

NEW ZEALAND HAIR AND BEAUTY INDUSTRY TRAINING ORGANISATION INC

FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 DECEMBER 2017

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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**INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF NEW ZEALAND HAIR AND BEAUTY INDUSTRY TRAINING
ORGANISATION INC**

Opinion

We have audited the financial statements of New Zealand Hair and Beauty Industry Training Organisation Inc ("HITO"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of HITO as at 31 December 2017, 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.

Our firm carried out other assignments for HITO, giving them invoicing advice and consultancy in regards to the set-up and conversion of Xero. The firm has no other relationship with, or interests in, HITO.

Board's 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 the 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 intends to liquidate HITO or to cease operations, or has 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 the 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 the 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 HITO's 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 the HITO and the HITO's board, as a body, for our audit work, for this report or for the opinions we have formed.

BDO Wellington Audit Limited

BDO Wellington Audit Limited
Wellington
New Zealand
16 April 2018

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2017**

<u>REVENUE</u>	Note	2017	2016
Revenue	2	3,727,094	3,674,231
Cost of Goods Sold	3	<u>(100,101)</u>	<u>(54,674)</u>
Gross Surplus		3,626,993	3,619,557
Other Income	4	244,422	259,114
<u>EXPENDITURE</u>			
Administration	5	3,521,536	2,733,200
Course Development	6	324,243	280,375
Promotion	7	405,110	554,976
Provision of training services	8	1,073,333	1,067,296
<u>TOTAL EXPENDITURE</u>		5,324,222	4,635,847
NET OPERATING SURPLUS		<u>(1,452,808)</u>	<u>(757,177)</u>

These Statements are to be read in conjunction with the notes on pages 8 to 13

**STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017	2016
Equity At Start of Period		8,330,657	9,087,834
Net Operating Surplus After Tax		(1,452,808)	(757,177)
<u>EQUITY AT END OF PERIOD</u>		<u>6,877,850</u>	<u>8,330,657</u>

These Statements are to be read in conjunction with the notes on pages 8 to 13

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

EQUITY	Note	2017	2016
Equity		<u><u>6,877,850</u></u>	<u><u>8,330,657</u></u>
 <u>CURRENT ASSETS</u>			
Accounts Receivable	9	345,113	186,556
Stock on Hand	10	30,960	25,922
Prepayments		90,493	36,112
GST Refund		12,899	5,580
Cash & Cash Equivalents	11	<u>6,470,808</u>	<u>8,112,163</u>
		6,950,273	8,366,333
 <u>NON CURRENT ASSETS</u>			
Fixed Assets	12	285,067	111,795
Intangible Assets	13	<u>353,086</u>	<u>396,041</u>
		638,153	507,836
 <u>TOTAL ASSETS</u>		 7,588,426	 8,874,169
 <u>CURRENT LIABILITIES</u>			
Apprentice Fee received in Advance		86,811	60,479
Accounts Payable and Accruals	14	427,465	281,415
TEC Liability	2.a	<u>196,300</u>	<u>201,618</u>
		710,576	543,512
 <u>TOTAL LIABILITIES</u>		 710,576	 543,512
 <u>NET ASSETS</u>		 <u><u>6,877,850</u></u>	<u><u>8,330,657</u></u>

For and on behalf of the Executive Board



Flora Gilkison
Chairperson
16 April 2018



Kay Nelson
Chief Executive Officer
16 April 2018

These Statements are to be read in conjunction with the notes on pages 8 to 13

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017	2016
Cash flows from operating activities		
Operating revenue	3,576,248	3,755,734
Interest received	236,711	235,324
Payments to suppliers and employees	(5,103,575)	(4,691,663)
GST paid	(7,319)	157,881
Net cash inflow/(outflow) from operating activities	(1,297,936)	(542,725)
Cash flows from investing activities		
Purchase of Fixed Assets	(307,932)	(32,352)
Purchase of intangible assets	(35,487)	(84,250)
Net cash inflow/(outflow) from investing activities	(343,419)	(116,602)
Net increase (decrease) in cash and cash equivalents	(1,641,355)	(659,327)
Cash and cash equivalents at the beginning of the period	8,112,163	8,771,490
Cash and cash equivalent at end of the year	6,470,808	8,112,163

These Statements are to be read in conjunction with the notes on pages 8 to 13

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 April 16th 2018

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 2017 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.

Presentation Change:

Board and travel subsidy has been re-classified to 'Provision of training services' from 'Administration' expense. \$17,698 has been reclassified from the 2016 financials. Board and travel subsidy has been reclassified as these expenses relate to the cost of learners attending off-job training.

2 REVENUE

<i>Revenue is comprised of the following:</i>		2017	2016
HITO Trainee Fees		774,536	541,265
NZARH - Association Levy		39,536	36,933
Membership Fees		87	435
Workshops		35	2,852
Industry Development Recovery		84,403	87,503
Moderation Recovery		126,130	130,722
Project Funding		30,000	30,000
Tertiary Education Commission Funding	(2a)	2,609,380	2,776,382
Publication Sales		31,200	35,793
Gateway Income		31,789	32,346
		<u>3,727,094</u>	<u>3,674,231</u>

(2a) Tertiary Education Commission Funding

Funding Received	2,805,680	2,978,000
Overpaid Funding to be returned (accrued liability)	(196,300)	(201,618)
Recognised Income	<u>2,609,380</u>	<u>2,776,382</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 HITO, and measured at the fair value of consideration received or receivable.

The following specific recognition criteria in relation to the HITO'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 HITO trainee 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

<i>Cost of Sales is comprised of the following:</i>		2017	2016
Publications		81,695	42,582
Gateway		18,406	12,092
		<u>100,101</u>	<u>54,674</u>

4 OTHER INCOME

Other Income is comprised of the following:

Interest - National & Regional Offices	236,711	235,324
Management, Business & Advanced Qualifications	3,326	16,351
Sundry Income	4,385	7,439
	<u>244,422</u>	<u>259,114</u>

OTHER INCOME ACCOUNTING POLICIES

Interest Revenue

Interest is recognised on an accrual basis as earned.

5 ADMINISTRATION EXPENSE

Administration is comprised of the following:

Membership Expenses	828	177
Bad Debts Provision/Written Off	11,714	72,138
Accounting, Audit, & Legal Expenses	27,225	29,328
Amortisation, Depreciation, & Loss on Asset Disposal	(12) & (13)	212,904
IT Expenses	113,736	116,189
General Meeting Costs	61,677	43,077
ITO Federation Subscription	28,893	25,625
Travel & Accommodation	122,176	76,464
Board Meetings & Honoraria	121,395	78,094
Office Expenses	322,397	287,680
Staff Costs	2,376,296	1,743,412
Targeted Review Of Qualification (TROQ) Expenses	0	15,971
Vehicle Expenses	122,295	110,336
	<u>3,521,536</u>	<u>2,733,200</u>

6 COURSE DEVELOPMENT

Course Development is comprised of the following:

	2017	2016
Surveys/Reviews/Projects	22,526	75,664
Industry Development	121,333	155,516
Project Spend	152,539	0
Programme/Beauty Development	560	23,504
Qualification Advisory Committee	27,285	25,691
	<u>324,243</u>	<u>280,375</u>

7 PROMOTION

Promotion is comprised of the following:

Advertising/Marketing	402,430	550,206
Advertising White Pages	2,680	4,770
	<u>405,110</u>	<u>554,976</u>

8 PROVISION OF TRAINING SERVICES

Provision of Training Services is comprised of the following:

Seminar/Workshop Expenses	10,480	19,295
Assessment Expenses	109,341	95,431
Off Job Training Paid	823,867	804,195
Board & Travel Subsidy	29,544	17,698
National Certificate Costs	7,473	2,930
Accreditation/Credit Fees	50,858	38,256
Moderation Expenses	34,349	47,118
Literacy Project	3,825	30,236
Management, Business & Advanced Qualifications	3,597	12,138
	<u>1,073,333</u>	<u>1,067,296</u>

9 ACCOUNTS RECEIVABLE

Accounts Receivable is comprised of the following:

Accounts receivable from customers - exchange transactions	407,696	258,119
Allowance for Doubtful Debts	(62,583)	(71,563)
	<u>345,113</u>	<u>186,556</u>

ACCOUNTS RECEIVABLE ACCOUNTING POLICY

Accounts receivable are valued at expected realisable value. HITO has a policy of provisioning for bad debt. Current learners are provisioned at 25%, learners with debt greater than 90 days provisioned at 50%. Learners terminated in 2017 provisioned at 75% with the remaining provisioned at 100%.

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	145,547	31,140
Call Account	1,045,893	107,493
Bank Term Deposits	5,279,369	7,973,530
	<u>6,470,808</u>	<u>8,112,163</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	98,694	111,431	103,959	39,269	353,353
Additions	38,796	91,093	178,043	0	307,932
Disposals	78,401	62,923	103,960	16,097	261,380
Closing	<u>59,089</u>	<u>139,601</u>	<u>178,042</u>	<u>23,172</u>	<u>399,905</u>
<u>Accumulated Depreciation</u>					
Opening	76,961	83,056	48,097	33,445	241,559
Depreciation	9,489	45,147	13,363	1,956	69,955
Disposals Depreciation write-back	64,641	62,434	53,503	16,097	196,676
Closing	<u>21,809</u>	<u>65,769</u>	<u>7,956</u>	<u>19,304</u>	<u>114,838</u>
Net Book Value 2017	<u>37,281</u>	<u>73,832</u>	<u>170,086</u>	<u>3,868</u>	<u>285,067</u>
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

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 HITO board test for impairment and reassess the useful lives annually

The Depreciation Rates used are as follow:

Furniture & Fixtures	8 – 30%
Office Equipment	10.2 – 48%
Computer Hardware	30 – 48%
Leasehold Improvements	7.8%

13 INTANGIBLE ASSETS

Intangible Assets are comprised of the following:

<u>Cost</u>	Computer Software	Training resources	Total
Opening	61,225	468,767	529,992
Additions	0	35,487	35,487
Disposals	0	0	0
Closing	61,225	504,254	565,479
<u>Accumulated Depreciation</u>			
Opening	61,226	72,726	133,952
Amortisation	0	78,442	78,442
Disposals Amortisation write-back			0
Closing	61,226	151,168	212,394
Net Book Value 2017	0	353,086	353,086
Net Book Value 2016	0	396,041	396,041
Net Book Value 2015	18,246	380,514	398,760

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 HITO board test for impairment and reassess the useful lives annually

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:

	2017	2016
Accounts payables from exchange transactions	249,670	83,661
Credit Cards	11,386	7,118
Accruals	82,330	109,983
PAYE Clearing Account	0	37,866
Holiday Accrual Provision	84,079	42,787
	427,465	281,415

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	156,204	114,611
Between one and five years	337,375	116,297
Greater than 5 years	0	0
	493,579	230,908

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

Lease cost for 2017 totalled: \$218,823

Settlement expense for 95 Thorndon Quay totalled: \$47,365.22

16 COMMITMENTS AND CONTINGENCIES

There are no capital commitments or contingent liabilities at balance date (2016: 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)

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 senior management team 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:

	2017	2016
Remuneration	563,711	483,039
Number of individual (FTE's)	4	4
Other Remuneration and Compensation	24,231	166,875

Other related party disclosures

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

Maloney's Barbershop (Julian Maloney, Board Member), paid HITO for training material. HITO paid Maloney's for marketing costs.

True Grit (Jacqui Victor, Board Member) paid HITO for training material and industry contribution

19 INDUSTRY CONTRIBUTION

TEC requires the amount of industry contribution calculated according to TEC guidelines to be disclosed in the notes to the financial statements. This can include both monies received by HITO and payments by industry in pursuit of the achievement of HITO's qualifications

Industry contribution received by HITO and recorded in audited accounts	921,578	680,969
Payments by industry to third parties in pursuit of achieving HITO qualifications	169,489	379,112
	<u>1,091,067</u>	<u>1,060,081</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	
	2017	2016
	\$	\$
Cash and cash equivalents	1,191,439	138,633
Bank term deposits	5,279,369	7,973,530
Receivables	345,113	249,792

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