



NZ Hair and Beauty Industry Training Organisation Inc.

ANNUAL REPORT 2018



CONTENTS

CHAIR'S REPORT	1
CHIEF EXECUTIVE'S REPORT	3
HIGHLIGHTS	5
PERFORMANCE 2018	13
FINANCIAL STATEMENTS	17
AUDITORS' REPORT	18
STATEMENT OF FINANCIAL PERFORMANCE	20
STATEMENTS OF MOVEMENTS IN EQUITY	21
STATEMENT OF FINANCIAL POSITION.....	22
STATEMENT OF CASH FLOWS.....	23
NOTES TO THE FINANCIAL STATEMENTS.....	24
COMPANY INFORMATION.....	30

CHAIR'S REPORT



On behalf of the Board of Directors, I am pleased to welcome you to this year's Annual General Meeting. 2018 was an exciting year where we made great progress with our trainees, both with substantial increases in new sign ons and developing a greater understanding why trainees may terminate i.e. not complete their training and gain a qualification. The other good news was that we have had significant increases in graduate numbers who go on to contribute to a more qualified workforce in all three areas: beauty, barbering and hairdressing.

A reform of vocational education was announced by the Government in December 2018. Industry Training Organisations were included as part of the proposed reforms in a further announcement in February 2019. We are facing possible real changes as an ITO, so it's important to look at the Act we are established under and understand what we are here for.

Our role is to:

- Arrange training contracts and that these training contracts to have effect as employment agreements. Any contract between an employer and an employee that relates to the employee's receiving industry training is deemed to be part of the employee's employment agreement. This means that while we may have signed on great trainees onto the apprenticeship pathway if their employer has a change in business situation then that trainee may find their employment contract has been cancelled. Or the trainee has to move regions to follow a partner's work or family growth. Interesting in Auckland the increased petrol costs also had an effect on trainees as some could no longer afford the travel costs to their place of employment and needed to leave and find another job. This is where the great work of our Sales and Training Advisors (STAs) comes in, by working with the trainees to find another employer and keep on their apprenticeship pathway to graduation.
- The other key role for an ITO is to effectively and efficiently set for their industries skill standards that the New Zealand Qualifications Authority will register; and to develop arrangements for the delivery of industry training that enables trainees to attain those standards. This needs to include arrangements acceptable to NZQA for:
 - the monitoring of the training to ensure it enables trainees to gain those standards; and
 - the assessing of trainees in the extent that they have attained those standards; and to provide a leadership role within the industry on matters relating to skill and training needs.

We have a great team of assessors and moderators all from our industries without whom we would not be able to ensure our graduates had the high standards our industries expect. A big thank you to these people.

I would like to thank the board members for their huge contribution during the past year. The Board had an appointed, compared with an elected, vacancy this year and I am delighted to say that Wayne Smith has accepted the Board appointment committee's offer of a further term. Wayne has strong experience in ITO change management and mergers and acquisitions and it's these skills we think will be needed in the future.

2018 was a successful year despite running a deficit. This was an approved budgeted deficit as HITO is still making up for the years of very conservative management where the bank balance was solid but the organisation was not making the innovations required for it to be a dynamic, future focused flexible organisation. We have made great strides in moving forward in a trainee responsive IT framework, and I thank our CTO Phil Tanner for his stalwart work in this area. Another clean financial audit from BDO was achieved, and I thank our GM Corporate Services Rob Sewell and his team for the management of the finances in a modern cloud environment. All our STAs and especially their manager Debra Hawkins our GM Stakeholder Engagement, also with her qualification development and review skills efforts. We achieved substantial progress in our mission of 100% qualified and good inroads into barbering sign ons and to a lesser extent but still growing, beauty apprenticeship sign ons. We have received accolades from TEC for meeting our targets and from NZQA for improving our quality control in a tough education environment.

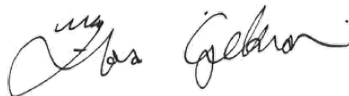
We had been preparing for an NZQA EER to take place in 2019, year but this has been put on hold while the Government assesses its proposed changes to the vocational education sector. The preparation for the EER was proving to be very important as any gaps that were exposed we are working on closing with new and improved systems in place to strengthen the organisation.

We are members of the IPSN – the International Network of Professional Services. This allows our graduates a certificate which gives recognition to their qualifications in a range of countries. This is a positive attribute for our graduates and we are hoping the number of countries involved grows.

I want to thank our CEO on behalf of all the Board for the work she does, the professionalism and enthusiasm she brings to the role and her support of our staff. I also want to thank our Board members, Anne Millar Deputy Chairperson, Jacqui Victor, Amelia London, Louise Gray, Pete Wells and Wayne Smith.

Amelia, our employee representative, has indicated she will stand down after this AGM and we will seek to replace her. She has been a very supportive Board member with her understanding of governance growing and I'm sure we will see her on several Boards in the future. Thank you Amelia for your service.

I'm confident that HITO is capable of demonstrating solid progress in the years ahead.



Dr Flora Gilkison

Independent Chair HITO

CHIEF EXECUTIVE'S REPORT



I continue to feel privileged to lead this organisation in a vibrant and creative set of industries. The challenges and rewards are many and constant and I am fortunate to have a great team of people working with me to serve our employers, apprentices and industry trainees.

2018 started off really well, with record numbers of apprentices signing up! We were feeling confident of meeting all our targets early in the year. Unfortunately, the middle of year saw the usual slump in uptake increase as business confidence fell and the team at HITO worked really hard to support our employers and encourage them to continue training.

I am delighted to report that we ended the year almost 12% up on 2017 revenue, and our continuing learners are up 14% on 2017. It is also pleasing to see our biggest city starting to grow with trainee numbers accounting for 24% of total learners versus 17% in 2017. There is still a lot of work to do in Auckland and we very much appreciate our committed employers in the "City of Sails".

Whilst the number of hairdressing learners did increase in 2018, the big change has been in our newer offerings, barbering and beauty, with barbering rising by 62% and beauty programmes by 224% year on year.

Our qualification completion rates have continued to improve, with apprenticeship completions up nearly 9% on 2017.

I was invited to speak at a Hair Expo event run by the Australian Hair Council in June. They wanted HITO to explain how the apprenticeship system worked and was assessed in New Zealand. This proved an enlightening experience for our Australian counterparts and I understand has contributed to the Australian Government review of the apprenticeship scheme in Australia.

We were very pleased to launch a partnership in 2018 with Green Cross Health, owners of the Unichem and Life Pharmacy chains, to offer industry based training to their skincare and makeup staff. This resulted in approximately 80 trainees working through the NZ Certificate of Skincare and Makeup qualification and we are working to keep the momentum going.

Throughout the year the support from members of industry was outstanding and I wish to thank each and every one of you who took the time to give input into the reviews of the New Zealand barbering qualification and the NZ Certificate in Salon Skills. The engagement and commitment was fantastic at the workshops, from employers, apprentices and providers. We are not able to carry out a good job of qualification development without such stakeholder input, so we very much appreciate your time.

The Hairdressing qualification in its entirety is due for review in 2020 and I look forward to robust debate in the coming year.

HITO had some work to do to rebuild relationships with the providers of our off-job training after trialling a different regime in 2018. The result is new contracts in place for 2019 with the vast majority of our apprentices able to attend off-job training within one hour of their workplaces, on a one-day-a-week basis.

Partnerships of a strategic nature have become very important to the organisation as we work with others both in the industry and in the education and government sector. We have an extremely strong relationship with the New Zealand Association of Registered Hairdressers (NZARH), New Zealand Association of Registered Beauty Professionals (NZARBP), our fellow members of the International Professional Standards Network (IPSN), the New Zealand Qualifications Authority (NZQA), Tertiary Education Commission (TEC), Ministry of Education (MOE), L'Oréal, Green Cross Health, and Kitomba. I believe that working closely with like-minded people for the benefit of all is the way to make sure the organisation stays relevant and future-proofed. The highlights following in the report will show the many, varied and extremely successful events HITO took part in throughout the year, often in partnership with others.

The organisation continued with the second year of the three-year business plan and tackled more of the legacy issues in upgrading our Information Technology Systems. We completed a digital strategy and began the processes required to ensure our IT platform is user-friendly. The upgrade of our trainee management system will be complete early in 2019. We also implemented a new sales tracking tool for our STAs and launched our learning management system myHITO. Our beauty therapy and skincare and makeup learning support materials are now online. We completed a recruitment drive for industry assessors throughout the country, launched an appeals and complaints procedure and centralised a support email for ease of communications for our stakeholders.

There continues to be changes in the organisation as we strive for continuous improvement in everything we do. We are proud to be making inroads on internal policies, processes and procedures, all for the intention of ensuring the organisation is fit for purpose to serve our industries.

We look forward to continuing to engage with industry in 2019 as we work towards:

- increasing our profile in Auckland city
- updating and improving our learning support materials online and hard copy
- continuing to grow the number of apprentices and industry trainees in our creative and diverse industries
- growing our pipeline of future talent, by strengthening relationships with secondary schools and tertiary providers
- strengthening and expanding our strategic partnerships.

There may be further implications as a result of the Government's Reform of Vocational Education, which will be confirmed in 2019.

I am grateful to all HITO stakeholders, the staff, the senior management team, as well as an extremely supportive representative board for supporting the strategy and the business plan to see the organisation sustainable in all aspects of the business, quality outcomes, systems and processes as well as financially.

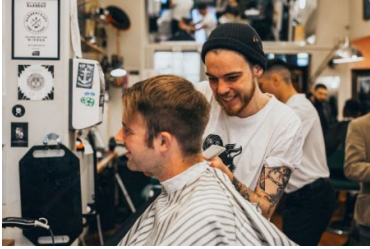


Kay Nelson

Chief Executive Officer

HIGHLIGHTS

Increase in ALL Learners



Barbering ↑ **62%**

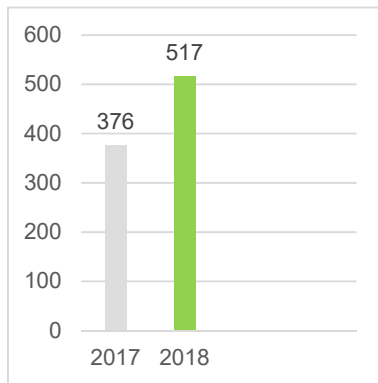


Beauty ↑ **224%**

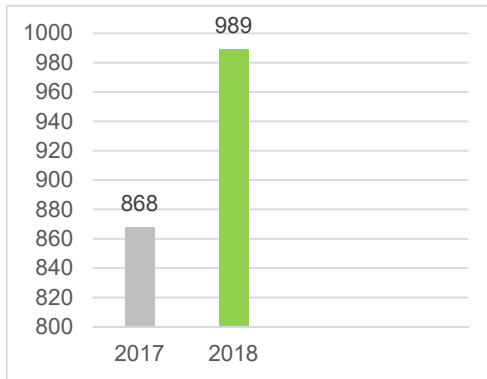


Hairdressing ↑ **2.7%**

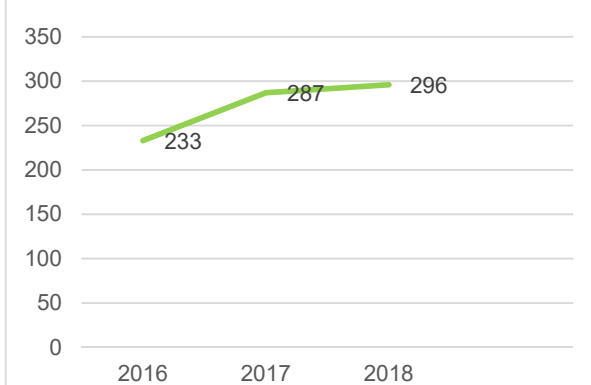
Increase in New Hairdressing Apprentice Sign-Ons



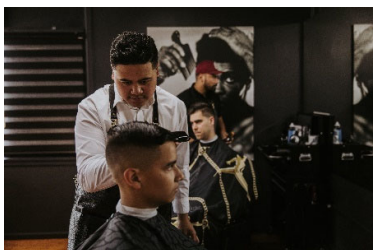
Increase in Continuing Learners



Increase in Professional Stylists Qualifying



Increase in Apprentices



Barbering ↑ **56%**

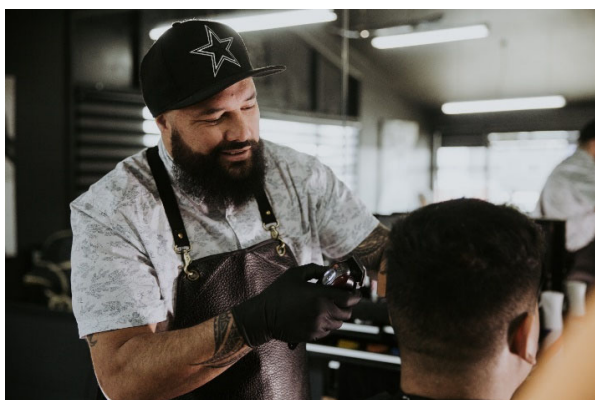


Beauty ↑ **16%**



Hairdressing ↑ **6%**

Growing the pipeline



The organisation developed a targeted strategy for secondary schools to ensure smarter use of resources. More support for secondary school careers advisors was added in the Auckland region. Sales and Training Advisors attended careers evenings and events at schools across the country. Through increased visits to secondary school careers advisors, we were better able to understand their needs and increase their awareness and understanding of HITO.

We used Barbercraft and HITO's New Zealand Fashion Week show to raise awareness and generate interest in apprenticeships amongst secondary school students and their key influencers - teachers, careers advisors and parents.

A social media advertising campaign directly targeting students and school leavers built on the interest generated at these events. The campaign consisted of five videos of successful young hairdressers, barbers and beauty therapists talking about the career opportunities their apprenticeships provided. The campaign resulted in more than 15,000 views.

The annual conference for New Zealand's Careers Advisors (CATE) was an opportunity for HITO staff to interact with about 700 of these key influencers. HITO's stand was next to the other ITOs under the Got a Trade umbrella.

The 2018 Got a Trade advertising campaign also focused on showing young people exciting careers in trades.

The Pinikilicious event hosted by Pasifika women in Wellington provided an opportunity to raise awareness of career pathways in the hair and beauty industry and investigate barriers to apprentice training for these communities.

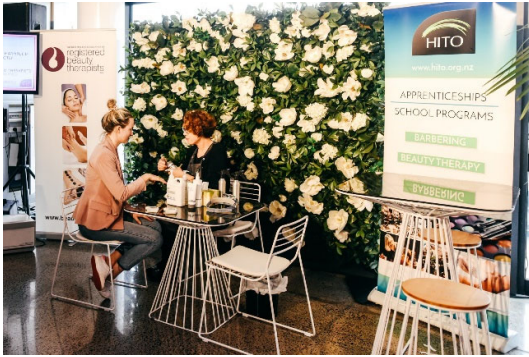
HITO x NZFW



HITO apprentices and graduates with their models on the NZFW runway

In our third and final year of partnership with New Zealand Fashion Week we focused on raising awareness of apprenticeships in secondary schools. Approximately 300 students, teachers, careers advisors and parents attended our runway show. Ten HITO apprentices and graduates from all over the country worked on the show, creating hairstyles to complement new season streetwear by leading designers. As models showcased their work on the runway, the HITO ambassadors talked about their apprentice training experiences and

career plans with experienced international fashion week stylist and MC, Michael Beel. The apprentices and graduates displayed incredible skill and enthusiasm for their trade.



In the NZFW beauty hub, HITO collaborated with the Beauty Association (NZARBP) to create an activation that encouraged members of the public to ensure they were in safe hands by checking their beauty therapist was qualified.

Barbercraft



Kaisei Serai, winner of the inaugural HITO New Zealand Barber of the Year, sponsored by Timely



International guest judge Julius Cvesar during a demonstration.

Barbers from across the country attended the third Barbercraft in Auckland to compete, upskill and network. Over 500 tickets were sold for the event, 100 more than last year, with

many more people attending as exhibitors and models. LA celebrity barber, Julius Cvesar, held two popular demonstrations and joined the competition judging panel. Entries for the competitions were also up on the previous year, with 99 barbers participating. We held two seminars where HITO apprentices and graduates shared their training experiences with students considering careers in barbering.

Growing Auckland

A wide-ranging business strategy was developed to increase uptake of apprentice training in Auckland. This included mapping the market and developing a segmentation plan, increasing sales resource and leveraging the Barbercraft and New Zealand Fashion Week activities to increase awareness in school students. By the end of the year, industry engagement in the region had improved and apprentice numbers increased.

Apprentice opportunities



HITO graduate Andrew Cobeldick speaks at the Skills in a Changing World conference.

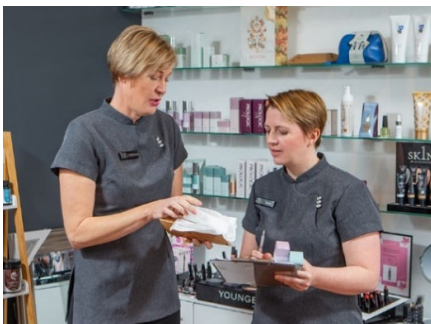
HITO apprentices and graduates were excellent representatives for the hair and beauty industries and for on-job training at a number of high-profile events and conferences including Tuia Ako Maori education conference, the national Education Summit and the ITF's Skills in a Changing World Conference.

In partnership with award-winning stylist Sara Allsop, HITO sponsored a New Generation competition, giving five hairdressing apprentices the opportunity to work backstage with some of New Zealand's best styling directors at the Industry NZ

Hairdressing Awards. Some of the winning apprentices went on to work backstage at the Hair Expo Australia where they were partnered with a mentor to create a look for a Gala Night show.

Apprentices also had the opportunity to work backstage at the Miromoda Runway Show in Porirua, assisting eight of New Zealand's most talented Māori fashion designers.

Boosting Beauty Therapy



We focused on increasing awareness of apprenticeships amongst beauty therapists across the country. Beauty breakfasts were held in Auckland and Christchurch where the apprenticeship training model was explained. Together with the New Zealand Association of Registered Beauty Therapists, we hosted an activation promoting qualified therapists at New Zealand Fashion Week.

To increase the pool of NZ-qualified therapists able to take on apprentices, our Qualification by Experience

programme was offered for free to eligible therapists for a limited time, resulting in 20 additional beauty therapy apprenticeships.

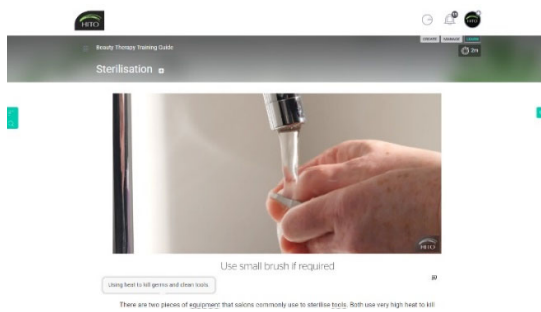
Assessment

HITO assessors play an important role in the qualification process, conducting assessments to ensure our graduates are fit for purpose and performing at the level our industries demand. A recruitment drive throughout the year increased our pool of industry assessors in hairdressing. In 2019 we will focus on recruiting industry assessors for barbering and beauty therapy in regions where there are shortages.

Industry Advisory Panel

A new cross-sector Industry Advisory Panel was appointed to advise on standards and qualifications and ensure they are current, relevant and providing industry with work-ready graduates. Thanks to these talented hairdressers, barbers and beauty therapists for giving their time to be members of the panel: Steven Kelly, Jen Morgan, Kim Ryan (Auckland), Michelle McFarlane, Deb Clark (Hamilton), Emma Fraser (Tauranga), Yvonne Jenkinson (Napier), Cathy Davys, Lynley Bowen, Craig Stinson, Maureen Bowring (Wellington), Niq James (Christchurch).

Online learning



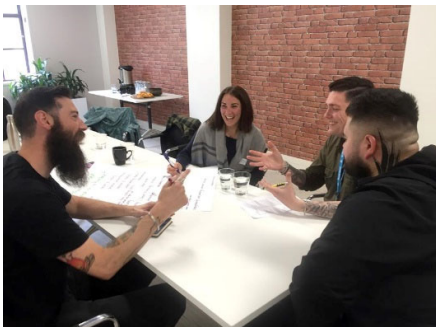
HITO's online learning management system, myHITO, was launched in November. The beauty therapy apprentice programme was the first cab off the rank and apprentices and trainers can now access all learning materials from a phone, tablet or computer. Along with written reference material, myHITO contains activities, videos and a space for group discussion. In 2019, material for hairdressing apprentices and secondary school students

participating in HITO's Gateway programmes will be added.

Gateway

We redeveloped our secondary school Gateway programme for 2019 onwards to provide a product that is easier for employers to support. The learning materials for all three sectors are now available on the myHITO online learning platform.

Qualification review



Barbers showed strong interest in the review of the Level 3 and 4 barbering qualifications. There was excellent attendance at HITO workshops in Auckland and Christchurch, and a Wellington workshop was added due to popular demand. Feedback indicated barbers would prefer only one qualification and the proposed new Level 4 qualification will be introduced in 2019.

Business Development

The Makeup and Skincare certificate programme developed by HITO for retail sales staff was successfully introduced through Green Cross pharmacies across the country as part of their in-house training. 76 staff enrolled during the year. This first cohort of trainees has provided valuable feedback on the programme and HITO will make some amendments in 2019 to improve usability.

Strengthening partnerships

HITO continued its partnership with L'Oreal, offering barbering, beauty therapy or hairdressing apprenticeships through the Face the Future programme. One of HITO's staff presented at the weekend event for 16 – 18 year olds who have been in foster care, designed to get them thinking about what they want to do once they leave school. HITO also exhibited at The Collective education event for hairdressing professionals.

We were proud sponsors of the New Zealand Association of Registered Hairdressers live competitions held in six regions across the country. HITO provided prizes of \$1000 towards professional development.

We continue to work with the New Zealand Association of Registered Beauty Professionals on joint initiatives and will be sponsoring their biannual awards in 2019.

Celebrating success



Maurisa Mauri



Zoe Snook



*Cathy Davys, Phillip Millar,
Mana Dave*

Our 2018 graduation ceremony was packed with family and friends cheering on new graduates.

Mana Dave, owner of Blaze salon and MC for the event, shared valuable advice for new hairdressing, beauty and barbering professionals. Graduating hairdresser Zoe Snook shared her highlights and challenges during her apprenticeship training.

“The past three years were long and hard, but also a blur and very rewarding. They’ve shaped me into a competent hairdresser and a better person. I’ve become more resilient, determined, empathetic and a better listener.”

Leading hairdressers Phillip Millar and Cathy Davys were also recognised with Honorary Awards from the International Professional Standards Network (IPSN) for their work educating and elevating the standards of hairdressing in New Zealand.

The Industry Awards



Hosted by HITO, Kitomba and NZARH, these awards celebrate the best business, training and creative talent in New Zealand's hair, beauty and barbering industries. The 2018 awards incorporated NZARH's creative photographic awards for the first time and many noted it was the best awards ceremony yet. Entry fees were streamlined to encourage entries in multiple categories and video entries were welcomed for the training awards. This year also marked the 10th anniversary of the

Jasmine McBeth Memorial Scholarship, created in memory of Jasmine McBeth, who completed her hairdressing apprenticeship while undergoing cancer treatment. When she passed away in 2007, Jasmine's parents Denise and Murray McBeth used the money she saved towards setting up a business to create this scholarship. Each year, this award acknowledges a hairdressing apprentice that shows dedication, passion and commitment to their training and career.



Apprentices of the Year Libby Fleck (Southern), Jade Scott (Central), Emily Southern (Northern), Courtney Hale (Northern Central)



Workplace of the Year, Reds Salon



Jason Parker, winner of the Jasmine McBeth Scholarship



Industry Trainer of the Year Natasha Bird

100% Qualified



The organisation continued to promote our vision of 100 percent of our industries becoming 100% qualified through a social media campaign. From new graduates to industry veterans, hundreds of hairdressers, barbers and beauty therapists proudly displayed their New Zealand qualifications on Facebook and Instagram posts to go into the monthly prize draw. The ongoing campaign has been successful in promoting the value of qualifications and engendering pride in our industries. Programme completions in beauty, barbering and hairdressing apprenticeship qualifications were up on the 2017 year.

ITO Collaboration

The Industry Training Federation acts as an umbrella organisation for all ITOs; liaising with Government, facilitating collaboration and promoting on the job training across sectors.

HITO staff participated in regular group meetings on Learning and Development, Marketing and Finance, learning from other ITOs' experiences and pooling resources for combined marketing activities. Highlights for this year include the newspaper advertising campaign thanking (and naming) all apprentice employers, the school speedmeets and the Got a Trade campaign launch, where HITO ambassador and barber Lucas Kelly spoke on behalf of apprentices.

PERFORMANCE 2018

CONTINUING PROGRAMMES

NZA = New Zealand Apprentice

IT = Industry Trainee

NF = Non-Funded (not reported to TEC)

PROGRAMME	NZA 2017	NZA 2018	IT 2017	IT 2018	NF 2017	NF 2018	TOTAL 2017	TOTAL 2018
Hairdressing	691	730	65	45	17	19	773	794
Advanced Cutting			1	1			1	1
Barbering	25	39	4	8	8	13	37	60
Beautician					3		3	*
Nail Technology L3			2		5		7	*
Cosmetology					1		1	*
Business			5				5	*
Beauty Therapy L4	37	43			4	14	41	57
Makeup and Skincare L3				76			*	76
Nail Technology L4						1	*	1
Total	753	812	77	130	38	47	868	989

* = Programme not available in year stated

APPRENTICE SIGN-ONS

PROGRAMME	2017	2018
Hairdressing	376	517
Barbering	31	37
Beauty Therapy	38	32

INDUSTRY TRAINEE SIGN-ONS

PROGRAMME	2017	2018
Business (L3)	2	*
Nail Technology (L3)	1	*
Makeup and Skin Care (L3)	*	87
Hairdressing (Finals only)	78	24
QbyE - Hairdressing	29	49
QbyE - Barbering	8	18
QbyE - Beauty	3	4
Advanced Cutting (L5)	3	3

* = Programme not available in year stated

QUALIFICATION COMPLETIONS

PROGRAMME	2017	2018
Hairdressing (Professional Stylist)	287	296
Hairdressing (Advanced Cutting)	4	2
Barbering Level 3	21	*
Commercial Barbering	32	36
Beauty Services Level 3	2	1
Beauty Therapy Level 4	1	16
Nail Technology Level 4	*	5
Makeup and Skin Care Level 3	*	5
Business	4	4

* = Programme not available in year stated

GATEWAY SCHOOLS PARTICIPATION

PROGRAMME	SCHOOLS 2017	SCHOOLS 2018	STUDENTS 2017	STUDENTS 2018
Hairdressing Year 1	59	46	111	90
Hairdressing Year 2	7	11	7	27
Beauty	26	13	49	16
Barbering	23	15	24	17

LEARNER AGE RANGE

AGE	2017 COUNT	2018 COUNT
15-19	181	213
20-24	409	413
25-29	143	155
30-34	52	32
35-39	37	51
40-44	18	25
45-49	16	15
50-54	7	19
55+	5	11

GENDER COMPARISON

GENDER	2017 COUNT	2018 COUNT
Male	7.8%	8.4%
Female	92.2%	91.5%
Unspecified		0.1%

LEARNER ETHNICITY

ETHNICITY	2017 COUNT	2018 COUNT
European	67.8%	68.8%
Maori	17.6%	13.3%
Other	12.8%	14.8%
Pasifika	1.8%	3.1%

10 CREDIT ACHIEVEMENT

ACHIEVEMENT	2017	2018
Overall Percentage	82.05%	80.14%
Eligible Trainees	1198	1309
Eligible Trainees Achieved 10 Credits	983	1049

FINANCIAL STATEMENTS

NEW ZEALAND HAIR AND BEAUTY INDUSTRY TRAINING ORGANISATION INC

FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 DECEMBER 2018

**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 ("the HITO"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive revenue and expense, statement of movements in 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 the HITO as at 31 December 2018, 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 the 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, the HITO.

Board's Responsibilities for the Financial Statements

The Board is responsible on behalf of the 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 the 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 the 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 the 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
15 April 2019**

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2018**

<u>REVENUE</u>	Note	2018	2017
Revenue	2	4,229,794	3,783,240
Cost of Goods Sold	3	<u>(89,494)</u>	<u>(100,101)</u>
Gross Surplus	=	4,140,300	3,683,139
Other Income	4	177,888	244,422
<u>EXPENDITURE</u>			
Administration	5	3,548,500	3,521,536
Course Development	6	494,995	324,243
Promotion	7	464,888	461,256
Provision of training services	8	1,463,193	1,073,333
<u>TOTAL EXPENDITURE</u>		5,971,576	5,380,368
NET OPERATING SURPLUS		<u>(1,653,388)</u>	<u>(1,452,808)</u>

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

(4)

**STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018	2017
Equity At Start of Period		6,877,850	8,330,657
Net Operating Surplus After Tax		(1,653,388)	(1,452,808)
<u>EQUITY AT END OF PERIOD</u>		<u>5,224,461</u>	<u>6,877,850</u>

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

(5)

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

EQUITY	Note	2018	2017
Equity		<u><u>5,224,461</u></u>	<u><u>6,877,850</u></u>
 <u>CURRENT ASSETS</u>			
Accounts Receivable	9	204,572	345,113
Stock on Hand	10	11,871	30,960
Prepayments		45,129	90,493
GST Refund		0	12,899
Cash & Cash Equivalents	11	= <u>4,551,737</u>	<u>6,470,808</u>
		4,813,309	6,950,273
 <u>NON CURRENT ASSETS</u>			
Fixed Assets	12	257,528	285,067
Intangible Assets	13	= <u>571,931</u>	<u>353,086</u>
		829,459	638,153
 <u>TOTAL ASSETS</u>		 5,642,769	 7,588,426
 <u>CURRENT LIABILITIES</u>			
Apprentice Fee received in Advance		32,638	86,811
Accounts Payable and Accruals	14	368,508	427,465
GST Payable		5,997	0
TEC Liability	2.a	= <u>11,165</u>	<u>196,300</u>
		418,308	710,576
 <u>TOTAL LIABILITIES</u>		 418,308	 710,576
 <u>NET ASSETS</u>		 <u><u>5,224,461</u></u>	<u><u>6,877,850</u></u>

For and on behalf of the Executive Board



Flora Gilkison
Chairperson
15 APRIL 2019



Kay Nelson
Chief Executive Officer
15 APRIL 2019

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

(6)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018	2017
Cash flows from operating activities		
Operating revenue	4,371,676	3,632,394
Interest received	176,547	236,711
Payments to suppliers and employees	(6,107,661)	(5,159,722)
GST (paid)/received	18,896	(7,319)
Net cash inflow/(outflow) from operating activities	(1,540,542)	(1,297,936)
Cash flows from investing activities		
Purchase of Fixed Assets	(72,715)	(307,932)
Purchase of intangible assets	(305,814)	(35,487)
Net cash inflow/(outflow) from investing activities	(378,529)	(343,419)
Net increase (decrease) in cash and cash equivalents	(1,919,071)	(1,641,355)
Cash and cash equivalents at the beginning of the period	<u>6,470,808</u>	<u>8,112,163</u>
Cash and cash equivalent at end of the year	<u>4,551,737</u>	<u>6,470,808</u>

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

(7)

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 15 2019

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 2018 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.

Changes to 2017 Comparatives

The income and expenditure in relation to the 2018 Barbercraft event was split and disclosed separately, as is appropriate under accounting concepts. To ensure comparability, this treatment was applied to 2017 also, resulting in an \$56,147 increase in Industry Development Recovery income and Marketing Expenses. No other changes were made.

2 REVENUE

<i>Revenue is comprised of the following:</i>	2018	2017
HITO Trainee Fees	1,110,969	774,623
NZARH / Regional Associations	18,100	39,536
Workshops	0	35
Corrections Revenue	10,000	0
Industry Development Recovery	109,542	140,549
Moderation Recovery	116,136	126,130
Project Funding	20,000	30,000
Tertiary Education Commission Funding (2a)	2,785,666	2,609,380
Publication Sales	4,484	31,200
Gateway Income	<u>54,898</u>	<u>31,789</u>
	4,229,794	3,783,240

(2a) Tertiary Education Commission Funding

Funding Received	2,796,831	2,805,680
Overpaid Funding to be returned (accrued liability)	<u>(11,165)</u>	<u>(196,300)</u>
Recognised Income	<u>2,785,666</u>	<u>2,609,380</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>	2018	2017
Publications	72,752	81,695
Gateway	<u>16,742</u>	<u>18,406</u>
	<u>89,494</u>	<u>100,101</u>

4 OTHER INCOME

Other Income is comprised of the following:

Interest - National & Regional Offices	176,547	236,711
Management, Business & Advanced Qualifications	1,330	3,326
Sundry Income	<u>10</u>	<u>4,385</u>
	<u>177,888</u>	<u>244,422</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	591	828
Bad Debts Provision/Written Off	10,250	11,714
Accounting, Audit, & Legal Expenses	18,430	27,225
Amortisation, Depreciation, & Loss on Asset Disposal	(12) & (13)	186,855
IT Expenses	99,941	113,736
General Meeting Costs	40,479	61,677
ITO Federation Subscription	26,599	28,893
Travel & Accommodation	135,253	122,176
Board Meetings & Honoraria	105,056	121,395
Office Expenses	339,740	322,397
Staff Costs	2,416,408	2,376,296
Vehicle Expenses	<u>168,899</u>	<u>122,295</u>
	<u>3,548,500</u>	<u>3,521,536</u>

6 COURSE DEVELOPMENT

Course Development is comprised of the following:

	2018	2017
Surveys/Reviews/Projects	0	22,526
Industry Development	95,015	121,333
Project Spend	371,232	152,539
Programme/Beauty Development	0	560
Qualification Advisory Committee	<u>28,748</u>	<u>27,285</u>
	<u>494,995</u>	<u>324,243</u>

7 PROMOTION

Promotion is comprised of the following:

Advertising/Marketing	462,208	458,576
Advertising White Pages	<u>2,680</u>	<u>2,680</u>
	<u>464,888</u>	<u>461,256</u>

8 PROVISION OF TRAINING SERVICES

Provision of Training Services is comprised of the following:

Seminar/Workshop Expenses	15,280	10,480
Assessment Expenses	126,281	109,341
Off Job Training Paid	1,019,039	823,867
Board & Travel Subsidy	149,374	29,544
National Certificate Costs	6,163	7,473
Accreditation/Credit Fees	115,462	50,858
Moderation Expenses	31,595	34,349
Literacy Project	0	3,825
Management, Business & Advanced Qualifications	<u>0</u>	<u>3,597</u>
	<u>1,463,193</u>	<u>1,073,333</u>

9 ACCOUNTS RECEIVABLE

Accounts Receivable is comprised of the following:

Accounts receivable from customers - exchange transactions	242,280	407,696
Allowance for Doubtful Debts	<u>(37,708)</u>	<u>(62,583)</u>
	<u>204,572</u>	<u>345,113</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 0%, Learners no longer in an active training agreement are provisioned at 75%, 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	57,921	145,547
Call Account	102,747	1,045,893
Bank Term Deposits	<u>4,391,069</u>	<u>5,279,369</u>
	<u>4,551,737</u>	<u>6,470,808</u>

Term Deposits are for terms less than 365 Days. These have been classified as cash and cash equivalents as they are readily transferable to cash at short notice due to maturing in a staggered nature

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	59,089	139,601	178,042	23,172	399,905
Additions	495	72,220	0	0	72,715
Disposals	<u>0</u>	<u>916</u>	<u>0</u>	<u>0</u>	<u>916</u>
Closing	59,584	210,904	178,042	23,172	471,703
 <u>Accumulated Depreciation</u>					
Opening	21,809	65,769	7,956	19,304	114,838
Depreciation	4,620	81,039	13,887	340	99,887
Disposals Depreciation write-back	<u>0</u>	<u>550</u>	<u>0</u>	<u>0</u>	<u>550</u>
Closing	26,429	146,258	21,844	19,644	214,175
Net Book Value 2018	<u>33,155</u>	<u>64,646</u>	<u>156,199</u>	<u>3,528</u>	<u>257,528</u>
Net Book Value 2017	37,281	73,832	170,086	3,868	285,067
Net Book Value 2016	21,733	28,375	55,862	5,824	111,794

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	10.5 – 30%
Office Equipment	0 – 36%
Computer Hardware	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	504,254	565,479
Additions	79,907	225,907	305,814
Disposals	<u>0</u>	<u>0</u>	<u>0</u>
Closing	141,132	730,161	871,294
<u>Accumulated Depreciation</u>			
Opening	61,226	151,168	212,394
Amortisation	0	86,969	86,969
Disposals Amortisation write-back			<u>0</u>
Closing	61,226	238,137	299,363
Net Book Value 2018	<u>79,906</u>	<u>492,025</u>	<u>571,931</u>
Net Book Value 2017	0	353,086	353,086
Net Book Value 2016	0	396,041	396,041

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	20 – 48%

14 ACCOUNTS PAYABLE AND ACCRUALS

Accounts Payable and Accruals is comprised of the following:

	2018	2017
Accounts payables from exchange transactions	174,257	249,670
Credit Cards	8,474	11,386
Accruals	108,096	82,330
Holiday Accrual Provision	<u>77,680</u>	<u>84,079</u>
	<u>368,508</u>	<u>427,465</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	220,086	156,204
Between one and five years	320,927	337,375
Greater than 5 years	<u>0</u>	<u>0</u>
	<u>541,013</u>	<u>493,579</u>

Leases entered into are for vehicles

Lease cost for 2018 totalled: \$231,563

16 COMMITMENTS AND CONTINGENCIES

There are no capital commitments or contingent liabilities at balance date (2017: NIL)

17 SUBSEQUENT EVENTS

The Government has made a Vocational Education Reform announcement, which is proposing redefined roles for industry bodies and education providers (Polytechnics, technology institutes, and ITOs). The reform proposal includes a shift of responsibility for arranging workplace training and apprenticeships from industry-owned and governed ITOs to a single government-owned Institute of Skills and Technology. No decisions will be made until June/July 2019.

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:

	2018	2017
Remuneration	688,596	563,711
Number of individual (FTE's)	5	4
Other Remuneration and Compensation	-	24,231

Other related party disclosures

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

Peter Wells (Board member) is also an Industry Assessor.

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

The below Industry Contribution received includes \$100,640 of fees free funding made by the TEC

Industry contribution received by HITO and recorded in audited accounts	1,241,383	921,578
Payments by industry to third parties in pursuit of achieving HITO qualifications	<u>0</u>	<u>169,489</u>
	<u>1,241,383</u>	<u>1,091,067</u>

20 FINANCIAL INSTRUMENTS

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

These are:

	Loan and Receivables at amortised cost	
	2018	2017
	\$	\$
Cash and cash equivalents	160,668	1,191,439
Bank term deposits	4,391,069	5,279,369
Receivables	204,572	345,113

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

COMPANY INFORMATION

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