER	191,362	200,288	199,315
TOTAL BETTING TURNOVER	1,533,401	1,693,892	1,582,734
(b) Betting deductions (including GST)			
Betting duty	10,663	11,904	10,907
Goods and services tax	33,973	38,018	30,298
TOTAL BETTING DEDUCTIONS	44,636	49,922	41,205
On the 1st October 2010 the GST rate increased from 12.5% to 15%.			
(c) Interest income			
Cash and cash equivalents	289	949	291
Short-term deposits	1,498	1,157	1,570
Corporate bonds	58	163	175
Loans and advances to clubs and codes	332	231	312
TOTAL INTEREST INCOME	2,177	2,500	2,348
(d) Other income			
Racing services income	14,666	14,982	14,845
International racing fees	20,767	16,429	13,467
Net foreign exchange gains	541	—	—
Insurance recovery	771	—	—
Other	6,668	4,368	5,596
TOTAL OTHER INCOME	43,413	35,779	33,908



Notes to the Financial Statements

	Note	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
2. OPERATING EXPENSES				
(a) Operating expenses include the following items:				
Amortisation expense	12	3,744	3,511	4,279
Auditors' remuneration				
– Auditing services		79	78	79
Board members' remuneration and expenses		339	338	339
Broadcasting expenses		8,669	8,809	7,989
Communications expenses		6,498	6,391	6,647
Depreciation expense	11	10,016	11,676	11,354
Employee expenses	16,17	41,149	41,161	37,895
Finance costs		30	30	29
Form guide production and marketing expenses		8,283	8,654	6,984
Insurance		947	926	910
Net movement in allowance for doubtful debts	4	(8)	–	10
Overseas racing rights		18,673	19,871	17,987
Problem gambling levy and expenses		1,374	1,730	1,608
Property and equipment leases		5,044	5,081	4,710
Restructuring costs		427	60	256
Retail and internet fees		20,500	22,816	23,921
Sporting bodies' levies		3,016	2,915	3,376
Other expenses		17,844	18,227	16,650
(b) Losses included in net surplus:				
Losses on disposals of property, plant and equipment		92	360	21
Net foreign exchange losses		–	10	19
TOTAL OPERATING EXPENSES		146,716	152,644	145,063

	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
3. CASH AND CASH EQUIVALENTS			
Foreign currency bank accounts	985	388	388
Foreign currency betting accounts	537	645	645
NZ dollar bank accounts and call deposits	8,480	7,982	5,015
TOTAL CASH AND CASH EQUIVALENTS	10,002	9,015	6,048



Notes to the Financial Statements

	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
4. TRADE AND OTHER RECEIVABLES			
Trade and sundry receivables	8,844	9,796	8,731
Allowance for doubtful debts	(8)	–	(16)
TOTAL TRADE AND OTHER RECEIVABLES	8,836	9,796	8,715

Settlement receivables

The New Zealand Racing Board's retail outlets are required to settle on a weekly basis.

The New Zealand Racing Board's practice is to require either bank guarantees or cash bonds from retail outlets of a value generally greater than a week's settlement.

Trade receivables

The average period outstanding on sales of goods and services is 44 days (2010:39 days). No interest is charged on trade receivables past due date. The Board has provided for certain receivables over 90 days where debt collection agencies have been instructed to collect the debt. Included in the New Zealand Racing Board's trade receivables balance are debtors with a carrying amount of \$461,748 that are past due at 31 July 2011 (2010: \$520,705) for which the Board has not provided or recognised any impairment loss. The Board believes the credit quality of these receivables remains sound and the amounts are fully recoverable. The New Zealand Racing Board does not hold any collateral over these balances, of which the average age is 45 days (2010: 57 days) at the reporting date. An analysis of the ageing of past due debtors is outlined below:

	Past due 30 days NZ\$000	Past due 60 days NZ\$000	Past due 90 days NZ\$000	Total NZ\$000
2011				
Past due and not impaired	334	68	58	460
Impaired assets – gross	–	–	8	8
Impairment allowance	–	–	(8)	(8)
Net past due trade and other receivables	334	68	58	460
Current trade and other receivables				8,376
TOTAL TRADE AND OTHER RECEIVABLES				8,836

	Past due 30 days NZ\$000	Past due 60 days NZ\$000	Past due 90 days NZ\$000	Total NZ\$000
2010				
Past due and not impaired	99	108	314	521
Impaired assets – gross	–	–	16	16
Impairment allowance	–	–	(16)	(16)
Net past due trade and other receivables	99	108	314	521
Current trade and other receivables				8,194
TOTAL TRADE AND OTHER RECEIVABLES				8,715



Notes to the Financial Statements

	2011	2010
	NZ\$000	NZ\$000
4. TRADE AND OTHER RECEIVABLES continued		
Movement in the allowance for doubtful debts:		
Balance at the beginning of the year	(16)	(6)
Amounts written off during the year	–	–
Amounts recovered during the year	–	–
(Additions)/reversals in allowance	8	(10)
BALANCE AT THE END OF THE YEAR	(8)	(16)

Movements in the allowance for doubtful debts are recognised in Operating expenses in the Income Statement. Amounts provided for in the allowance account are written off when there is no expectation of recovering additional cash. The maximum exposure to credit risk is the carrying value of the amounts recorded above.

In determining the recoverability of a receivable, the Board considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date including whether a liquidator, receiver or other statutory manager has been appointed. Within trade and other receivables, there are no entities or individuals (2010: nil) that are subject to any form of statutory management and therefore no further impairment is considered necessary.

	Note	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
5. OTHER FINANCIAL ASSETS				
Foreign currency forward exchange contracts	14(i)	–	–	69
Short-term deposits		10,000	16,500	25,282
Short-term deposits – Betting Accounts and Vouchers Trust		20,000	20,000	20,000
Corporate bonds		2,031	2,051	2,051
Loans and advances to clubs and codes	10	10,379	10,147	9,740
TOTAL OTHER FINANCIAL ASSETS		42,410	48,698	57,142

Disclosed as:

Current	31,467	37,608	46,462
Non-current	10,943	11,090	10,680
TOTAL OTHER FINANCIAL ASSETS	42,410	48,698	57,142

Short-term deposits – Betting Accounts and Vouchers Trust represents funds held in trust to cover amounts owing to customers on betting accounts and unrepresented vouchers for resulted wagering. The New Zealand Racing Board's obligations for these amounts are separately disclosed in the Statement of Financial Position as Account betting deposits and vouchers totalling \$15.1 million (2010: \$14.4 million).

	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
6. OTHER CURRENT ASSETS			
Prepayments	1,661	1,309	996
Inventory	143	228	228
TOTAL OTHER CURRENT ASSETS	1,804	1,537	1,224



Notes to the Financial Statements

	Note	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
7. TRADE AND OTHER PAYABLES				
Employee entitlements		3,440	3,086	3,180
Amounts payable to Board members		35	55	55
Trade payables and accruals		14,078	19,257	15,558
Unresulted turnover	14(i)	1,172	1,287	1,181
Contributions to assets by racing codes		161	161	194
TOTAL TRADE AND OTHER PAYABLES		18,886	23,846	20,168

No interest is incurred on trade payables unless the amounts payable fall overdue. Interest is charged at the discretion of the vendor. The New Zealand Racing Board has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

	Note	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
8. OTHER FINANCIAL LIABILITIES				
Code liability	16	3,639	1,711	1,711
Unpaid dividends		3,433	3,925	3,722
Jackpot retentions		2,003	2,130	2,130
Finance leases	13	–	–	38
TOTAL OTHER FINANCIAL LIABILITIES		9,075	7,766	7,601

Disclosed as:

Current		9,075	7,766	7,601
Non-current		–	–	–
TOTAL OTHER FINANCIAL LIABILITIES		9,075	7,766	7,601



Notes to the Financial Statements

	Make good NZ\$000	Long-term employee benefits NZ\$000	Sick leave NZ\$000	Restructuring NZ\$000	Total provisions NZ\$000
9. PROVISIONS					
Balance at 1 August 2009	361	302	94	800	1,557
Additional provisions	159	441	78	–	678
Provisions released	–	–	(79)	–	(79)
Amounts used	(93)	(108)	(15)	(800)	(1,016)
Balance at 31 July 2010	427	635	78	–	1,140
Additional provisions	134	73	73	–	280
Provisions released	–	–	(35)	–	(35)
Amounts used	(80)	(81)	(43)	–	(204)
Balance at 31 July 2011	481	627	73	–	1,181

	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
Disclosed as:			
Current	237	78	257
Non-current	944	664	883
TOTAL PROVISIONS	1,181	742	1,140

(a) Provision for make good costs

A provision has been established for anticipated future costs associated with restoring leased premises to their original condition at the end of the lease term. This provision is based on the New Zealand Racing Board's previous experience and the percentage of the lease term expired.

The leases have varying expiry dates up to 2018. The actual payment dates and costs will be known once each lease reaches its expiry date and the extent of the corresponding make good is ascertained.

(b) Provision for long-term employee benefits

The New Zealand Racing Board has a group of legacy employment contracts containing long service leave entitlements and a further group of legacy employment contracts containing retirement gratuity entitlements.

A provision has been established to recognise the probable amounts to vest to employees in the future based on estimated future salaries, payment dates and achievement of service milestones.

The provision in 2011 includes amounts for both long service leave and retirement gratuity.

(c) Provision for sick leave

A provision has been established for accumulating sick leave to the extent that it is probable that employees will take more days than their annual entitlement in any year.

(d) Provision for restructuring

A restructuring provision arose in 2009 from the disestablishment of a number of specific positions within the New Zealand Racing Board. The provision was fully utilised during the 2010 financial year.



Notes to the Financial Statements

	Note	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
10. LOANS AND ADVANCES TO CLUBS AND CODES				
New Zealand Greyhound Racing Association		458	451	518
New Zealand Metropolitan Trotting Club (Inc)		5,800	5,865	5,504
New Zealand Thoroughbred Racing		1,297	986	986
RACE Inc		2,710	2,726	2,614
Wanganui Greyhound Racing Club		43	65	65
Whangarei Racing Club Inc		71	54	53
LOANS TO CLUBS AND CODES	5	10,379	10,147	9,740

Disclosed as:

Current	1,467	1,108	1,112
Non-current	8,912	9,039	8,628
LOANS TO CLUBS AND CODES	10,379	10,147	9,740

The amounts outlined above are the loan carrying values recognised in the Statement of Financial Position.

As outlined in the significant accounting policies, at the time each loan tranche was initially advanced, a fair value adjustment was made to the loan carrying amount that reflected the differential between the interest rate charged on the loan and current market interest rates for similar loans. This adjustment is fully amortised over the life of the loan so that the loan carrying value at maturity is equal to the cash amount due.

The loan carrying values include the net fair value adjustments after amortisation at the effective interest rate, loan interest at the contracted rate and any repayments made.

Reconciliation of loan carrying values to loan amounts outstanding.

The following table provides a reconciliation of the loan carrying value to the actual loan amounts outstanding. The net fair value adjustments comprise the originating adjustments less accumulated amortisation.

	Loan carrying value NZ\$000	Net fair value adjustments NZ\$000	Loan balance outstanding NZ\$000
2011			
New Zealand Greyhound Racing Association	458	78	536
New Zealand Metropolitan Trotting Club (Inc)	5,800	295	6,095
New Zealand Thoroughbred Racing	1,297	–	1,297
RACE Inc	2,710	283	2,993
Wanganui Greyhound Racing Club	43	1	44
Whangarei Racing Club Inc	71	1	72
LOANS TO CLUBS AND CODES	10,379	658	11,037

2010

New Zealand Greyhound Racing Association	518	86	604
New Zealand Metropolitan Trotting Club (Inc)	5,504	479	5,983
New Zealand Thoroughbred Racing	986	–	986
RACE Inc	2,614	399	3,013
Wanganui Greyhound Racing Club	65	1	66
Whangarei Racing Club Inc	53	2	55
LOANS TO CLUBS AND CODES	9,740	967	10,707



Notes to the Financial Statements

	Interest rate		Rate type
	2011	2010	
10. LOANS AND ADVANCES TO CLUBS AND CODES continued			
The interest rates on outstanding loans at the reporting date are as follows:			
New Zealand Greyhound Racing Association	5.00%	5.00%	Fixed
New Zealand Metropolitan Trotting Club (Inc)	2.88%	2.88%	Variable
RACE Inc	3.50%	4.00%	Variable
Wanganui Greyhound racing Club	4.00%	4.00%	Fixed
Whangarei Racing Club Inc	2.88%	2.88%	Variable

Loan approval amounts have remained constant at the existing levels throughout the reporting period.

The New Zealand Racing Board is satisfied as to the ultimate collectability of all these loans.

Collateral

The outstanding balances of the loans granted by the New Zealand Racing Board are secured and are repayable in cash.

The New Zealand Metropolitan Trotting Club loan is secured by a General Security Agreement and mortgage over all the assets of the New Zealand Metropolitan Trotting Club (Inc) and Addington Raceway Ltd. The main public stand at Addington suffered major damage in the Canterbury earthquakes and has been demolished. Addington Raceway Ltd have negotiated an agreement with its insurers which provides a \$12.2m as full settlement for the loss of the grandstand and for assessed loss of profits. New Zealand Racing Board has agreed with New Zealand Metropolitan TC that \$6.1m of this settlement will be held in escrow to ensure repayment of the loan, unless the New Zealand Racing Board subsequently agrees that the funds be used in redevelopment of the clubs facilities.

The New Zealand Racing Board has a second-ranking charge over the assets of Racing at Awapuni, Otaki and Trentham Combined Enterprise Incorporated (RACE Inc) and its subsidiary racing clubs. Bank of New Zealand has the first-ranking charge over these assets to a priority of \$9.2 million plus interest and costs. The combined value of the RACE Inc assets subject to the BNZ and New Zealand Racing Board charges as at 31 July 2011 was \$35.3 million (31 July 2010 \$35.9 million).

New Zealand Thoroughbred Racing Incorporated guarantees to cover any shortfall for RACE Inc of up to \$1.0 million from distributions owing from the New Zealand Racing Board. If a shortfall were to exceed \$1.0 million, New Zealand Thoroughbred Racing Incorporated will pay one third of the shortfall amount annually from distributions owing to it from the New Zealand Racing Board until repaid.

The Wanganui Greyhound Racing Club's loan is secured by a Deed of Guarantee under which the New Zealand Greyhound Racing Association acts as guarantor.

The Whangarei Racing Club Incorporated loan is secured by a Deed of Guarantee under which New Zealand Thoroughbred Racing Incorporated acts as guarantor.



Notes to the Financial Statements

	Land NZ\$000	Buildings NZ\$000	Computer hardware NZ\$000	Office equipment NZ\$000
11. PROPERTY, PLANT AND EQUIPMENT				
COST OR DEEMED COST				
Balance at 1 August 2009	2,590	13,681	41,432	3,732
Additions	–	222	512	841
Disposals	–	(9)	(4,206)	(46)
Net transfers between asset classes	–	–	(309)	–
Net change to work in progress	–	–	–	–
Balance at 31 July 2010	2,590	13,894	37,429	4,527
Additions	–	109	5,732	350
Disposals	–	(99)	(2,027)	(49)
Net transfers between asset classes	–	–	–	–
Net change to work in progress	–	–	–	–
Balance at 31 July 2011	2,590	13,904	41,134	4,828
DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at 1 August 2009	–	(4,318)	(33,258)	(2,251)
Depreciation for the year	–	(508)	(3,909)	(465)
Impairment losses	–	–	–	–
Disposals	–	5	4,180	23
Net transfers between asset classes	–	–	110	–
Balance at 31 July 2010	–	(4,821)	(32,877)	(2,693)
Depreciation for the year	–	(496)	(2,896)	(433)
Impairment losses	–	–	–	–
Disposals	–	99	2,014	49
Net transfers between asset classes	–	–	–	–
Balance at 31 July 2011	–	(5,218)	(33,759)	(3,077)
NET BOOK VALUE				
Balance at 1 August 2009	2,590	9,363	8,174	1,481
Balance at 31 July 2010	2,590	9,073	4,552	1,834
Balance at 31 July 2011	2,590	8,686	7,375	1,751

Leased office equipment

The Board leases photocopying equipment under a finance lease arrangement. At 31 July 2011, the net book value of leased office equipment was nil (2010: \$34,562).



Notes to the Financial Statements

Leasehold improvements NZ\$000	Motor vehicles NZ\$000	Operations and trackside equipment NZ\$000	Total property, plant and equipment in use NZ\$000	Work in progress NZ\$000	Total property, plant and equipment NZ\$000
19,758	6,410	32,680	120,283	2,143	122,426
1,378	253	1,056	4,262	–	4,262
(1,473)	(243)	(128)	(6,105)	–	(6,105)
–	(3,469)	3,469	(309)	–	(309)
–	–	–	–	2,037	2,037
19,663	2,951	37,077	118,131	4,180	122,311
3,146	458	1,764	11,559	–	11,559
(1,148)	(370)	(378)	(4,071)	–	(4,071)
–	6	–	6	–	6
–	–	–	–	2,200	2,200
21,661	3,045	38,463	125,625	6,380	132,005
(11,599)	(3,681)	(17,336)	(72,443)	–	(72,443)
(1,696)	(325)	(4,451)	(11,354)	–	(11,354)
–	–	–	–	–	–
1,264	223	127	5,822	–	5,822
–	1,219	(1,219)	110	–	110
(12,031)	(2,564)	(22,879)	(77,865)	–	(77,865)
(2,008)	(303)	(3,880)	(10,016)	–	(10,016)
–	–	–	–	–	–
1,030	346	375	3,913	–	3,913
–	–	–	–	–	–
(13,009)	(2,521)	(26,384)	(83,968)	–	(83,968)
8,159	2,729	15,344	47,840	2,143	49,983
7,632	387	14,198	40,266	4,180	44,446
8,652	524	12,079	41,657	6,380	48,037



Notes to the Financial Statements

12. INTANGIBLE ASSETS

	Software NZ\$000	Licences NZ\$000	Other intangible assets NZ\$000	Total intangible assets in use NZ\$000	Work in progress NZ\$000	Total intangible assets NZ\$000
COST OR DEEMED COST						
Balance at 1 August 2009	42,318	4,337	4,550	51,205	–	51,205
Additions	1,118	1,028	300	2,446	–	2,446
Disposals	(75)	(1,028)	–	(1,103)	–	(1,103)
Net transfers between asset classes	309	–	–	309	–	309
Net change to work in progress	–	–	–	–	6,959	6,959
Balance at 31 July 2010	43,670	4,337	4,850	52,857	6,959	59,816
Additions	1,463	1,114	–	2,577	–	2,577
Disposals	(539)	(2,921)	–	(3,460)	–	(3,460)
Net transfers between asset classes	–	–	(6)	(6)	–	(6)
Net change to work in progress	–	–	–	–	7,490	7,490
Balance at 31 July 2011	44,594	2,530	4,844	51,968	14,449	66,417
AMORTISATION AND IMPAIRMENT LOSSES						
Balance at 1 August 2009	(34,535)	(3,494)	(3,285)	(41,314)	–	(41,314)
Amortisation for the year	(3,034)	(486)	(759)	(4,279)	–	(4,279)
Impairment losses	–	–	–	–	–	–
Disposals	15	92	–	107	–	107
Net transfers between asset classes	(110)	–	–	(110)	–	(110)
Balance at 31 July 2010	(37,664)	(3,888)	(4,044)	(45,596)	–	(45,596)
Amortisation for the year	(2,942)	(296)	(506)	(3,744)	–	(3,744)
Impairment losses	–	–	–	–	(3,200)	(3,200)
Disposals	539	2,914	–	3,453	–	3,453
Net transfers between asset classes	–	–	–	–	–	–
Balance at 31 July 2011	(40,067)	(1,270)	(4,550)	(45,887)	(3,200)	(49,087)
NET BOOK VALUE						
Balance at 1 August 2009	7,783	843	1,265	9,891	–	9,891
Balance at 31 July 2010	6,006	449	806	7,261	6,959	14,220
Balance at 31 July 2011	4,527	1,260	294	6,081	11,249	17,330



Notes to the Financial Statements

Business combination

On 9 July 2010, the Turf Digest/Best Bets and Friday Flash publications were purchased from Fairfax New Zealand Ltd as complements to the New Zealand Racing Board's existing television and radio media coverage formats. The net amount recorded in Other Intangible Assets mainly comprises goodwill.

Development of new wagering system and subsequent software impairment

In 2009 the New Zealand Racing Board entered into agreements for the supply of a replacement wagering system. The total amount included in intangible asset work in progress for the system under development is \$10,927,925 (2010: \$6,344,830). This is after \$3.2m for software impairment losses (the original cost is \$14,127,925).

The Helix revenue engine project did not meet a number of key technical milestones and the New Zealand Racing Board has taken the opportunity to conduct a review of the project. A review was conducted by PricewaterhouseCoopers and was presented to the Board in December. Jetbet remains a legacy system that the New Zealand Racing Board is committed to replacing.

Software and work in progress are predominately internally generated assets.



Notes to the Financial Statements

13. STATEMENT OF COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as a liability is as follows:

	2011	2010
	NZ\$000	NZ\$000
Property, plant and equipment and intangible assets – payable:		
Within one year	188	1,400
Later than one year but no later than five years	–	–
TOTAL CAPITAL COMMITMENTS	188	1,400

The Board committed to the purchase of new security monitoring equipment, payable in August 2011.

(b) Operating lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2011	2010
	NZ\$000	NZ\$000
Within one year	5,100	5,185
Later than one year but no later than five years	8,924	8,981
Later than five years	983	1,604
TOTAL OPERATING LEASE COMMITMENTS	15,007	15,770

The New Zealand Racing Board leases various buildings under operating leases. The leases have varying terms and renewal rights. On renewal, the terms of the leases are to be negotiated.

One of the leased properties have been sublet by the New Zealand Racing Board. The lease and sublease expires in 2016. Sublease payments of \$113,708 (2010: \$14,925) are expected to be received during the financial year.

Thirteen (2010: twelve) of the leased properties have outstanding rent reviews. These are expected to be settled within the next financial year.

For the year ended 31 July 2011, \$5.0 million was recognised as an expense in the Income Statement in respect of operating leases (2010: \$4.7 million).

(c) Finance lease commitments

The New Zealand Racing Board has the following commitments under finance leases:

	2011	2010
	NZ\$000	NZ\$000
Within one year	–	38
Later than one year but no later than five years	–	–
Later than five years	–	–
TOTAL FINANCE LEASE COMMITMENTS	–	38



Notes to the Financial Statements

13. STATEMENT OF COMMITMENTS continued

(d) Other non-cancellable operating commitments

The New Zealand Racing Board has a number of non-cancellable operating commitments that relate to services other than the lease of land and buildings (which are disclosed separately in part (b) of this Note to the Financial Statements).

A contract is considered non-cancellable for any period where either no cancellation provision exists in the contract or where the requirements or costs of cancellation are so significant that cancellation of the contract is remote.

Non-cancellable contracts held by the New Zealand Racing Board predominantly comprise technical services associated with the broadcasting of racing plus telecommunication services.

The total commitment under non-cancellable operating contracts at 31 July 2011 was \$41.3 million. This comprised \$5.2 million payable within one year of balance date, \$30.2 million payable later than one year but not later than five years after balance date and \$5.9 million payable later than five years after balance date.



Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Board manages its capital through the optimisation of equity levels. This ensures it is able to continue as a going concern whilst maximising the return to the industry stakeholders.

The Board's equity comprises the general reserve, consisting of accumulated balances of prior years' retained surplus. The Board reviews the appropriateness of its capital structure on an annual basis as part of the annual budget cycle.

As part of this review, the Board considers the distribution or retention of general reserve balances.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in the Statement of Accounting Policies.

(c) Categories of financial instruments

2011	Note
ASSETS	
Cash and cash equivalents	3
Trade and other receivables	4
Other financial assets	5
Total financial assets	
Total non-financial assets	
TOTAL ASSETS	
LIABILITIES	
Trade and other payables	7
Account betting deposits and vouchers	
Other financial liabilities	8
Total financial liabilities	
Total non-financial liabilities	
TOTAL LIABILITIES	
2010	
ASSETS	
Cash and cash equivalents	3
Trade and other receivables	4
Other financial assets	5
Total financial assets	
Total non-financial assets	
TOTAL ASSETS	
LIABILITIES	
Trade and other payables	7
Account betting deposits and vouchers	
Other financial liabilities	8
Total financial liabilities	
Total non-financial liabilities	
TOTAL LIABILITIES	



Notes to the Financial Statements

Fair value through profit & loss NZ\$000	Held-to- maturity NZ\$000	Loans and receivables NZ\$000	Financial liabilities at amortised cost NZ\$000	Total NZ\$000
–	–	10,002	–	10,002
–	–	8,836	–	8,836
–	32,031	10,379	–	42,410
–	32,031	29,217	–	61,248
				64,371
				125,619
1,172	–	–	17,714	18,886
–	–	–	15,082	15,082
–	–	–	9,075	9,075
1,172	–	–	41,871	43,043
				4,567
				47,610
–	–	6,048	–	6,048
–	–	8,715	–	8,715
69	47,333	9,740	–	57,142
69	47,333	24,503	–	71,905
				59,890
				131,795
1,181	–	–	18,987	20,168
–	–	–	14,385	14,385
–	–	–	7,601	7,601
1,181	–	–	40,973	42,154
				4,793
				46,947



Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS continued

(d) Financial risk management

The Corporate Treasury function co-ordinates all foreign exchange transactions and investment activity as well as monitoring and managing all financial risks relating to the operation of the Board. These risks include credit risk, liquidity risk, interest rate risk and foreign exchange risk.

The use of financial instruments is governed by the Treasury policy approved by the Board of the New Zealand Racing Board. The policy provides written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments. The policy also outlines the principles for liquidity risk management.

Compliance with the Treasury policy and the exposure limits therein is reviewed annually by the internal audit function of the New Zealand Racing Board. The New Zealand Racing Board does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

A Treasury report is presented to the Board on a monthly basis outlining the exposure limits and compliance with the Treasury policy.

The New Zealand Racing Board uses recognised bookmaking tools and strategies to appropriately manage risk and exposure. These include customer profiling, pricing management and using a spread of options to take a portfolio approach. In addition to this, the bookmakers are also able to lay off exposures with other betting agencies.

(e) Liquidity risk management

Liquidity risk is the risk that the New Zealand Racing Board will encounter difficulties in meeting its payment obligations as they fall due.

As the New Zealand Racing Board's revenues are principally transactions involving immediate cash receipts, short-term liquidity is covered by trading receipts and highly liquid bank deposits. The Board manages longer dated liquidity risk by maintaining adequate cash reserves of liquid short-term deposits to satisfy anticipated capital expenditure and distribution requirements.

The following table outlines the Board's remaining contractual maturities for its financial liabilities including derivative instruments.

The table comprises the notional undiscounted cash flows for financial liabilities, including both interest and principal, based on the earliest date on which the Board can be required to pay.

The undiscounted cash flows differ from the amounts recognised in the Statement of Financial Position for the relevant financial liabilities because the amounts recognised in that statement are based on the notional cash flows discounted to their present value.

Where the amount payable is variable because it is based on variable interest rates or other factors, the amount in the table has been determined based on the conditions existing at the end of the reporting period.



Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS continued (e) Liquidity risk management continued

	Less than 1 month NZ\$000	1–3 months NZ\$000	3 months to 1 year NZ\$000	1–5 years NZ\$000	5+ years NZ\$000	Total NZ\$000
FINANCIAL LIABILITIES						
2011						
Trade and other payables	(18,486)	(400)	–	–	–	(18,886)
Account betting deposits and vouchers	(15,082)	–	–	–	–	(15,082)
Canwest radio liability --- non-interest bearing	–	–	–	–	–	–
Other non-interest bearing liabilities	(5,436)	–	–	–	–	(5,436)
Finance lease liability	–	–	–	–	–	–
Variable rate instruments	(3,639)	–	–	–	–	(3,639)
Derivatives	(1,172)	–	–	–	–	(1,172)
Total notional cash outflows for recognised liabilities	(43,815)	(400)	–	–	–	(44,215)
<i>Financial guarantees (maximum amount payable)</i>						
Cheque encashment letters of credit	(19)	–	–	–	–	(19)
Club loan guarantees	(8,820)	–	–	–	–	(8,820)
TOTAL NOTIONAL CASH OUTFLOWS	(52,654)	(400)	–	–	–	(53,054)
2010						
Trade and other payables	(17,854)	(1,062)	–	–	–	(18,916)
Account betting deposits and vouchers	(14,385)	–	–	–	–	(14,385)
Canwest radio liability --- non-interest bearing	–	–	–	–	–	–
Other non-interest bearing liabilities	5,852)	–	–	–	–	(5,852)
Finance lease liability	(7)	(13)	(47)	–	–	(67)
Variable rate instruments	(1,711)	–	–	–	–	(1,711)
Derivatives	(1,446)	–	(2,314)	–	–	(3,760)
Total notional cash outflows for recognised liabilities	(41,255)	(1,075)	(2,361)	–	–	(44,691)
<i>Financial guarantees (maximum amount payable)</i>						
Cheque encashment letters of credit	(119)	–	–	–	–	(119)
Club loan guarantees	(8,820)	–	–	–	–	(8,820)
TOTAL NOTIONAL CASH OUTFLOWS	(50,194)	(1,075)	(2,361)	–	–	(53,630)



Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS continued (e) Liquidity risk management continued

The following table details the Board's expected maturities for its financial assets. The table comprises the notional undiscounted contractual cash flows for the Board's financial assets, including interest that will be earned on those assets. The timing of the cash inflows is based on the financial asset's contracted maturity date except where the Board expects that the cash flow will occur in a different period. The undiscounted cash flows differ from the amounts recognised in the Statement of Financial Position for the relevant financial assets because the amounts recognised in that statement are based on the notional cash flows discounted to their present value.

Where the amount receivable is variable because it is based on variable interest rates or other factors, the amount in the table has been determined based on the conditions existing at the end of the reporting period.

	Less than 1 month NZ\$000	1–3 months NZ\$000	3 months to 1 year NZ\$000	1–5 years NZ\$000	5+ years NZ\$000	Total NZ\$000
FINANCIAL ASSETS						
2011						
Cash and investments						
Non-interest bearing	550	–	–	–	–	550
Variable interest rate instruments	9,429	18	55	2,146	–	11,648
Fixed rate instruments	–	–	31,350	31	–	31,381
	9,979	18	31,405	2,177	–	43,579
Trade and other receivables	8,836	–	–	–	–	8,836
Loans and advances to clubs						
Non-interest bearing	1,297	–	–	–	–	1,297
Variable interest rate instruments	–	18	79	9,710	–	9,807
Fixed rate instruments	–	79	35	353	213	680
	1,297	97	114	10,063	213	11,784
	20,112	115	31,519	12,240	213	64,199
2010						
Cash and investments						
Non-interest bearing	659	–	–	–	–	659
Variable interest rate instruments	15,671	18	55	2,221	–	17,965
Fixed rate instruments	–	5,050	30,721	31	–	35,802
	16,330	5,068	30,776	2,252	–	54,426
Trade and other receivables	8,715	–	–	–	–	8,715
Loans and advances to clubs						
Non-interest bearing	986	–	–	–	–	986
Variable interest rate instruments	13	20	90	9,706	–	9,829
Fixed rate instruments	–	81	37	390	290	798
	999	101	127	10,096	290	11,613
	26,044	5,169	30,903	12,348	290	74,754



Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS continued

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the New Zealand Racing Board.

The New Zealand Racing Board is exposed to varying degrees of credit risk on all its financial assets.

	Note	2011 NZ\$000	2010 NZ\$000
MAXIMUM EXPOSURE TO CREDIT RISK			
Cash and cash equivalents	3	10,002	6,048
Foreign currency forward exchange contracts	5	–	69
Short-term deposits	5	30,000	45,282
Total liquid investments		40,002	51,399
Trade and other receivables	4	8,836	8,715
Corporate bonds	5	2,031	2,051
Loans to clubs and codes	5	10,379	9,740
Total financial assets		61,248	71,905
UNRECOGNISED CREDIT EXPOSURES			
Guarantee issued	10	8,820	8,820
Total unrecognised credit exposures		8,820	8,820
TOTAL CREDIT EXPOSURES		70,068	80,725

All loans to clubs and codes are fully secured as detailed in Note 10 Loans and advances to clubs and codes. The guarantee issued relates to surety provided to Bank of New Zealand for their advance to Racing at Awapuni, Otaki and Trentham Combined Enterprise Incorporated. Full details of this guarantee are disclosed in Note 21 Statement of contingent liabilities.

Concentrations of credit risk

The New Zealand Racing Board considers that it is exposed to concentrations of credit risk where a group of financial assets with similar shared characteristics represents at least 20% of the total assets in each significant financial asset class.

Based on this analysis, the New Zealand Racing Board is exposed to the following concentrations of credit risk:



Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS continued

(f) Credit risk continued

	2011 %	2011 NZ\$000	2010 %	2010 NZ\$000
Liquid investments (Counterparty concentrations)				
New Zealand registered banks	99.7%	38,932	99.5%	51,123
Other counterparties	0.3%	104	0.5%	276
Total liquid investments	100%	39,036	100%	51,399
Trade and other receivables (Industry & geographical concentrations)				
Australian betting agencies	17.8%	1,569	22.9%	1,992
New Zealand retail TAB outlets	32.4%	2,865	35.2%	3,070
Other New Zealand trade and other receivables	49.8%	4,402	41.9%	3,653
Total trade and other receivables	100.0%	8,836	100.0%	8,715

The New Zealand Racing Board has some concentration of credit risk with New Zealand registered banks. Currently, all New Zealand registered banks with which the New Zealand Racing Board has invested have a credit rating of AA.

(g) Foreign currency exchange rate risk

The New Zealand Racing Board is exposed to exchange rate fluctuations from certain foreign currency denominated transactions it undertakes. Exchange rate exposures are managed within approved policy parameters including the use of forward foreign exchange contracts.

Exposure to Australian dollar exchange rate fluctuations is mitigated by the natural hedge that arises from amounts payable and receivable on international racing product fees.

The New Zealand Racing Board's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

		Assets		Liabilities	
		Foreign currency '000	NZD NZ\$000	Foreign currency '000	NZD NZ\$000
2011					
Australian dollars	AUD	3,154	3,953	3,300	4,162
Pounds sterling	GBP	38	341	7	–
United States dollars	USD	207	66	–	13
Singapore dollars	SGD	1	–	7	–
		3,400	4,360	3,314	4,175
2010					
Australian dollars (AUD)	AUD	2,759	3,399	3,630	4,563
Pounds sterling (GBP)	GBP	35	85	4	9
United States dollars (USD)	USD	60	85	–	–
Singapore dollars	SGD	–	–	3	3
		2,854	3,569	3,637	4,575



Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS continued

(g) Foreign currency exchange rate risk continued

Foreign currency sensitivity analysis

As at 31 July 2011, if the New Zealand dollar had strengthened / weakened against the Australian dollar by 1% (2010:4%), with all other variables held constant, the net surplus before distributions would have been \$2,000 (2010: \$47,000) higher / lower as a result of higher / lower foreign exchange gains. There would also be a corresponding increase / decrease in equity.

Forward foreign exchange contracts

The New Zealand Racing Board's Treasury policy allows management to enter into forward foreign exchange contracts to cover foreign currency payments where the New Zealand dollar equivalent exposure is greater than NZD 50,000.

The notional value of forward foreign exchange contracts outstanding as at 31 July 2011 was nil (2010: USD 2,129,000).

(h) Interest rate risk

The New Zealand Racing Board is exposed to interest rate risk through its club loans, cash and call account balances, short-term deposits and corporate bonds held. The carrying values of these exposures are detailed in the Credit risk section of this note at 14(f) above.

As at 31 July 2011, if the Official Cash Rate had increased / decreased by 0.5% (2010: 1%), with all other variables held constant, the net surplus before distributions would have been \$498,000 (2010: \$552,000) higher / lower as a result of higher / lower net interest receipts. There would also be a corresponding increase / decrease in equity.



Notes to the Financial Statements

14. FINANCIAL INSTRUMENTS continued

(i) Fair values of financial instruments

The table below provides an analysis of the methodology used for valuing those financial assets and financial liabilities that are either carried at fair value or are re-measured at fair value because their carrying amounts are considered to differ from their fair value. The fair value of each class of financial instrument has been allocated in full to the category that most accurately reflects the basis of the fair value calculation.

Except for the financial instruments detailed in the table, the Board considers that the carrying amounts of financial assets and financial liabilities at amortised cost approximate their fair values.

	Note
2011	
Financial assets	
Foreign currency forward exchange contracts	5
Total financial assets measured at fair value	
Financial assets measured at amortised cost	
Total financial assets	14(c)
Financial liabilities	
Unresulted Turnover	7
Total financial liabilities measured at fair value	
Financial liabilities measured at amortised cost	
Total financial liabilities	14(c)
2010	
Financial assets	
Foreign currency forward exchange contracts	5
Total financial assets measured at fair value	
Financial assets measured at amortised cost	
Total financial assets	14(c)
Financial liabilities	
Unresulted Turnover	7
Total financial liabilities measured at fair value	
Financial liabilities measured at amortised cost	
Total financial liabilities	14(c)

There have been no transfers between classes.

Valuation methods and assumptions

The fair value of foreign currency forward exchange contracts is calculated based on interest-adjusted foreign exchange rates supplied by the New Zealand bank counterparties to the contracts.

The fair value of open fixed odds single betting positions within deferred revenue (pre-sales) is calculated by applying the New Zealand Racing Board's expected probability of each outcome to the potential gross dividend payable on any particular outcome.

Gains and losses on financial instruments valued using non-observable inputs

In accordance with the New Zealand Racing Board's accounting policy, all gains and losses on pre-sales are recognised in Net betting revenue in the Income Statement.



Notes to the Financial Statements

Fair value measurement at the end of the reporting period using:

Quoted market price NZ\$000	Observable market inputs NZ\$000	Non-observable inputs NZ\$000	Total fair value measurement NZ\$000	Carrying value NZ\$000
-	-	-	-	-
			-	-
				61,248
				61,248
-	-	1,172	1,172	1,172
			1,172	1,172
				41,871
				43,043
-	69	-	69	69
			69	69
				71,836
				71,905
-	-	1,181	1,181	1,181
			1,181	1,181
				40,973
				42,154



Notes to the Financial Statements

15. RECONCILIATION OF NET SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
(Deficit)/surplus attributable to New Zealand Racing Board Reserves	(4,039)	(927)	3,322
NON-CASH ITEMS			
Depreciation expense	10,016	11,676	11,354
Amortisation expense	3,744	3,511	4,279
Foreign exchange (gain) / loss	(541)	10	19
Doubtful debts written off / (recovered)	(8)	–	10
Loan fair value adjustment	(309)	(300)	310
Software impairment	3,200	–	–
Other non-cash items	604	(135)	(368)
	16,706	14,762	15,604
ITEMS CLASSIFIED AS INVESTING/FINANCING ACTIVITIES			
Net loss on sale of property, plant and equipment	92	360	21
Net finance costs	30	30	29
	122	390	50
MOVEMENT IN CURRENT ASSETS			
(Increase) / decrease in trade and other receivables	(121)	(1,081)	(3,804)
(Increase) / decrease in inventories	85	–	47
(Increase) / decrease in other assets	(665)	(313)	11
(Increase) / decrease in code asset	(311)	–	(986)
	(1,012)	(1,394)	(4,732)
MOVEMENT IN LIABILITIES			
Increase / (decrease) in trade payables and accruals	(1,533)	3,666	4,985
Increase / (decrease) in unpaid dividends	(289)	203	204
Increase / (decrease) in account betting deposits and vouchers	697	1,196	1,123
Increase / (decrease) in jackpot retentions	(127)	–	76
Increase / (decrease) in employee entitlements	260	(94)	(83)
Increase / (decrease) in taxes payable	(267)	(1,043)	956
Increase / (decrease) in code liability	1,928	–	(6,473)
Increase / (decrease) in deferred revenue	(9)	106	26
Increase / (decrease) in other liabilities	3	(436)	(962)
	663	3,598	(148)
Net cash provided by operating activities	12,440	16,429	14,096



Notes to the Financial Statements

16. RELATED PARTIES

Funding transactions with racing codes

In the 2010–11 season, the New Zealand Racing Board agreed to bulk fund the racing codes to a maximum value of \$131.2 million (2009–10 \$117.7 million).

This funding includes a variable component between codes based on export commissions, fixed odds and on–course turnover and current season market share.

The majority of the funding — \$85 million (2010: \$84.3 million) — is fixed based on code market share for the previous two seasons. During the 2010–2011 forecast process the fixed base funding was reduced by \$5 million. Further detail on funding is outlined in Note 20.

ENTITY	Funding		Code liability		Code asset	
	2011 NZ\$000	2010 NZ\$000	2011 NZ\$000	2010 NZ\$000	2011 NZ\$000	2010 NZ\$000
NZ Greyhound Racing Association	19,361	15,304	(2,012)	(1,008)	–	–
Harness Racing New Zealand	37,731	37,291	(1,627)	(703)	–	–
New Zealand Thoroughbred Racing	65,443	67,723	–	–	1,297	986
Other funding	3,820	3,364	–	–	–	–
Total funding transactions	126,355	123,682	(3,639)	(1,711)	1,297	986

Other transactions with racing codes and racing clubs

In addition to funding transactions, the New Zealand Racing Board has numerous transactions with the racing codes and racing clubs. It is not practicable to disclose all transactions with codes and clubs. Outlined below are the material transactions outside of the funding policies.

ENTITY	TRANSACTION	Transaction value		Balance outstanding	
		2011 NZ\$000	2010 NZ\$000	2011 NZ\$000	2010 NZ\$000
New Zealand Greyhound Racing Association	On–course venue services, trackside operations and radio recoveries	3,092	2,737	–	–
	Loan for the construction of an artificial racing surface at Manawatu Greyhound Racing Club	–	–	537	604
Harness Racing New Zealand	On–course venue services, trackside operations and radio recoveries	4,699	4,795	–	–
New Zealand Thoroughbred Racing	On–course venue services, trackside operations and radio recoveries	6,874	7,307	–	–
New Zealand Metropolitan Racing Club (Inc)	Loan for construction of stables at Addington Raceway	95	173	6,094	5,983
RACE Inc	Working capital facility	114	268	2,993	3,013
Whangarei Racing Club Incorporated	Loan for racetrack development at Ruakaka Racecourse	16	2	72	55

The transaction value of loans to clubs and codes outlined above represents the cash amounts drawn under each facility. The balance outstanding includes amounts drawn plus any capitalised or accrued interest at reporting date. Further details of loans and advances to related parties are outlined in Note 10.



Notes to the Financial Statements

16. RELATED PARTIES continued

Compensation of key management personnel

The remuneration of Board members and other key management personnel during the year was as follows:

	2011	2010
	NZ\$000	NZ\$000
Salaries and other short-term employee benefits	3,257	3,643

The New Zealand Racing Board considers key management personnel as the Board members, the Chief Executive Officer, the Chief Financial Officer, and other members of the Executive 6 (in total; 7 in total for 2010).

Employees and remuneration for the year ended 31 July 2011	As at	As at
The New Zealand Racing Board employed the following staff:	31 July 2011	31 July 2010
Salaried full-time employees	332	323
Phonebet operators (Rostered shift work)	237	217
Hourly rate staff		
-- branch staff	169	74
-- other part-time	79	89
-- casual	85	46
	902	749

A number of individuals employed by the New Zealand Racing Board received over \$100,000 in total remuneration including 'at risk' components, as explained below. The salary bands and number of employees within each band were as follows:

Total remuneration (\$000)	No. of employees as at 31 July 2011	No. of employees as at 31 July 2010
100-110	15	18
110-120	17	11
120-130	4	8
130-140	7	2
140-150	4	3
150-160	2	4
160-170	-	2
170-180	1	1
180-190	2	-
190-200	-	1
200-210	3	1
210-220	1	-
230-240	-	1
240-250	1	-
270-280	1	-
290-300	-	1
300-310	-	1
320-330	1	-
360-370	1	1
390-400	1	-
580-590	1	-
840-850	-	1
	62	56



Notes to the Financial Statements

16. RELATED PARTIES continued

The remuneration of some employees includes an 'at risk' component, the payment of which is dependent upon the attainment of specific performance targets. The Compensation and Development Committee of the Board oversees (1) the level of remuneration, including any 'at risk' component, for senior management, (2) the annual establishment of performance targets and measures related to the 'at risk' component of senior management remuneration, (3) annual assessments of senior management performance against targets and measures and (4) recommendations to the full Board on the amounts of 'at risk' and components payable (if any) to individual senior managers. Total remuneration may include payments made to employees on termination of their pay and long service leave due to the employee. Such payments, although made after 31 July, are included in the total remuneration figures above. Readers should note that a number of staff in these bands were employed part way through the financial year. Therefore, future reporting will have changes in banding as full year remuneration is recognised.

Transactions with entities in which key management personnel have an interest

Certain key management personnel have relevant interests in a number of entities with which the New Zealand Racing Board has transactions in the normal course of business. A number of the key management personnel of the New Zealand Racing Board are directors of other organisations with which the New Zealand Racing Board transacts. Any transactions undertaken with these organisations have been entered into on an arm's length commercial basis.

Outlined following are the significant transactions with related parties:



Notes to the Financial Statements

16. RELATED PARTIES continued

Entity	Transaction	Transaction value		Balance outstanding		Relationship
		2011 NZ\$000	2010 NZ\$000	2011 NZ\$000	2010 NZ\$000	
Gadol Corporation Limited	Rental and associated payments for a property lease for a TAB outlet	120	116	–	–	Michael Stiassny, Chairman of the New Zealand Racing Board, is a director and shareholder of Gadol Corporation Ltd.
DNZ Property Group Limited	Rental and associated payments for a property lease for a TAB outlet	127	74	–	–	Michael Stiassny, Chairman of the New Zealand Racing Board, is a director of DNZ Property Group Ltd since 22 June 2010.
Racing Integrity Unit	Funding	254	–	–	–	Michael Stiassny, Chairman of the New Zealand Racing Board, is the Chairman of the Racing Integrity Unit.
	Accountancy services	(30)	–	(6)	–	The New Zealand Racing Board provides accounting, human resources and IT services to the Racing Integrity Unit.
	Rental of Auckland Premises	(10)	–	(2)	–	The New Zealand Racing Board provides rental premises to the Racing Integrity Unit.
NZ Equine Industry Training Organisation Incorporated	Funding	190	100	–	–	Bill Colgan in his capacity as acting Chief Executive Officer of the New Zealand Racing Board, is a Board member of the NZ Equine Industry Training Organisation.
	Accountancy services	(10)	(10)	(10)	(10)	The New Zealand Racing Board provides accounting and human resources services to the NZ Equine Industry Training Organisation.
	Rental of Auckland Premises	(2)	(2)	–	–	The New Zealand Racing Board provides rental premises to the NZ Equine Industry Training Organisation.
Massey University Partnership for Excellence	Funding	150	299	25	299	Bill Colgan in his capacity as acting Chief Executive Officer of the New Zealand Racing Board, is a Trustee of the Equine Trust, which administers the Partnership for Excellence.



Notes to the Financial Statements

16. RELATED PARTIES continued

The following key management personnel maintain TAB accounts with the New Zealand Racing Board:

Simon Moutter
Ray O'Connor
Thayne Green
Bill Colgan
David Craig
Martin Saunders
Glen Broomhall
Michael Wemyss

The following key management personnel have family members who maintain TAB accounts with the New Zealand Racing Board:

Simon Moutter
Ray O'Connor
Alan Jackson
Alan Barlow
Fleur Murray

17. BUDGET COMPARATIVE INFORMATION

At \$1.53 billion, betting turnover was \$160 million lower than budget, which resulted in Net Betting Revenue being just over \$18 million short of expectations at \$246 million. The budgeted turnover figure of \$1.69 billion represented a growth target of 7.0% compared to the previous year and was based on a number of planned initiatives. Actual results showed a reduction in turnover of 3.1%.

Within the different wagering streams, Racing Fixed Odds betting turnover was \$10 million ahead of budget, whilst Racing Tote, Sports Fixed Odds and Sports Tote were under budget by \$161.6 million, \$8.6 million and \$0.3 million respectively.

The shortfall is largely attributed to far tougher than expected conditions within the New Zealand economy which contracted the wagering market. The underlying uncertainty in the economy during the year led the New Zealand Racing Board to reprioritise its activity in order to consolidate and protect its current position.

Although turnover was significantly down, the Net Betting Margin was slightly higher than expectations at 14.9% compared to a budget of 14.5%. This positive result is attributable to the Fixed Odds market where margins are a reflection of the efficiency of the book. This contributed a positive Net Betting Revenue of approximately \$5.1 million.

Partially compensating the lower than expected wagering performance was other income, which was just over \$6 million higher than budget.

The largest component of this variance was in the export of New Zealand racing to Australia which generated \$21.2 million in revenue compared to a budget of \$16.9 million. In the year to 31 July 2011, almost all New Zealand races were transmitted in Australia, which was significantly faster growth than had been anticipated.

Smaller positive variances were attributable to revenue from SkyTV (\$0.6 million), Turf Digest revenue (\$0.5 million) and internet fee revenue (\$0.5 million).

Operating expenses were also lower than budget by a little under \$6 million, before software impairment. The largest components of this positive variance were:

- (a) Renegotiation of the retail fee structure, including the conversion of some TAB agencies into branches – During the year the retail Fee structure for all non-owned branches was changed from a wholly variable commission calculation to a part variable, part fixed commission basis. During the year approximately 30 agencies were converted into branches. Due mainly to these initiatives, Retail Fees were \$3.3 million lower than anticipated, although this was replaced in part by an increase in staff wages of \$1.4 million above budget.
- (b) Overseas racing rights fees – Rights for broadcasting overseas racing were \$1.1 million lower than budget at \$16.8 million, aided in part by the strength of the New Zealand dollar.
- (c) Depreciation – was \$1.4 million lower than anticipated due mainly to the new wagering system not being operational during the year as expected. However, these positive operating expense variances were fully offset by the software impairment.



Notes to the Financial Statements

17. BUDGET COMPARATIVE INFORMATION continued

The net result of the above noted variances was that funding available for the three racing codes was \$5.7 million less than the budget amount. To compensate, the amount that was distributed to the three codes was reduced accordingly by approximately \$5.0 million, leaving a deficit of \$4.0 million (of which, \$3.2 million relates to impairment) to come from New Zealand Racing Board reserves, compared to a budgeted deficit from reserves of \$0.9 million.

18. ACTUAL COMPARATIVE INFORMATION

(a) International racing fee

Income from international racing fees for the export of New Zealand racing to be broadcast overseas exceeded prior year income by \$7.3 million due to an increase in both the number of races exported and the addition of new overseas markets

(b) Domestic market share code funding

Domestic market share code funding has decreased by \$6.5 million over the comparable period in the prior season. The difference is mainly due to an interim distribution of \$6 million being made to the codes in March 2010.

(c) Variable code funding

Variable code funding has increased by \$8 million over the comparable period in the prior season mainly due to the introduction of Friday Greyhound racing.

(d) Cash and cash equivalents

Cash and cash equivalents balances held at year end increased by \$4 million compared to the prior year. This was mainly due to additional cash being released from deposit to ensure adequate funding would be available to fund the purchase of Class 4 gaming machines in the first week of August 2011.

(e) Other financial assets

Other financial assets have decreased by \$15 million compared to the prior year. This was mainly due to budgeted capital expenditure for Helix and the Retail strategy, and also to a reduction in term deposits to allow for the purchase of Class 4 gaming machines.

19. NATURE OF RESERVES

General Reserve

The general reserve accommodates appropriations for general purposes rather than for a specific item of future loss or expense.



Notes to the Financial Statements

20. FUNDING TO THE RACING INDUSTRY

	Note	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
(a) Funding generated by the New Zealand Racing Board				
Betting turnover (including GST)	1a	1,533,401	1,693,892	1,582,734
Dividends and betting deductions (including GST)	1b	(1,305,244)	(1,447,479)	(1,345,546)
Interest and other income (excluding GST)	1c / 1d	45,590	38,279	36,256
Operating expenses (excluding GST)	2	(146,716)	(152,644)	(145,063)
Software impairment		(3,200)	–	–
NET RETURN BEFORE INDUSTRY EXPENDITURE AND DISTRIBUTIONS		123,831	132,048	128,381
(b) On–course projects and other expenditure funded by the New Zealand Racing Board from net return				
ON–COURSE PROJECTS				
Customer research studies		113	110	175
Destination Summer Holiday Racing		387	410	388
On–course big screens		272	437	341
Christmas at the Races		375	300	352
Other on–course projects		601	493	331
OTHER EXPENDITURE				
Club loan fair value adjustments		(309)	–	(310)
Equine influenza		–	–	9
Synthetic track development		(1)	–	74
Other		77	–	17
TOTAL ON–COURSE PROJECTS AND OTHER EXPENDITURE FUNDED		1,515	1,750	1,377



Notes to the Financial Statements

20. FUNDING TO THE RACING INDUSTRY continued

	Note	Actual 2011 NZ\$000	Budget 2011 NZ\$000	Actual 2010 NZ\$000
(c) Funding applied by the New Zealand Racing Board from surplus available for distribution and reserves				
DISTRIBUTIONS TO THE RACING INDUSTRY				
Fixed code funding		85,000	90,000	84,261
Domestic market share code funding -- interim		1,167	3,454	7,690
Domestic market share code funding -- final		–	–	–
TOTAL CODE DISTRIBUTIONS		86,167	93,454	91,951
VARIABLE CODE FUNDING				
Export commissions paid		18,561	14,804	12,510
Fixed odds betting product payment		5,054	5,266	4,044
Industry interest paid on code liability balances		–	–	98
On-course commission payments		10,483	12,058	11,714
Friday Greyhound Racing		2,270	2,270	–
TOTAL VARIABLE CODE FUNDING		36,368	34,398	28,366
RESEARCH AND INTEGRITY FUNDING				
Racing laboratory services		983	973	888
Racing services rebates		–	–	58
Research, training and education		415	600	531
Other industry expenses		2,422	1,800	1,888
TOTAL RESEARCH AND INTEGRITY FUNDING		3,820	3,373	3,365
TOTAL FUNDING	16	126,355	131,225	123,682
Funded from:				
Surplus available for distribution		126,355	131,225	123,682
General reserve		–	–	–
TOTAL FUNDING	16	126,355	131,225	123,682
(d) Total funding applied				
TOTAL ON-COURSE PROJECTS	20b	1,515	1,750	1,377
TOTAL FUNDING FROM SURPLUS AVAILABLE FOR DISTRIBUTION AND RESERVES				
	20c	126,355	131,225	123,682
TOTAL FUNDING APPLIED		127,870	132,975	125,059

The Racing Integrity Unit was established on 1 February 2011 on behalf of the three Racing Codes. The New Zealand Racing Board funded the Racing Integrity Unit to \$477,000 for costs performing its integrity functions. The remainder of the funding for the Racing Integrity Unit was provided by the three racing codes.



Notes to the Financial Statements

21. STATEMENT OF CONTINGENT LIABILITIES

(a) Guarantees

On 5 February 2009, the New Zealand Racing Board provided a guarantee to the Bank of New Zealand in relation to Racing at Awapuni, Otaki and Trentham Combined Enterprises Incorporated (RACE Inc) to a value of \$8.8 million. New Zealand Thoroughbred Racing Incorporated have provided a back-to-back guarantee to the New Zealand Racing Board covering the amounts guaranteed to Bank of New Zealand.

(b) Litigation

The New Zealand Racing Board is defending a number of minor actions at balance date. While the liability is not admitted, if the defence against the action is unsuccessful it is possible fines and legal costs would be payable.

The New Zealand Racing Board does not expect the outcome of any actions to have a material effect on its financial position and no liability has been recognised.

(c) Other contingent liabilities

The New Zealand Racing Board has purchase card facilities with the Bank of New Zealand with a total limit of \$617,000 as at 31 July 2011. This facility is to allow personnel to incur business related expenses.

The New Zealand Racing Board has Letters of Credit with the Bank of New Zealand and Westpac for a total of \$11,000 as at 31 July 2011. The Letters of Credit relate to the individual agencies limits for cheques payable to TAB customers.

22. EVENTS AFTER THE REPORTING DATE

(a) Class 4 Gaming Operator's Licence

On 9 August 2011 the New Zealand Racing Board's application for a Class 4 Gaming Operator's Licence was approved by the Department of Internal Affairs. All existing gaming machines at TAB venues will be progressively covered by this licence. The New Zealand Racing Board will eventually be the licence-holder and venue operator at all TAB agencies and branches that offer gaming. By law the New Zealand Racing Board is required to distribute 100 per cent of the net profits from its gaming machines to authorised purposes. However, the New Zealand Racing Board also wishes to provide crucial support to amateur sport in New Zealand. Therefore, up to 20 per cent of the net proceeds from New Zealand Racing Board gaming machines will be distributed to communities through grants to sport. The New Zealand Racing Board's Class 4 operator's licence will eventually apply to the approximately 300 existing gaming machines currently situated in TAB agencies and branches nationwide. This will not increase the 'gaming footprint' but will provide an effective way to allow the New Zealand Racing Board to direct funding for authorised purposes.

(b) Sale of property

On 16 August 2011 the New Zealand Racing Board sold a property at 74 Fitzherbert Street, Palmerston North. The property transferred to the new owner on 31 August 2011 and a lease back is in place for a period of 6 months to allow the New Zealand Racing Board time to relocate its local operation to a new venue.

23. SIGNIFICANT EVENTS

Christchurch Earthquakes

Since 4 September 2010 Christchurch and the surrounding areas have experienced a number of serious earthquakes including one major earthquake on 22 February 2011.

The New Zealand Racing Board has material damage and business interruption insurance relating to an insurable event, subject to acceptance of such a claim for which an excess amount would apply. No provision has been made in these financial statements in relation to this event.



Auditors' Report



Independent Auditors' Report

to the members of the New Zealand Racing Board

Report on the Financial Statements

We have audited the financial statements of the New Zealand Racing Board on pages 27 to 69, which comprise the statement of financial position as at 31 July 2011, and the income statement, statement of comprehensive income and statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Board Members' Responsibility for the Financial Statements

The Board Members are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that present fairly the matters to which they relate and for such internal controls as the Board Members determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the New Zealand Racing Board's preparation of financial statements that present fairly the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New Zealand Racing Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Subsequent to 31 July 2011 the New Zealand Racing Board has engaged us to review the Helix revenue engine project. Other than in our capacity as auditors and this review of the Helix revenue engine project we have no relationships with, or interests in, the New Zealand Racing Board.

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Auditors' Report



Independent Auditors' Report

New Zealand Racing Board

Opinion

In our opinion, the financial statements on pages 27 to 69:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) present fairly, in all material respects, the financial position of the New Zealand Racing Board as at 31 July 2011, and its financial performance and cash flows for the year ended on that date.

Restriction of Distribution or Use

This report is made solely to the New Zealand Racing Board's members, as a body. Our audit work has been undertaken so that we might state to the New Zealand Racing Board's members those matters which we are required to state to them in an auditors' 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 New Zealand Racing Board and the New Zealand Racing Board's members, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in black ink, appearing to read 'Priantika Lopez'.

Chartered Accountants
20 December 2011

Wellington



Senior Executive Team

Bill Colgan Interim Chief Executive Officer

Alan Barlow Chief Information Officer

Glen Broomhall General Manager Broadcasting

David Craig General Manager Sales and Marketing

Fleur Murray General Manager Human Resources

Stuart Robb Chief Financial Officer

Martin Saunders General Manager Wagering, Racing and Sport

Michael Wemyss Head of Risk, Legal and Audit

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