

NEW ZEALAND HAIR AND BEAUTY INDUSTRY TRAINING ORGANISATION INC

FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 DECEMBER 2016

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of New Zealand Hair and Beauty Industry Training Organisation Incorporated

Opinion

We have audited the financial statements of New Zealand Hair and Beauty Industry Training Organisation Incorporated ("HITO"), which comprise the statement of financial position as at 31 December 2016, and the statement of financial performance, statement of movements in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of HITO as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards Reduced Disclosure Regime ("PBE Standards RDR"), issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of HITO in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in HITO.

The Boards' Responsibilities for the Financial Statements

The Board is responsible on behalf of HITO for the preparation and fair presentation of the financial statements in accordance with PBE Standards RDR, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible on behalf of HITO for assessing HITO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intend to liquidate HITO or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 HITO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Board and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on HITO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause HITO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Who we report to

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



BDO Wellington
Wellington
New Zealand
7 April 2017

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2016**

<u>REVENUE</u>	Note	2016	2015
Revenue	2	3,674,231	3,546,195
Cost of Goods Sold	3	(54,674)	(33,618)
Gross Surplus		3,619,557	3,512,577
Other Income	4	259,114	439,385
 <u>EXPENDITURE</u>			
Administration	5	2,750,898	2,456,504
Course Development	6	280,375	425,736
Promotion	7	554,976	452,235
Provision of training services	8	1,049,599	1,039,261
TOTAL EXPENDITURE		4,635,847	4,373,736
NET OPERATING SURPLUS		(757,177)	(421,774)

These Statements are to be read in conjunction with the notes on pages 8 to 14

**STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016	2015
Equity At Start of Period		9,087,834	9,509,608
Net Operating Surplus After Tax		(757,177)	(421,774)
<u>EQUITY AT END OF PERIOD</u>		<u>8,330,658</u>	<u>9,087,834</u>

These Statements are to be read in conjunction with the notes on pages 8 to 14

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

EQUITY	Note	2016	2015
Equity		<u><u>8,330,658</u></u>	<u><u>9,087,834</u></u>
 <u>CURRENT ASSETS</u>			
Accounts Receivable	9	186,556	244,268
Stock on Hand	10	25,922	23,341
Prepayments		36,112	55,392
GST Refund		5,580	163,461
Cash & Cash Equivalents	11	<u>8,112,163</u>	<u>8,771,490</u>
		8,366,333	9,257,952
 <u>NON CURRENT ASSETS</u>			
Fixed Assets	12	111,795	127,183
Intangible Assets	13	<u>396,041</u>	<u>398,760</u>
		507,836	525,943
 <u>TOTAL ASSETS</u>		 8,874,169	 9,783,895
 <u>CURRENT LIABILITIES</u>			
Apprentice Fee received in Advance		60,479	58,841
Accounts Payable and Accruals	14	281,415	555,961
TEC Liability	2.a	<u>201,618</u>	<u>81,259</u>
		543,512	696,061
 <u>TOTAL LIABILITIES</u>		 543,512	 696,061
 <u>NET ASSETS</u>		 <u><u>8,330,658</u></u>	 <u><u>9,087,834</u></u>

For and on behalf of the Executive Board



Flora Gilkison
Chairperson
7 April 2017



Kay Nelson
Chief Executive Officer
7 April 2017

These Statements are to be read in conjunction with the notes on pages 8 to 14

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	2016	2015
Cash flows from operating activities		
Operating revenue	3,755,734	3,575,124
Interest received	235,324	417,175
Payments to suppliers and employees	(4,691,664)	(5,080,509)
GST paid	157,881	(179,450)
Net cash inflow/(outflow) from operating activities	(542,726)	(1,267,660)
Cash flows from investing activities		
Purchase of Fixed Assets	(32,352)	(18,216)
Purchase of intangible assets	(84,250)	(384,517)
Net cash inflow/(outflow) from investing activities	(116,602)	(402,733)
Net increase (decrease) in cash and cash equivalents	(659,327)	(1,670,393)
Cash and cash equivalents at the beginning of the period	8,771,490	10,441,883
Cash and cash equivalent at end of the year	8,112,163	8,771,490

These Statements are to be read in conjunction with the notes on pages 8 to 14

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

These statements have been prepared in accordance with the Incorporated Societies Act 1908 and the Financial Reporting Act 1993.

A. REPORTING ENTITY

New Zealand Hair and Beauty Industry Training Organisation Inc (HITO) is a public benefit entity for the purposes of financial reporting in accordance with the Financial Reporting Act (2013).

B. PARTICULAR ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with Public Benefit Entity Standards Reduced Disclosure Regime ("PBE Standards RDR"), as appropriate for Tier 2 not-for-profit public benefit entities.

New Zealand Hair and Beauty Industry Training Organisation Inc ("HITO") qualifies as a Tier 2 reporting entity for the current and prior periods it has had between \$2m and \$30m operating expenditure.

These financial statements were authorised for issue by the Board on 7th April 2017.

The financial statements are prepared on the assumption HITO will continue to operate in the foreseeable future.

Measurement Basis

The financial statements have been prepared on a Historical cost basis using accrual accounting.

Functional & Presentational Currency

The financial statements are presented in New Zealand dollars (\$) which is the entity's functional currency, and have been rounded to the nearest whole dollar.

Taxation

HITO registered as a Charitable Trust in June 2008, Taxation Provision was only provided up to this period. There is no tax provision for the 2016 year.

Goods and Service Tax

The Financial Statements are stated exclusive of Goods and Service tax except for Accounts Receivable and Accounts Payable which have been stated inclusive of Goods and Services tax.

Changes to Accounting Policies

There has been no change in accounting policy for the HITO.

A new accounting Standards Framework (incorporating a tier strategy) developed by the External reporting Board (XRB) will be effective for reporting period ending 31 December 2016. HITO will be able to report under Tier 2 of the Framework.

2 REVENUE

Revenue is comprised of the following:

	2016	2015
Regional Apprentice Fees	110,523	116,343
HITO Annual Employer Fees	261,346	254,211
NZARH - Association Levy	36,933	35,337
Membership Fees	435	3,844
Nail Qualification	2,936	6,890
Appeal on Assessment	139	765
Barbering Fees	18,910	15,815
Assessment Fees	111,468	100,928
Workshops - Assessor Training	2,852	3,210
Employer/Apprentice Workshops	0	3,280
National Certificate Income	4,861	4,800
Industry Development Recovery	87,503	50,920
Credit Fees	31,082	29,911
Moderation Recovery	130,722	142,382
Project Funding	30,000	30,000
Tertiary Education Commission Funding	(2a) 2,776,382	2,692,884
Publication Sales	35,793	33,045
Gateway Income	32,346	21,630
	<u>3,674,231</u>	<u>3,546,195</u>

(2a) Tertiary Education Commission Funding

Funding Received	3,008,000	2,774,143
Overpaid Funding to be returned (accrued liability)	(201,618)	(81,259)
Recognised Income	<u>2,806,382</u>	<u>2,692,884</u>

The TEC funding recovery has been accrued in line with the information available from TEC.

REVENUE ACCOUNTING POLICIES

Revenue is recognised when the amount of revenue can be measure reliably and it is probable that economic benefits will flow to Hair ITO, and measured at the fair value of consideration received or receivable.

The following specific recognition criteria in relation to the Hair ITO's revenue streams must also be met before revenue is recognised.

Revenue from exchange transactions**Publication Sales**

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably

Moderation Recovery

Moderation recoveries are based on a per credit achievement rate with NZQA. Recoveries are received quarterly in arrears based on the credits registered with NZQA.

Revenue from non-exchange transactions**Tertiary Education Commission (TEC) Funding**

HITO has a contract with TEC which stipulates conditions around the provision of training services to apprentices and trainees. HITO recognises income when the income has been received and those conditions are met. A liability is recognised when the income has been received but there are conditions of the funding which remain unmet as at balance date. The value of the obligation is based on the funding recovery advised by the TEC.

Other Non-Exchange Revenue

Other revenue streams such as regional apprentice fees, HITO annual employer fees, assessment fees and industry development recovery are considered non-exchange as the service delivery is either subsidised by the TEC funding or fair value of the service provided to the end user cannot be readily established. Income from other non-exchange revenue sources is recognised when the underlying activity to which it is generated from has been performed.

3 COST OF SALES*Cost of Sales is comprised of the following:*

Publications	42,582	29,329
Gateway	12,092	4,289
	<u>54,674</u>	<u>33,618</u>

4 OTHER INCOME*Other Income is comprised of the following:*

Interest - National & Regional Offices	235,324	417,175
Management, Business & Advanced Qualifications	16,351	18,629
Sundry Income	7,439	3,581
	<u>259,114</u>	<u>439,385</u>

OTHER INCOME ACCOUNTING POLICIESInterest Revenue

Interest is recognised on an accrual basis as earned.

5 ADMINISTRATION EXPENSE*Administration is comprised of the following:*

Membership Expenses		177	368
Board & Travel Subsidy		17,698	28,700
Movement in Provision for Bad Debts		15,670	9,310
Bad Debts Written Off		56,468	2,460
ACC Earner/Employer Premiums		4,995	6,405
Accommodation		19,573	16,822
Accounting & Legal Expenses		15,490	8,918
Audit Fees		13,838	13,886
Amortisation and Depreciation	(12) & (13)	134,709	88,944
Bank Charges		2,294	2,415
Cleaning		1,262	3,024
Computer Maintenance		116,189	119,255
Electricity		6,488	7,228
Freight, Courier & Postage		30,307	33,188
General Expenses		6,253	7,133
General Meeting Costs		43,077	64,160
ITO Federation Subscription		25,625	25,625
National Office Expenses		25,797	20,163
Repairs and Maintenance		390	0
Travel Expenses		56,891	49,877
Insurance		15,119	14,554
Board Meetings & Honoraria		78,094	60,165
Printing & Stationery		16,584	16,997
Office Rent		121,734	117,990
Lease Expenses		16,780	12,715
Salaries & Wages		1,622,165	1,491,035
Staff Recruitment		105,993	14,392
Staff Training		10,259	6,703
Targeted Review Of Qualification (TROQ) Expenses		15,971	37,769
Telephone & Internet		44,673	51,748
Vehicle Leases		65,381	68,956
Vehicle Running Expenses		44,955	55,599
		<u>2,750,898</u>	<u>2,456,504</u>

6 COURSE DEVELOPMENT

Course Development is comprised of the following:

Surveys/Reviews/Projects	75,664	170,442
Industry Development	155,516	238,500
Programme/Beauty Development	23,504	7,521
Qualification Adv Committee	25,691	9,273
	<u>280,375</u>	<u>425,736</u>

7 PROMOTION

Promotion is comprised of the following:

Advertising/Marketing	550,206	447,530
Advertising White Pages	4,770	4,705
	<u>554,976</u>	<u>452,235</u>

8 PROVISION OF TRAINING SERVICES

Provision of Training Services is comprised of the following:

Seminar Expenses	8,738	19,284
Nail Qualification Expenses	0	3,768
Assessment Expenses 2759/2757	90,400	83,739
Barbering Fees	5,031	4,568
Off Job Training Paid	(19)	804,195
National Certificate Costs	2,930	767,774
Accreditation/Credit Fees	2,930	2,170
Moderation Expenses	38,256	32,883
Literacy Project	47,118	45,873
Workshops	30,236	41,776
Management, Business & Advanced Qualifications	10,557	17,654
	12,138	19,772
	<u>1,049,599</u>	<u>1,039,261</u>

9 ACCOUNTS RECEIVABLE

Accounts Receivable is comprised of the following:

Accounts receivable from customers - exchange transactions	258,119	287,881
Allowance for Doubtful Debts	(71,563)	(43,613)
	<u>186,556</u>	<u>244,268</u>

ACCOUNTS RECEIVABLE ACCOUNTING POLICY

Accounts receivable are valued at expected realisable value. HITO has a policy of provisioning for bad debt. All debts over 90 days that do not have a repayment plan are lodged with a debt collector. All debtors that have been lodged, or are about to be lodged have a provision of 50%.

10 STOCK IN HAND ACCOUNTING POLICY

Stocks are valued at the lower cost on a FIFO basis or net realisable after due allowance for damaged or obsolete stock.

11 CASH & CASH EQUIVALENTS

Cash & Cash Equivalents is comprised of the following:

Current Account	31,140	35,557
Call Account	107,493	40,274
Bank Term Deposits	7,973,530	8,695,659
	<u>8,112,163</u>	<u>8,771,490</u>

There are no restrictions over any of the cash and cash equivalent balances held by the Group.

12 FIXED ASSETS

Fixed Assets are comprised of the following:

<u>Cost</u>	Furniture & Fixtures	Computer Hardware	Leasehold Improvements	Office Equipment	Total
Opening	97,497	80,276	103,959	39,269	321,001
Additions	1,197	31,155	0	0	32,352
Disposals	0	0	0	0	0
Closing	98,694	111,431	103,959	39,269	353,353
<u>Accumulated Depreciation</u>					
Opening	65,059	61,156	39,988	27,615	193,818
Depreciation	11,902	21,900	8,109	5,830	47,741
Disposals Depreciation write-back	0	0	0	0	0
Closing	76,961	83,056	48,097	33,445	241,559
Net Book Value 2016	21,733	28,375	55,862	5,824	111,794
Net Book Value 2015	32,438	19,120	63,971	11,654	127,183
Net Book Value 2014	44,942	30,989	72,080	16,510	164,521

FIXED ASSETS ACCOUNTING POLICIES

Fixed Assets are recorded at cost less depreciation to date.

All fixed assets are depreciated over their expected useful lives using the straight line method of depreciation.

The Depreciation Rates used are as follow:

Furniture & Fixtures	8 – 30%
Office Equipment	10.2 – 48%
Computer Hardware	30 – 48%
Leasehold Improvements	7.80%

13 INTANGIBLE ASSETS

Intangible Assets are comprised of the following:

<u>Cost</u>	Computer Software	Training resources	Total
Opening	61,225	384,517	445,742
Additions	0	84,250	84,250
Disposals	0	0	0
Closing	61,225	468,767	529,992
<u>Accumulated Depreciation</u>			
Opening	42,980	4,003	46,983
Amortisation	18,246	68,723	86,969
Disposals Amortisation write-back	0	0	0
Closing	61,226	72,726	133,952
Net Book Value 2016	0	396,041	396,041
Net Book Value 2015	18,246	380,514	398,760
Net Book Value 2014	47,634	0	47,634

INTANGIBLE ASSETS ACCOUNTING POLICIES

Intangible Assets are recorded at cost less accumulated amortisation. Only intangible assets over \$500 are capitalised.

Amortisation is recognised in the profit and loss on a straight line basis.

The amortisation rates used are as follows:

Training Resources	15 – 20%
Computer Software	48%

14 ACCOUNTS PAYABLE AND ACCRUALS

Accounts Payable and Accruals is comprised of the following:

Accounts payables from exchange transactions	90,779	225,252
Accruals	109,983	151,835
PAYE Clearing Account	37,866	46,548
Holiday Accrual Provision	42,787	132,326
	<u>281,415</u>	<u>555,961</u>

15 OPERATING LEASE COMMITMENTS

The future non-cancellable minimum lease payments of operating leases as lessee at reporting date are detailed in the table below:

Less than one year	114,611	148,942
Between one and five years	116,297	98,600
Greater than 5 years	0	0
	<u>230,908</u>	<u>247,542</u>

Leases entered into are for office space, vehicles and photocopiers.

16 COMMITMENTS AND CONTINGENCIES

HITO have signed commitments after balance date. A 5 year lease for Wellington office rental costing \$71,460 per annum. A 3 year lease for Auckland office rental costing \$25,000 in year one, \$27,500 in year two and \$30,000 in year three.

There are no capital commitments or contingent liabilities at balance date (2015: nil)

17 SUBSEQUENT EVENTS

No events subsequent to balance date have materially impacted the accuracy of these financial statements.

18 RELATED PARTY DISCLOSURES***Key Management Personnel Remuneration***

Members of the governing body and the CEO are classified as key management personnel. The aggregate level of remuneration paid to key management personnel and the Full-time equivalent number of personnel is presented below:

	2016	2015
Remuneration	483,039	480,307
Number of individual (FTE's)	4	4
Other Remuneration and Compensation	166,875	0

Other related party disclosures

A Millar (Board member) is also an Industry Assessor.

19 OFF JOB TRAINING

Off job training pertains to payments made to apprentices for training and courses undertaken outside of their employment. Costs associated with this training have been met in the following way:

HITO Payments	804,195	767,774
Apprentice Contributions	379,112	371,349
	<u>1,183,307</u>	<u>1,139,123</u>

20 FINANCIAL INSTRUMENTS

All financial assets are classified as loans or receivables for financial measurement purposes.

These are:

	Loan and Recievables at amortised cost	
	2016	2015
	\$	\$
Cash and cash equivalents	138,633	75,831
Bank term deposits	7,973,530	8,695,659
Receivables	249,792	244,268

Trade payables are the only financial liabilities at amortised cost. There are no financial liabilities at fair value through profit and loss