

**HEARTLAND CASH AND TERM PIE FUND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

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**HEARTLAND CASH AND TERM PIE FUND  
MANAGER'S STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2016**

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**Statutory Base**

The Heartland Cash and Term PIE Fund (Fund) was established under a Master Trust Deed dated 1 December 2008 and an Establishment Deed dated 1 December 2008 (Establishment Date). The Heartland Cash and Term PIE Fund is currently governed by a replacement Trust Deed dated 1 December 2014. Each of these Deeds are between The New Zealand Guardian Trust Company Limited (Supervisor) and Heartland PIE Fund Limited (Manager).

**Statement by the Manager**

After due enquiry by us in relation to the period between 1 July 2015 and 30 June 2016, being the date of the accompanying financial statements there have not, in our opinion, been any material or adverse changes to the value of the Fund's assets relative to its liabilities (including contingent liabilities) and the ability of the Fund to pay its debts as they become due in the normal course of business.

For and on behalf of the Manager  
Heartland PIE Fund Limited



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Director



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Director

**HEARTLAND CASH AND TERM PIE FUND  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$000	2015 \$000
<b>Investment revenue</b>			
Interest revenue on Heartland Bank Limited deposits	6	1,792	1,391
<b>Total investment revenue</b>		<b>1,792</b>	<b>1,391</b>
<b>Total operating income</b>		<b>1,792</b>	<b>1,391</b>
<b>Profit for the year attributable to Unit Holders</b>		<b>1,792</b>	<b>1,391</b>
<b>Total comprehensive income attributable to Unit Holders</b>		<b>1,792</b>	<b>1,391</b>

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

**HEARTLAND CASH AND TERM PIE FUND  
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$000	2015 \$000
<b>Net assets attributable to Unit Holders at beginning of year</b>	5	<b>45,110</b>	<b>38,819</b>
Total comprehensive income		1,792	1,391
<b>Transactions with Unit Holders</b>			
Contributions		56,571	39,825
Redemptions		(22,316)	(34,448)
Unit Holder attributed taxation	3	(630)	(477)
<b>Movements in net assets attributable to Unit Holders for the year</b>		<b>33,625</b>	<b>4,900</b>
<b>Net assets attributable to Unit Holders at end of year</b>	5	<b>80,527</b>	<b>45,110</b>

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

**HEARTLAND CASH AND TERM PIE FUND  
STATEMENT OF NET ASSETS  
AS AT 30 JUNE 2016**

	Note	2016 \$000	2015 \$000
<b>Assets</b>			
Current investment in Heartland Bank Limited deposits	4 & 6	80,527	45,110
Other receivables		165	98
<b>Total assets</b>		<b>80,692</b>	<b>45,208</b>
<b>Liabilities</b>			
Other liabilities	3	165	98
<b>Total liabilities (excluding net assets attributable to Unit Holders)</b>		<b>165</b>	<b>98</b>
<b>Net assets attributable for Unit Holders (liability)</b>	5	<b>80,527</b>	<b>45,110</b>

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

For and on behalf of the directors of Heartland PIE Fund Limited as Manager who authorised these financial statements for issue on 16 August 2016.



Director



Director

**HEARTLAND CASH AND TERM PIE FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2016**

	2016 \$000	2015 \$000
<b>Cash flows from operating activities</b>		
Cash was provided from:		
Interest received on Heartland Bank Limited deposits	1,792	1,391
<b>Total cash provided from operating activities</b>	<b>1,792</b>	<b>1,391</b>
<b>Net cash flows from operating activities</b>	<b>1,792</b>	<b>1,391</b>
<b>Cash flows from investing activities</b>		
Cash was provided from:		
Redemption of Heartland Bank Limited deposits	21,154	33,534
<b>Total cash provided from investing activities</b>	<b>21,154</b>	<b>33,534</b>
Cash was applied to:		
Purchase of Heartland Bank Limited deposits	56,571	39,825
<b>Total cash applied to investing activities</b>	<b>56,571</b>	<b>39,825</b>
<b>Net cash flows applied to investing activities</b>	<b>(35,417)</b>	<b>(6,291)</b>
<b>Cash flows from financing activities</b>		
Cash was provided from:		
Unit Holders' contributions received	56,571	39,825
<b>Total cash provided from financing activities</b>	<b>56,571</b>	<b>39,825</b>
Cash was applied to:		
Payment of Unit Holders' redemptions	22,946	34,925
<b>Total cash applied to financing activities</b>	<b>22,946</b>	<b>34,925</b>
<b>Net cash flows from financing activities</b>	<b>33,625</b>	<b>4,900</b>
<b>Net increase in cash held</b>	-	-
Add opening cash	-	-
<b>Ending cash carried forward <sup>1</sup></b>	-	-

**Reconciliation of net profit after taxation and before Unit Holder activities  
to net cash flows from operating activities**

	2016 \$000	2015 \$000
Net profit after taxation and before Unit Holder activities	1,792	1,391
<b>Net cash flows from operating activities</b>	<b>1,792</b>	<b>1,391</b>

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

<sup>1</sup> Cash reflects the balance of cash and liquid assets used in the day-to-day cash management of the fund.

## **HEARTLAND CASH AND TERM PIE FUND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

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### **Basis of reporting**

#### **Reporting entity**

The Fund is constituted by a master trust deed (Trust Deed) dated 1 December 2008 (as amended and restated on 26 November 2012 and 1 December 2014) between The New Zealand Guardian Trust Company Limited (Supervisor) and Heartland PIE Fund Limited (Manager). The Fund is an FMC reporting entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013. The Manager is a subsidiary of Heartland Bank Limited (Heartland Bank) and has appointed Heartland Bank as Registrar in accordance with the Registry Management Agreement dated 26 November 2012. The Registrar provides all services to, or for, the Manager.

The Fund is domiciled in New Zealand and its registered office is Heartland House, 35 Teed Street, Newmarket, Auckland 1023, New Zealand.

The financial statements for the Fund comprise of the following types of account:

- Heartland Cash PIE Account
- Heartland Term PIE Account

#### **Basis of preparation**

These financial statements have been prepared by the Registrar in accordance with the Trust Deed, the Financial Reporting Act 2013 and Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards as appropriate to profit-oriented entities. The Fund is a profit-oriented entity.

These financial statements are presented in New Zealand dollars which is the Fund's functional currency. Unless otherwise indicated amounts are rounded to the nearest thousand.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise.

#### **Estimates and judgements**

The preparation of financial statements requires the use of management judgement, estimates and assumptions that effect reported amounts. Actual results may differ from these judgements.

**HEARTLAND CASH AND TERM PIE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

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**Performance**

**1 Segmental information**

The Fund operates in one industry segment, being the financial investment sector, and in one geographic segment, being New Zealand.

**2 Revenue recognition**

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Fund and that revenue can be reliably measured. The principal source of revenue is interest income. For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income recognised in profit or loss.

**3 Income tax**

The Fund qualifies as and has elected to be a Portfolio Investment Entity (PIE) for tax purposes. Under the PIE regime, income is effectively taxed in the hands of the Unit Holder and therefore the Fund has no tax expense or deferred tax assets or liabilities. Accordingly, no income tax expense is recognised in profit or loss.

As a PIE, each Fund allocates all of its taxable income (or losses) between its unit holders based on the number of units held by each unit holder. Consequently the Fund has no liability for income tax in its own right. The Registrar has calculated tax payable on income allocated to each unit holder at their nominated Prescribed Investor Rate (PIR) by deducting the amount of tax from their number of units held in the Fund.

The Registrar has withheld \$630k (June 2015: \$477k) of tax payable on income allocated to each investor, of which \$165k (June 2015: \$98k) remains due to the Inland Revenue.

**HEARTLAND CASH AND TERM PIE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**Financial position**

**4 Investments**

The valuation of investments in Heartland Bank's Term and Call Deposits (Deposits) takes into account the accrual of interest. These investments are classified as loans and receivables and are measured at amortised cost using the effective interest rate method. This approximates their fair value.

**Repricing and maturity analysis of investments**

The interest rate risk profile of investments that follows has been prepared on the basis of maturity which is the repricing date.

	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
On demand	12,236	15,261
0-6 months	29,246	7,972
6-12 months	33,372	20,280
1-2 years	5,300	1,247
2-5 years	373	350
<b>Total</b>	<b>80,527</b>	<b>45,110</b>

The effective weighted interest rate of these investments as at 30 June 2016 is 3.63% p.a (June 2015: 4.38%).

**5 Unit Holders' Funds**

Unit Holders' funds are classified as liabilities as they do not have identical features and therefore do not meet the definition of a puttable financial instrument under *NZ IAS 32 Financial Instruments: Presentation*.

	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>Units on issue</b>		
<b>Units on issue at beginning of the year</b>	<b>45,110</b>	<b>38,819</b>
Units issued during the year	58,363	41,216
Units redeemed during the year	(22,946)	(34,925)
<b>Total movements for the year</b>	<b>35,417</b>	<b>6,291</b>
<b>Units on issue at end of year</b>	<b>80,527</b>	<b>45,110</b>

As discussed in notes 9 and 10, the Fund matches the term of its investments in Heartland Bank Deposits with the term of the units on issue. Accordingly, the maturity profile of the Unit Holders' funds mirrors that of the investments in note 4.

**HEARTLAND CASH AND TERM PIE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

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**6 Related party transactions**

The Fund is managed by Heartland PIE Fund Limited.

The following disclosure of related party transactions and balances is made:

- a) The Fund deals with Heartland Bank in the normal course of business, in its capacity as Registrar of the Fund and also invests in Heartland Bank Deposits.
- b) Fees and expenses, including audit fees are paid on behalf of the Fund by Heartland Bank, in its capacity as the Registrar of the Fund. Heartland Bank has paid the Fund's auditor, on behalf of the Fund without reimbursement, \$7,655 (2015: \$7,575) for the audit of the financial statements and \$2,550 (2015: \$2,525) for other assurance services comprising compliance reporting to the Supervisor.
- c) No amounts owed to the Fund by related parties have been written off or forgiven during the year.
- d) Key management personnel include Directors, Executives and their immediate relatives. Key management personnel of the Manager and Heartland Bank have transacted with the Fund during the year as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>Related party Unit Holders' investing</b>		
Closing balance	24	218
Contributions	2	130
Redemptions	196	233

**7 Fair Value**

The Fund measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

***Investments in Heartland Bank deposits***

The fair value of all investments in Heartland Bank deposits are considered equivalent to their carrying value due to their short term nature (Level 1 in the fair value hierarchy).

***Other receivables and other liabilities***

The Fund has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values (Level 3 in the fair value hierarchy).

**HEARTLAND CASH AND TERM PIE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

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**Risk management**

**8 Credit risk**

Credit risk is the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to do so. The Fund invests only in deposits with Heartland Bank and the Fund's maximum credit risk is considered to be the carrying value of this investment. The Funds credit risk is mitigated by Heartland Banks external credit rating of BBB (Outlook Stable) by Fitch Ratings.

**9 Liquidity risk**

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds at short notice to meet its commitments and arises from any mismatch of the maturity of monetary assets and liabilities. The Fund manages this risk by matching the term of its investments in Heartland Bank Deposits with the term of the units issued. In the event the Unit Holders redeem their investments in the Fund, the Fund also has the ability to withdraw its underlying investments in Heartland Bank. The Fund is reliant on Heartland Bank repaying the Fund at the required time.

**10 Interest rate risk**

Interest rate risk is the risk that market interest rates will change and impact on the Fund's financial results by affecting the margin between interest earning assets and interest bearing liabilities.

In the Heartland Term PIE Fund, the interest rates on Unit Holders' contributions are determined at the time of contribution. The agreed rate is locked in by Heartland Bank as Registrar through simultaneous investment in Heartland Bank Deposits. No interest rate fluctuations can occur on this account during its term.

In the Heartland Cash PIE Fund, interest rates are effectively matched between the deposits the Fund holds with Heartland Bank and the investments the Unit Holders hold in the Fund. Therefore, the Fund is not exposed to interest rate risk and sensitivity analysis is not presented.

**HEARTLAND CASH AND TERM PIE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

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**Other disclosures**

**11 Contingent liabilities and commitments**

At 30 June 2016 there were no material contingent liabilities or commitments (June 2015: Nil).

**12 Changes in accounting policies**

There have been no changes in accounting policies in the current year.

**New standards and interpretations not yet adopted**

New standards which are not yet effective for the year ended 30 June 2016 have not been applied in preparing these financial statements. The new standards identified which may have an effect on the financial statements of the Fund is:

<i>Standard and description</i>	<i>Effective for annual years beginning on or after:</i>	<i>Expected to be initially applied in year ending:</i>
- NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2018	30 June 2019
- NZ IFRS 9 Financial Instruments (2013), which provides a principles-based approach to hedge accounting and aligns hedge accounting more closely with risk management.	1 January 2018	30 June 2019

This standard is not expected to have a significant impact on the financial statements of the Fund.

**13 Events after reporting date**

There have been no material events subsequent to reporting date that would affect the interpretation of the financial statements or the performance of the Fund.

## **HEARTLAND CASH AND TERM PIE FUND DIRECTORY INFORMATION**

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### **Supervisor**

The New Zealand Guardian Trust Company Limited  
48 Shortland Street  
Auckland 1010

### **Manager**

Heartland PIE Fund Limited  
Heartland House  
35 Teed Street  
Newmarket  
Auckland 1023

### **Registrar**

Heartland Bank Limited  
Heartland House  
35 Teed Street  
Newmarket  
Auckland 1023

### **Auditor**

KPMG  
KPMG Centre  
18 Viaduct Harbour Avenue  
Auckland 1010

### **All correspondence from Unit Holders may be sent to:**

The Manager  
Heartland PIE Fund  
PO Box 9919  
Newmarket  
Auckland 1149  
T 0800 85 20 20  
F +64 9 927 9321

### **Correspondence specifically for the Supervisor may be sent to:**

Relationship Manager, Corporate Trusts  
The New Zealand Guardian Trust Company Limited  
PO Box 1934  
Auckland 1140  
T +64 9 909 5100  
F +64 9 969 3732

### **Investment Enquiries**

T 0800 85 20 20  
F +64 9 927 9321  
E [invest@heartland.co.nz](mailto:invest@heartland.co.nz)  
W [www.heartland.co.nz](http://www.heartland.co.nz)



## Independent auditor's report

### To the members of the Heartland Cash and Term PIE Fund

#### Report on the financial statements

We have audited the accompanying financial statements of the Heartland Cash and Term PIE Fund (the "fund") on pages 2 to 10. The financial statements comprise the statement of net assets as at 30 June 2016, the statements of comprehensive income, changes in net assets attributable to unit holders and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the members as a body. Our audit work has been undertaken so that we might state to the fund's members those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the fund's members as a body, for our audit work, this report or any of the opinions we have formed.

#### *Manager's responsibility for the financial statements*

The manager is responsible on behalf of the fund for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

#### *Auditor's 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). Those standards require that we comply with 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 auditor's 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 internal control relevant to the fund's preparation and fair presentation of the financial statements 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 fund'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 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.

Our firm has also provided other services to the fund in relation to other assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



*Opinion*

In our opinion, the financial statements on pages 2 to 10 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of the Heartland Cash and Term PIE Fund as at 30 June 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

16 August 2016  
Auckland