

Unaudited Year End Financial Report: 31 March 2017

Author: Jordan Carter, Chief Executive

Purpose of Paper: To provide a year-end update on the financial performance of InternetNZ for the 2016/17 year.

Commentary to the accounts

The unaudited result for the year ending March 2017 was a surplus of \$476,470, against a budgeted deficit of \$323,454, reflecting a variance of \$799,924.

As per the previous three years we are once again reporting a surplus, as illustrated in the following graph. Based on the May 2017 NZRS SoDaG, we will be heading for another significant surplus in the coming year as well.

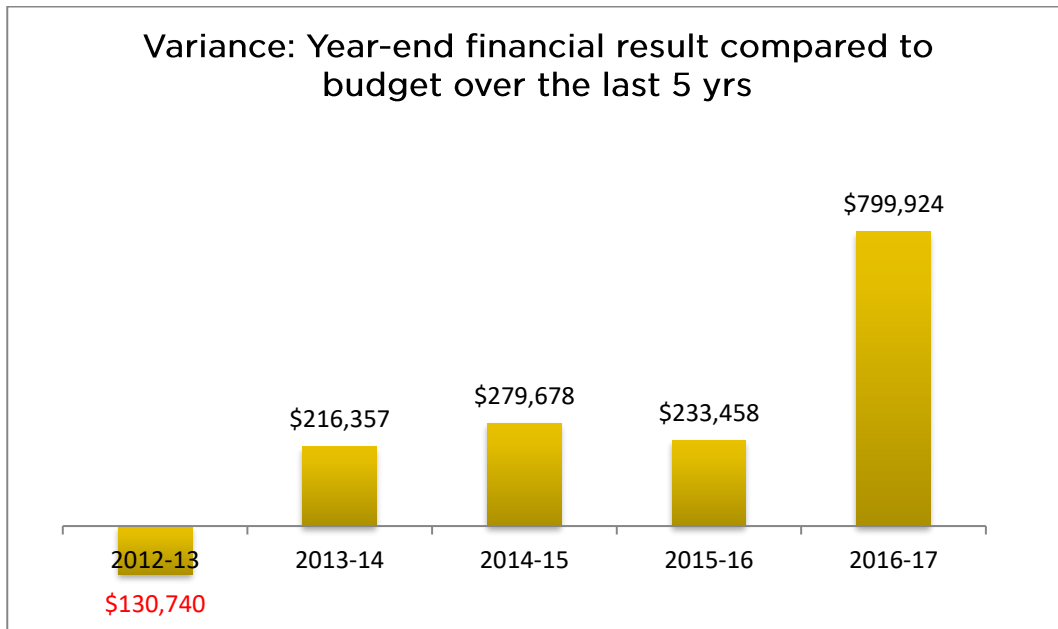
These surpluses have arisen from a number of factors. I note for the record that parts of our budget are “if required” provisions (for example, provisions to deal with regulatory issues), and where these do not need to be spent then the funds tend to be allowed to expire with the financial year, rather than rolled over or directed to other areas of spending. In general, we aim to be tight in our spending.

This default, conservative approach will be shaped in outyears by development of a comprehensive financial strategy for InternetNZ, a Council initiative that I welcome. That will give us a more solid basis on which to make decisions about the levels of reserves and whether we should be running surpluses or not.

The 2016/17 surplus is due to a combination of factors. The following factors boosted the year-end result:

- a special dividend payment, which was payment of \$734,136 from NZRS for the cash in excess of reserves from the 2015/16 financial year-end;
- unspent funds of \$161,488 from activities planned that did not eventuate in the Community area;
- \$109k was attributable to savings being made in other areas.

On the other side of the ledger, there was a reduction of \$205,614 in the annual dividend from NZRS between the draft figure we used for our budgeting, and the final prediction in the final NZRS budget. The balance of \$476,470 leaves us with expected retained earnings of around \$6.38m – considerably higher than the planned \$5.4m.



Detailed commentary on the variances follows.

There follow a number of attachments with further information for Council:

- A - The profit and loss statement
- B - A chart showing net income, actual against budget
- C - The balance sheet
- D - Information about the spread of assets across institutions
- E - Managed Invested Funds, balance per month and chart
- F - A chart showing cash in bank, actual against forecast
- G - The cash flow forecast to March 2017.

Income and Expenditure variances

Income:

Income was over budget for the year by \$568,557 across the organisation. Most of this is attributable to the special dividend (\$734K) of cash in excess from the 2015/16 financial year.

Besides the special dividend payment, other income variances were:

- the reduction of \$205,614 in the annual dividend from NZRS
- Grants and funding for the Issues and International Engagement areas of work, \$43k above budget
- Group staff activities income from subsidiaries of \$10k
- A reduction in membership fees of \$3k
- A reduction in sundry income of \$5k
- Interest was over budget by \$2k
- A \$7k deficit on the revaluation of the USD bank account at year-end, as required by accounting standards

Expenditure:

Areas of difference are:

- **Remuneration** in total was under budget by \$72k for the year, all areas were under: ACC (\$1k), miscellaneous staff costs (\$10k), recruitment (\$16k), staff training (\$11k), Kiwi Saver (\$3k), wages & salaries (\$9k), and casual & temporary (\$22k).
- **Internet Issues** ended the year over budget by \$121k. Expenditure \$156k over budget was partly offset by grant funding income of \$35k.
 - remunerations, conference, general office expenses, telecommunications and national travel are under budget by \$16k.
 - consultants, subscriptions and the focus areas are over budget by \$172k, of which \$117k or 68% relates to the access/use Focus Areas, e.g. the digital inclusion map, the Telco Act review, the VodaSky merger, and the copyright law reform. As previously reported to Council Issues was predicating an overrun-on expenditure compared to budget. The reactive nature of this work area can never guarantee alignment with budget.
- **Community Funding** ended the year under budget by \$40k. Within that:
 - remuneration, conferences, consultants, meeting costs, printing and stationery, national travel, and the on-demand grants funding were all under, by \$50k.
 - Legal, and subscriptions were over by \$10k all of which was, as previously reported, attributable to an increased Smarty Grants subscription being unbudgeted.
- **Community Engagement** ended the year under budget by \$53k. Within that:
 - remuneration, legal fees, and telecommunication were over budget by \$50k.
 - operating expenses as follows were under: bank charges, conferences, consultants, general office expense, meeting costs, printing & stationery, subscriptions, national travel by \$22k
 - the community funding review process was not undertaken resulting in an underspend of \$19k. NetHui, NetHui collaborations and initiatives were under by \$55k, and the planned Māori Engagement could not be conducted before year-end, so was underspent by \$7k
- **International Engagement** ended the year \$77k under budget, \$42k due to a reduced amount of international travel being undertaken, and \$35k the proposed Oceania School of Internet Governance not occurring.
- **Communications/Outreach** year-end result was under by \$116k
 - As previously reported to Council this area of work was expected to report well under budget as the team's work has largely been resourced internally.

- **Operational costs** ended the year under budget by \$61k. Within that:
 - legal fees, meeting costs, repair and maintenance, subscriptions and national travel were over by \$38k
 - remuneration was under in total by \$47k
 - accounting fees, marketing, bank charges, conferences, consultants, depreciation, general office expenses, R&M software, printing & stationery, telecommunications, website hosting, and Maori were under by \$48k
 - overheads were under by \$4k, within that cleaning costs, insurance, rent were over by \$8k, and electricity was under by \$10k
- **Governance and Members** ended the year under budget by \$30k. Within that:
 - consultants were over by \$45k for costs related to the organisational review.
 - areas under budget were recruitment \$6k, training \$32k, meeting costs \$20k, international and national travel \$13k, and Māori Engagement \$4k.
- **International Events** as reported in February, operating expenses are \$12k under for the year.

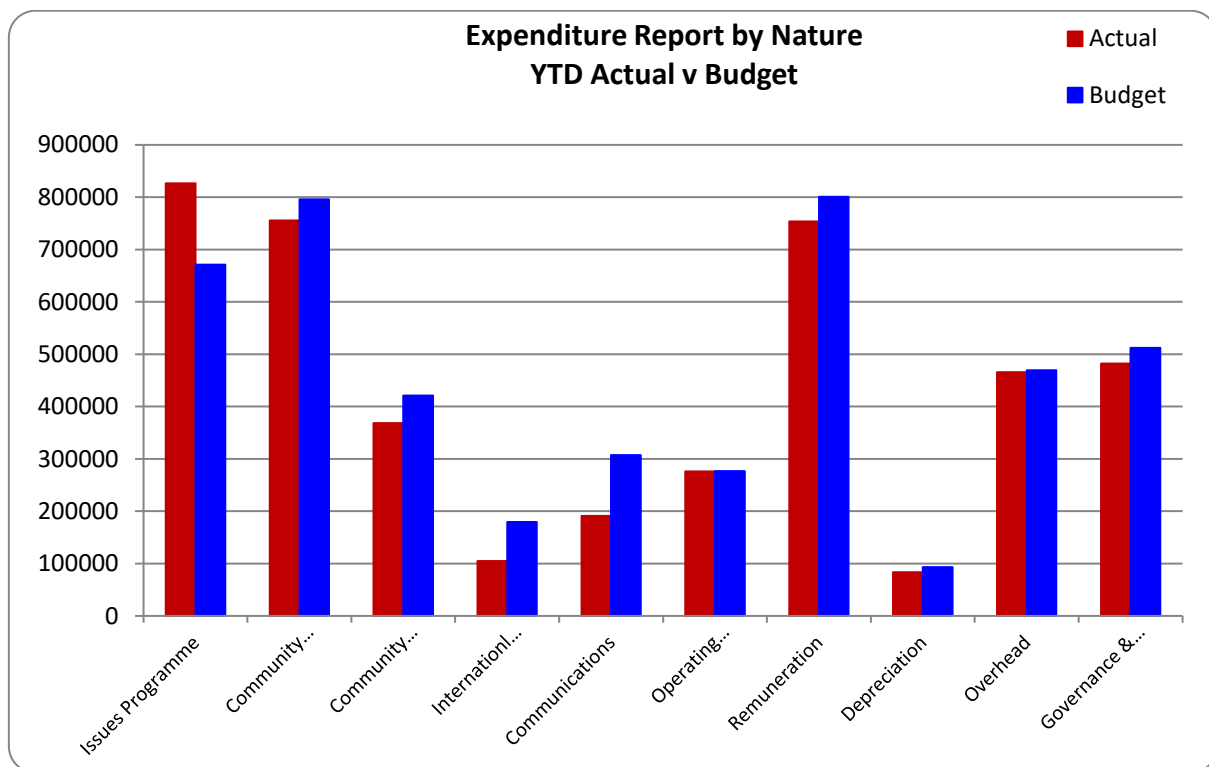
Other Expected Major Budget Variances

Other than those already noted, and dependant on the audit result there are no other major budget variances to report.

Condensed Income and Expenditure Report

Actual v Budget by Nature As at 31 March 2017

	YTD Actual \$	YTD Budget \$	Variance \$
Income – total	4,825,770	4,257,213	568,557
Expenditure			
Internet Issues	826,734	670,966	155,767
Community Funding	755,706	796,033	-40,327
Community Engagement	368,369	421,224	-52,854
International Engagement	104,777	179,198	-74,421
Communications	191,270	307,411	-116,141
Operating Expenses	275,970	276,555	-585
Remuneration (Operations)	753,910	800,848	-46,938
Depreciation	83,347	93,000	-9,653
Overhead	465,799	469,544	-3,744
Council & Members	481,893	511,890	-29,997
International Event	41,526	54,000	-12,474
Expenditure – total	4,349,300	4,580,667	-231,367
Net Income	476,470	-323,454	799,924



As always, I welcome any questions or comments in response to this report.

Jordan Carter
Chief Executive

Mary Tovey
Finance Manager

18 May 2017

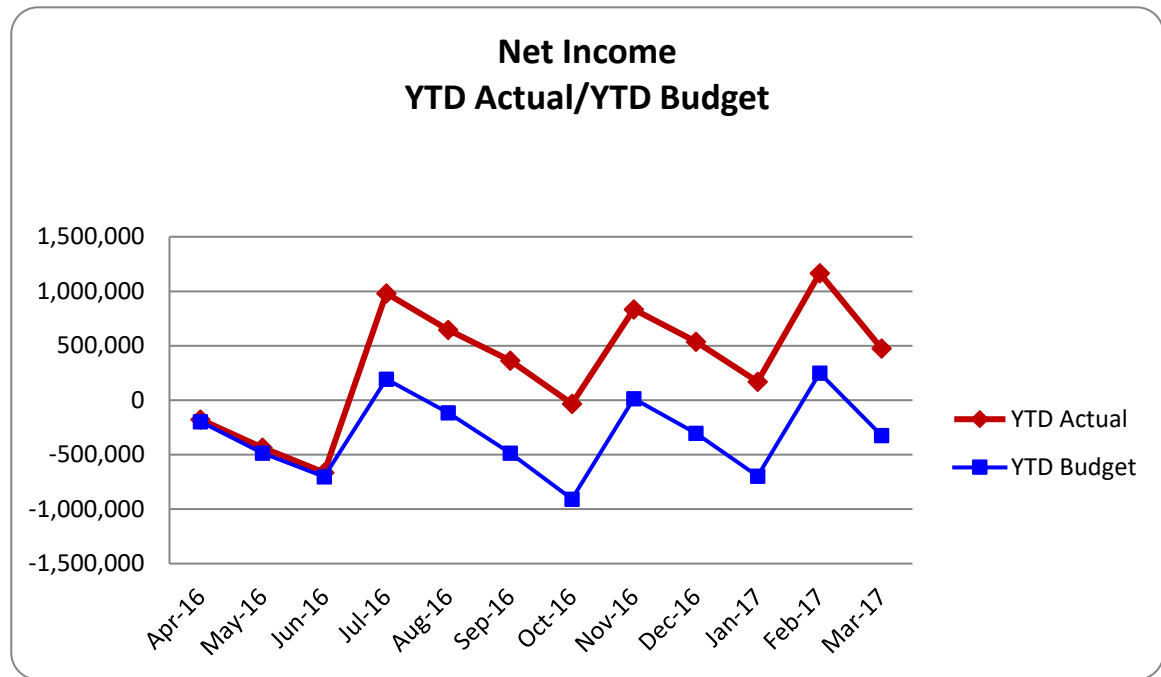
Attachment A: Profit and Loss Statement

InternetNZ
Profit and Loss Statement
As at 31 March 2017

	Apr 16 - Mar 17	Budget	\$ Over Budget
Ordinary Income/Expense			
Income			
500 · Operating Income			
530 · Shared Group Services	387,108.00	387,000.00	108.00
535 · Group Staff Activity Recharge	9,679.97	0.00	9,679.97
542 · Membership - Corporate	3,500.00	4,583.34	-1,083.34
546 · Membership - Individual	7,351.27	9,016.66	-1,665.39
Total 500 · Operating Income	407,639.24	400,600.00	7,039.24
560 · Grants	42,843.98	0.00	42,843.98
570 · Sundry Income	345.00	5,000.00	-4,655.00
580 · Investment Income			
583 · Dividends	4,334,136.00	3,805,613.00	528,523.00
586 · Interest	48,020.87	46,000.00	2,020.87
Total 580 · Investment Income	4,382,156.87	3,851,613.00	530,543.87
594 · Exchange Gain/Loss	-7,215.16	0.00	-7,215.16
Total Income	4,825,769.93	4,257,213.00	568,556.93
Expense			
600 · Remuneration			
601 · ACC Levy	3,936.50	5,102.95	-1,166.45
625 · Miscellaneous Staff Costs	19,003.19	29,399.46	-10,396.27
630 · Recruitment	45,451.34	61,000.00	-15,548.66
635 · Staff Training	61,819.73	72,035.04	-10,215.31
651 · Wages & Salaries			
651-01 · Kiwi Saver - Employer Cont	48,693.43	51,990.60	-3,297.17
651 · Wages & Salaries - Other	1,382,717.22	1,392,011.00	-9,293.78
Total 651 · Wages & Salaries	1,431,410.65	1,444,001.60	-12,590.95
653 · Wages - Casual & Temporary	5,676.70	27,260.00	-21,583.30
Total 600 · Remuneration	1,567,298.11	1,638,799.05	-71,500.94
800 · Operating Expenses			
801 · Accountancy Fees	23,243.44	25,000.00	-1,756.56
805 · Advertising & Marketing	4,533.56	11,000.00	-6,466.44
808 · Audit Fees	7,450.00	7,100.00	350.00
809 · Bank Charges	2,718.22	6,600.00	-3,881.78
811 · Conferences	6,744.54	18,000.00	-11,255.46
813 · Consultants	271,839.24	253,568.00	18,271.24
816 · Depreciation	83,347.39	93,000.00	-9,652.61
818 · Group Staff Activities	11,507.68	12,400.00	-892.32
820 · General Office Expenses	26,520.31	27,329.29	-808.98
822 · Governance Training	7,518.18	40,000.00	-32,481.82
824 · Honoraria	203,545.33	201,750.00	1,795.33
826 · Legal Fees	63,304.55	40,000.04	23,304.51
829 · Meeting Costs	78,575.73	121,966.34	-43,390.61
851 · Repairs and Maintenance	4,245.04	4,000.00	245.04
853 · R & M - Software	5,173.96	9,000.00	-3,826.04
855 · Printing & Stationery	20,510.81	22,200.00	-1,689.19
860 · Subscriptions	65,075.12	59,107.60	5,967.52
870 · Telecommunications	63,566.27	70,299.24	-6,732.97
872 · Travel & Accom - International	1,789.27	14,000.00	-12,210.73
873 · Travel & Accom - National	69,781.43	78,500.00	-8,718.57

875 · Web Site Updates & Hosting	2,577.27	5,000.00	-2,422.73
Total 876-60 · Internet Governance Portfolio	82,578.81	122,000.00	-39,421.19
Total 876 · Internet Issues	436,109.70	275,504.03	160,605.67
Total 878 · Community Funding	581,474.43	630,000.00	-48,525.57
Total 880 · Community Engagement	157,038.04	270,000.00	-112,961.96
Total 882 · Communications/Outreach	4,388.68	20,000.00	-15,611.32
Total 887 · International Event	31,045.95	35,000.00	-3,954.05
Total 800 · Operating Expenses	2,316,202.95	2,472,324.54	-156,121.59
900 · Overheads			
915 · Cleaning Costs	48,831.98	43,000.00	5,831.98
933 · Electricity	14,633.06	25,000.00	-10,366.94
950 · Insurance	11,338.82	10,700.00	638.82
975 · Rent Paid	388,517.77	387,123.60	1,394.17
980 · Security	2,477.64	3,720.00	-1,242.36
Total 900 · Overheads	465,799.27	469,543.60	-3,744.33
Total Expense	4,349,300.33	4,580,667.19	-231,366.86
Net Ordinary Income	476,469.60	-323,454.19	799,923.79
Other Income/Expense			
Other Income			
1000 · Special Dividends			
1030 · Investment Income	215,337.44	0.00	215,337.44
Total 1000 · Special Dividends	215,337.44	0.00	215,337.44
Total Other Income	215,337.44	0.00	215,337.44
Other Expense			
1900 · Special Dividend Exp-Overhead			
1950 · Investment Funds Management Fee	9,034.24	0.00	9,034.24
Total 1900 · Special Dividend Exp-Overhead	9,034.24	0.00	9,034.24
Total Other Expense	9,034.24	0.00	9,034.24
Net Other Income	206,303.20	0.00	206,303.20
Net Income	682,772.80	-323,454.19	1,006,226.99

Attachment B: Net Income actual against budget



InternetNZ
Balance Sheet
As at 31 March 2017

ASSETS	March 31, 17
Current Assets	
Cheque/Savings	
Total Cheque/Savings/	1,221,510.79
Total 121 - Term Deposits	1,811,696.39
130 - USD Bank Account	332,670.00
150 - Petty Cash	400.00
122 - Investment Funds	
122-01 - GMI Investment	1,277,254.98
122-20 - Milford Asset	1,377,945.77
Total 122 - Investment Funds	2,655,200.75
Total Other Current Assets	142,486.15
Total Current Assets	6,163,964.08
Fixed Assets	
Total Fixed Assets	289,172.74
Other Assets	
270 - Ordinary Share Capital	30,000.00
271 - Shares in DNCL	580,000.00
Total Other Assets	610,000.00
TOTAL ASSETS	7,063,136.82
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
300 - Accounts Payable	282,053.50
Total Accounts Payable	282,053.50
Other Current Liabilities	
305 - Accruals	369,846.44
Total 327 - Payroll Liabilities	35,129.90
Total Other Current Liabilities	404,976.34
Total Current Liabilities	687,029.84
Total Liabilities	687,029.84
Equity	
412 - Retained Earnings	5,693,334.18
Net Income	682,772.80
Total Equity	6,376,106.98
TOTAL LIABILITIES & EQUITY	7,063,136.82

Attachment D: Spread of assets across institutions

Investment Information

Term Deposits

Date	Bank	Term	Amount
28/2/2016	BNZ	12 months	95,655
29/08/2016	ASB	10 months	457,021
21/12/2016	BNZ	120 days	350,000
01/12/2016	Kiwibank	12 months	309,020
07/03/2017	ASB	90 days	300,000
07/03/2017	ASB	6 months	300,000
Total \$			1,811,696

Managed Investment Funds Information

Date	Managers	Amount
20/06/2013	GMI	1,277,255
20/06/2013	Milford	1,377,946
Total \$		2,655,201

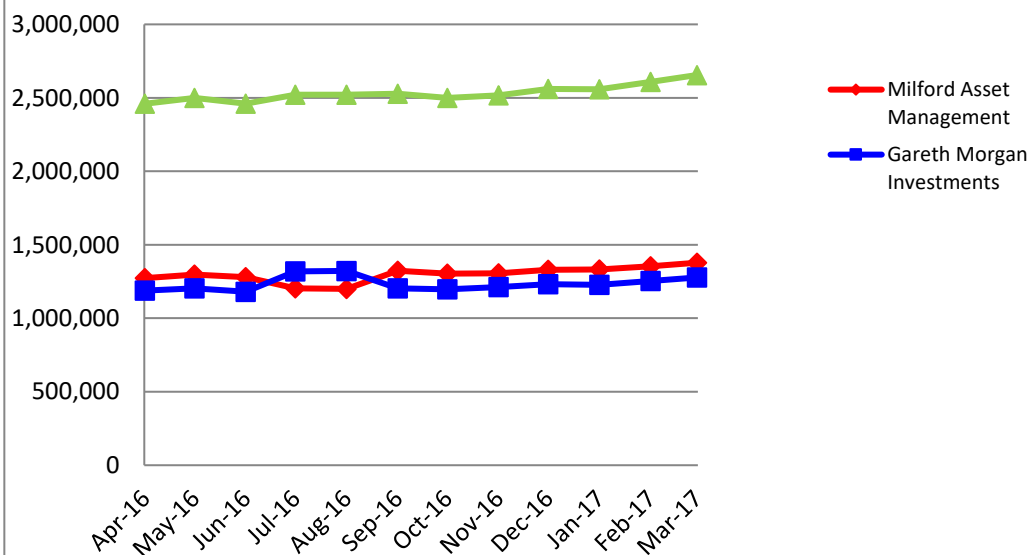
Managed Investment funds recorded at market value on 31 March 2017.

Investment information is recorded separately from the InternetNZ operating reserves as a distinct balance sheet line item, as per the InternetNZ Funds Investment Management Policy Principle 1.

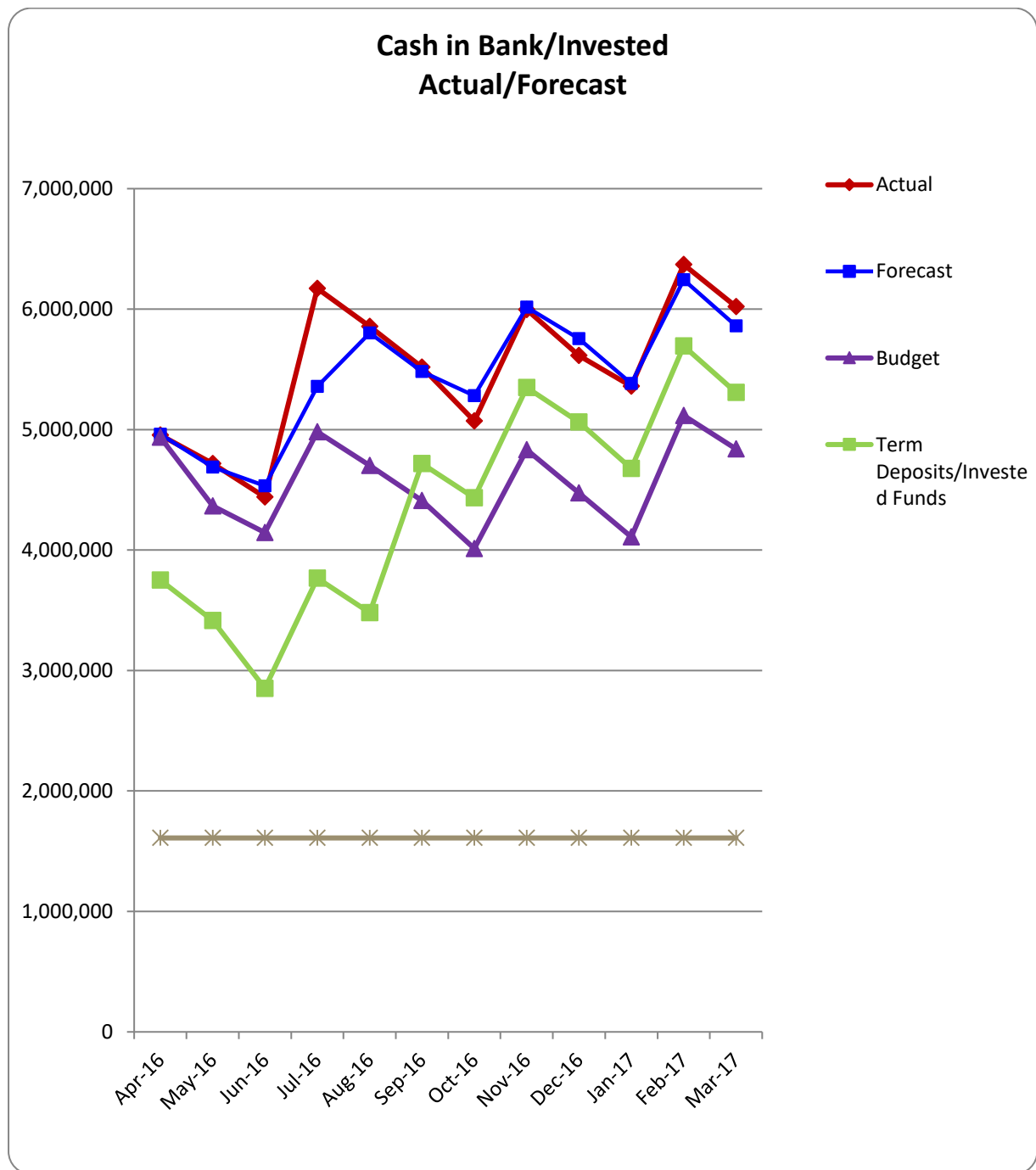
Attachment E: Managed Invested Funds

	Milford Asset Management	Gareth Morgan Investments	Total
Apr-16	1,272,701	1,187,262	2,459,963
May-16	1,296,358	1,203,608	2,499,966
Jun-16	1,280,111	1,180,690	2,460,801
Jul-16	1,203,161	1,318,803	2,521,965
Aug-16	1,200,142	1,322,224	2,522,366
Sep-16	1,323,934	1,203,311	2,527,245
Oct-16	1,302,842	1,197,548	2,500,390
Nov-16	1,306,120	1,211,188	2,517,308
Dec-16	1,328,850	1,232,706	2,561,556
Jan-17	1,331,059	1,227,368	2,558,427
Feb-17	1,353,861	1,254,333	2,608,195
Mar-17	1,377,946	1,277,255	2,655,201

Investment Funds Monthly Closing Balances



Attachment F – Cash in Bank/Invested actual compared with forecast



Attachment G: Cash flow actual to March 2017

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Total
RECEIPTS	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
Invoiced Sales	255,380	60,828	80,558	47,772	60,389	79,117	48,526	46,099	37,564	45,820	37,401	297,418	1,096,872
Special Dividends	0	0	0	0	0	0	0	0	0	0	0	0	0
Investment Income	12,643	45,844	-43,171	69,712	1,352	6,392	-29,312	19,941	50,700	-2,601	56,924	53,830	242,254
Special Dividends Interest	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends	0	0	0	1,934,136	0	0	0	1,200,000	0	0	1,200,000	0	4,334,136
Interest	0	0	0	0	0	0	0	0	0	0	13,587	0	13,587
Interest Received	322	1,776	3,866	483	1,032	1,093	352	1,216	7,412	218	0	16,642	34,412
Special Dividend Term Deposits	0	0	0	0	0	0	0	0	0	0	0	0	0
Sundry Receivables	0	0	0	0	0	0	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Receivable	53	339	373	0	0	0	0	0	3,150	0	0	0	3,915
RWT Received	0	0	0	0	0	0	0	0	0	0	0	0	0
GST	0	29,275	2,306	35,583	3,848	32,023	2,534	46,560	0	52,080	0	73,129	277,338
	268,398	138,062	43,932	2,087,686	66,621	118,625	22,100	1,313,816	98,826	95,517	1,307,912	441,019	6,002,514
PAYMENTS													
Invoiced Costs	319,636	248,779	220,006	264,644	277,457	308,681	366,098	228,974	331,209	238,982	186,973	630,063	3,621,502
ACC Levies	0	0	0	4,429	0	0	0	0	0	0	0	0	4,429
Salary & Wages	33,220	83,867	63,809	62,545	64,121	106,540	69,678	114,372	94,678	76,206	67,524	111,350	947,910
Investment Funds	0	0	0	0	0	0	0	0	0	0	0	0	0
Sundry Payables	0	0	0	0	0	0	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0	0	0	0	0	0	0
RWT	0	0	0	0	0	0	0	0	0	0	0	0	0
PAYE	21,356	42,119	38,430	23,348	40,638	41,735	33,321	46,363	52,992	36,535	43,548	47,524	467,909
GST	0	0	0	0	0	0	0	0	0	0	0	0	0
	374,212	374,765	322,245	354,966	382,216	456,956	469,097	389,709	478,879	351,723	298,045	788,937	5,041,750
NET CASH FLOW	-105,814	-236,703	-278,313	1,732,720	-315,595	-338,331	-446,997	924,107	-380,053	-256,206	1,009,867	-347,918	960,764
OPENING BANK	5,060,705	4,954,891	4,718,188	4,439,875	6,172,595	5,857,000	5,518,669	5,071,672	5,995,779	5,615,726	5,359,520	6,369,387	5,060,705
CLOSING BANK	4,954,891	4,718,188	4,439,875	6,172,595	5,857,000	5,518,669	5,071,672	5,995,779	5,615,726	5,359,520	6,369,387	6,021,469	6,021,469

Bank Account Balances as per BS	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
ANZ Savings	356,623	506,918	557,287	507,728	508,197	348,484	148,631	298,777	448,869	48,940	249,004	324,139
ANZ Current	105,402	128,400	286,433	607,547	290,661	106,358	186,066	1,343,108	58,255	555,106	1,961,897	91,812
ASB Term Deposit	0	0	0	0	900,000	900,000	900,000	900,000	900,000	900,000	450,000	1,057,021
ASB Working	400,292	400,292	401,035	901,035	1,035	1,840	1,840	1,840	1,842	1,842	1,842	1,848
BNZ Working	3,048	3,050	3,052	903,053	3,475	3,476	3,478	3,479	3,487	3,488	3,489	803,703
BNZ Term Deposit	992,412	542,412	92,412	92,412	992,412	992,412	692,412	292,412	992,412	642,412	445,655	445,655
Kiwibank Term Deposit	298,570	298,570	298,570	298,570	298,569	298,569	298,570	298,570	309,020	309,020	309,020	309,020
USD Bank Account	338,180	338,180	339,885	339,885	339,885	339,885	339,885	339,885	339,885	339,885	339,885	332,670
Petty Cash	400	400	400	400	400	400	400	400	400	400	400	400
Investment Funds	2,459,963	2,499,966	2,460,801	2,521,965	2,522,366	2,527,245	2,500,390	2,517,308	2,561,556	2,558,427	2,608,195	2,655,201
	4,954,891	4,718,188	4,439,875	6,172,595	5,857,000	5,518,669	5,071,672	5,995,779	5,615,726	5,359,520	6,369,387	6,021,469