Emerge Aotearoa Group
Financial statements
for the year ended 30 June 2018

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Contents

Independent auditor's report

To the Trustees of Emerge Aotearoa Trust

The consolidated financial statements comprise:

- the balance sheet as at 30 June 2018;
- the statement of comprehensive revenue and expense for the year then ended;
- the statement of changes in net assets/equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Emerge Aotearoa Trust (the Trust), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2018, its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Trustees for the consolidated financial statements

The Trustees are responsible, on behalf of the Trust, for the preparation and fair presentation of the consolidated financial statements in accordance with Public Benefit Entity Standards, and for such internal control as the Trustees determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Trustees are responsible for assessing the Group'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 Trustees either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 and ISAs 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 economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Trustees, 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 Trust and the Trustees, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Nathan Wylie.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
25 September 2018

Christchurch

Trustees' responsibility statement

The Trustees are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Emerge Aotearoa Group as at 30 June 2018 and financial performance and cash flows for the year ended on that date.

The Trustees consider that the financial statements of the Emerge Aotearoa Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Trustees believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The Trustees consider they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Trustees of Emerge Aotearoa Group have pleasure in presenting the financial statements for the year ended 30 June 2018 on pages 5 to 28.

The Board of Trustees authorised these financial statements for issue.

Trustee	Trustee
25-Sep-18	25-Sep-18

Statement of comprehensive revenue and expense

For the year ended 30 June 2018

	Note	Consolidated 2018 $	2017 $
Income			
Operating revenue	4	**76,954,666**	58,910,994
Other income	4	**2,970,840**	1,927,995
Finance income		**469,490**	535,446
Total income		**80,394,996**	61,374,435
Expenditure			
Employee benefits	6	**(50,600,003)**	(41,074,245)
Depreciation and amortisation	6	**(879,356)**	(854,822)
Other operating expenses	6	**(19,064,519)**	(14,065,955)
Finance costs		**(310,212)**	(304,420)
Total operating expenditure		**(70,854,090)**	(56,299,442)
Surplus/(deficit)		**9,540,906**	5,074,993
Other comprehensive revenue and expense			
Gain on property revaluations	12	**5,586,078**	-
Total comprehensive revenue and expense		**15,126,984**	5,074,993

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

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Statement of changes in net assets/equity
For the year ended 30 June 2018

Consolidated	Note	Contributed funds	Asset revaluation reserve	Other reserves	Retained earnings	Pre- acquisition profits	Total equity
		$	$	$	$	$	$
Balance as at 1 July 2016		211	14,831,038	58,326	19,862,439	19,915,228	54,667,242
Comprehensive revenue and expense							
Surplus or deficit for the year		-	-	-	5,074,993	-	5,074,993
Interest earned on internal reserves		-	-	291	-	-	291
Grant application		-	-	(6,671)	-	-	(6,671)
Total comprehensive revenue and expense		-	-	(6,380)	5,074,993	-	5,068,613
Balance as at 1 July 2017		**211**	**14,831,038**	**51,946**	**24,937,432**	**19,915,228**	**59,735,855**
Comprehensive revenue and expense							
Surplus or deficit for the year		-	-	-	9,540,906	-	9,540,906
Interest earned on internal reserves		-	-	111	(111)	-	-
Revaluation	12	-	5,586,078	-	-	-	5,586,078
Total comprehensive revenue and expense		-	5,586,078	111	9,540,795	-	15,126,984
Balance as at 30 June 2018	**17**	**211**	**20,417,116**	**52,057**	**34,478,227**	**19,915,228**	**74,862,839**

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

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Balance sheet
As at 30 June 2018

	Note	Consolidated 2018 $	2017 $
ASSETS			
Current assets			
Cash and cash equivalents	7	**22,362,461**	17,594,331
Trade and other receivables	8	**14,320,142**	6,217,571
Current tax receivables		**-**	30,614
Other financial assets	9	**13,247,311**	11,628,814
Total current assets		**49,929,914**	35,471,330
Non-current assets			
Property, plant and equipment	10	**1,018,951**	872,045
Intangible assets	11	**93,688**	237,619
Land and Buildings	12	**41,909,655**	35,682,896
Total non-current assets		**43,022,294**	36,792,560
Total assets		**92,952,208**	72,263,890
LIABILITIES			
Current liabilities			
Trade and other payables	13	**3,554,216**	3,652,191
Employee benefits	14	**8,714,364**	3,209,453
Interest bearing liabilities	15	**2,484,274**	886,949
Deferred income		**1,025,718**	716,365
Total current liabilities		**15,778,572**	8,464,958
Non-current liabilities			
Interest bearing liabilities	15	**1,493,428**	3,194,974
Other non-current liabilities	16	**817,369**	868,103
Total non-current liabilities		**2,310,797**	4,063,077
Total liabilities		**18,089,369**	12,528,035
Net assets		**74,862,839**	59,735,855
EQUITY			
Contributed funds		**211**	211
Retained earnings	17	**34,478,227**	24,937,432
Other reserves	17	**40,384,401**	34,798,212
Total equity		**74,862,839**	**59,735,855**

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

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Statement of cash flows
For the year ended 30 June 2018

	Note	Consolidated 2018 $	2017 $
Cash flows from operating activities			
Receipts from contracts and clients		**69,057,750**	57,814,534
Interest and dividends received		**30,293**	34,530
Rent received		**2,205,407**	1,275,018
Other income		**440,334**	353,791
Payments to suppliers and employees		**(58,508,475)**	(51,841,557)
Interest and bank fees paid		**(230,223)**	(141,299)
Rent paid		**(6,256,439)**	(3,335,478)
Net cash flow from operating activities	21	**6,738,647**	4,159,539
Cash flows from investing activities			
Receipts from of property, plant, and equipment		**22,128**	459,604
Purchase of property, plant and equipment		**(1,536,827)**	(529,641)
Net cash flow from investing activities		**(1,514,699)**	(70,037)
Cash flows from financing activities			
Net repayment of loans		**(135,659)**	(179,327)
Net cash flow from financing activities		**(135,659)**	(179,327)
Net (decrease)/increase in cash and cash equivalents		**5,088,289**	3,910,175
Cash and cash equivalents at the beginning of the year		**17,594,331**	13,684,156
Portfolio investment reclassified		**(320,159)**	-
Cash and cash equivalents at the end of the year	7	**22,362,461**	17,594,331

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

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1 Statement of accounting policies for the year ended 30 June 2018

The reporting entity (the "Emerge Aotearoa Group"), consists of seven entities. This includes the Emerge Aotearoa Trust (parent), formerly named Richmond New Zealand Trust, a trust established by deed dated 3 August 2010, and Emerge Aotearoa Limited, formerly named Richmond Services Limited (operating subsidiary), a limited liability company, formed on 10 August 2010. From the 2016 financial year it also includes Emerge Aotearoa Housing Trust, formerly Recovery Solutions Property Trust, Recovery Solutions Group (non-trading), Recovery Solutions Services Limited (non-trading) Mind and Body Consultants Limited and Mind and Body Learning and Development Limited which were acquired during the 2016 financial year. Both Emerge Aotearoa Trust and Emerge Aotearoa Limited commenced operating on 1 November 2010.

The Emerge Aotearoa Group is a provider of community mental health and support services and a wide range of other social services (including residential accommodation owned by Emerge Aotearoa Housing Trust and rented to Emerge Aotearoa Limited).

The Group is incorporated and domiciled in New Zealand. The address of its registered office is 320 Ti Rakau Drive, Auckland.

The Group and its subsidiaries are designated as public benefit entities for financial reporting purposes.

2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

The consolidated financial statements of the group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Public Benefit Entity Standards (PBE Standards) and authoritative notices that are applicable to entities that apply PBE Standards.

The group is classified as a Tier 1 reporting entity and it applies full PBE Standards. These standards are based on International Public Sector Accounting Standards.

The financial statements have been prepared on a historical cost basis, except where modified by the revaluation of land and buildings, investment property, and certain financial instruments (including derivative instruments).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar ($). The functional currency of the Group is New Zealand dollars.

2.2 Revenue

In the provision of services, Emerge Aotearoa enters into a number of contracts with District Health Boards and other government agencies to provide community mental health and support services including provision of housing. This is also supported by contributions from client benefits.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for supplies, stated net of discounts, and GST. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Contracted income from service contracts is recognised when services have been performed

ii) Client benefits and client contributions is recognised when services have been performed

iii) Interest income is recognised in the Statement of Comprehensive Revenue and Expense as it accrues, using the effective interest rate method.

iv) Rental income is recognised on a straight-line basis over the rental period.

Exchange and non-exchange transactions

The group enters into exchange transactions where it receives or provides assets or services, or has liabilities extinguished, and value to the supplier or customer in exchange.

The group also records non-exchange transactions which arise where the group receives value from another entity without giving approximately equal value in exchange.

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2 Summary of significant accounting policies (continued)

2.3 Government grants

Grants and donations are recognised as income when they are received or become receivable, unless the Group has a liability to repay the grant in the event that the requirements of the grant or donation are not fulfilled. A liability is recognised to the extent that such conditions are unfulfilled at the end of the reporting period. They are presented as deferred income in the balance sheet.

2.4 Borrowing costs

All borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.5 Income tax

The Group has been granted charitable status and accordingly no taxation expense or liability is recognised in the financial statements.

RWT previously deducted by the bank is treated as receivable as result of the Group's charitable status.

2.6 Goods and services tax

The Statement of Comprehensive Revenue and Expenses and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

2.7 Leases

The Group leases certain buildings, motor vehicles, and office equipment. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the surplus/deficit as rental expense in the Statement of Comprehensive Revenue and Expenses on a straight-line basis over the period of the lease.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.9 Debtors and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Revenue and Expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

2.10 Other financial assets and liabilities

Financial instruments are transacted on a commercial basis to derive an interest yield/cost with terms and conditions, having due regard to the nature of the transaction and the risks involved. All financial instruments are recognised on settlement date. They are classified in one of the following categories at initial recognition: loans and receivables, financial assets and liabilities at fair value through surplus or deficit, available for sale financial assets, held to maturity investments, and other financial liabilities.

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2 Summary of significant accounting policies (continued)

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (notes 2.8 and 2.9).

(ii) Held-to-maturity investments

Assets in this category are measured at amortised cost. Assets in this category are presented in the balance sheet as "other financial assets".

(iii) Other financial liabilities

This category includes all financial liabilities other than those at fair value through surplus or deficit. Liabilities in this category are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments. These amounts are unsecured. It also represents term liabilities with determinable repayment terms and interest rates.

Other financial liabilities include
- Trade payables (note 13)
- Employee entitlements (note 14)
- Borrowings (note 15)

(iv) Financial assets at fair value through surplus or deficit
Financial assets at fair value through surplus or deficit include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through surplus or deficit upon initial recognition.

Assets in this category are measured at fair value with gains or losses recognised in the reported surplus or deficit. The fair values are determined by reference to active market transactions or using a valuation technique where no active market exists.

Equity investments are measured at cost less any impairment charges, where the fair value cannot currently be estimated reliably.

2.11 Property, plant and equipment

Property, plant, and equipment consists of the following asset classes: leasehold improvements, plant and equipment, motor vehicles, and other property, plant and equipment.

Asset classes are measured at cost, less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the surplus or deficit during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using straight line rates so as to expense the cost of the assets over their useful lives. The useful lives are as follows:

- Land - Not depreciated
- Buildings – 50 years
- Leasehold improvements - 5-10 years
- Plant and equipment - 3-7 years
- Motor vehicles - 5 years
- Other property, plant and equipment - 3 years

Capital work in progress is not depreciated until commissioned.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive revenue and expense.

Assets are classified as cash generating or non-cash generating. Cash generating assets are held with the primary objective of generating a return. Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return.

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2 Summary of significant accounting policies (continued)

For cash generating assets, an asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

For non-cash generating assets, an asset's carrying amount is written down immediately to its recoverable service amount if the asset's carrying amount is greater than its estimated recoverable service amount.

The recoverable amount or recoverable service amount is determined as the greater of fair value less costs to sell and value in use. Value In Use of non-cash-generating assets is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

2.12 Intangible assets

Computer software
Intangible assets consist of software purchased by the Group. Acquired computer software developments are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful economic lives of 3 years.

2.13 Impairment of property, plant, and equipment and intangible assets

Property, plant, and equipment and held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped by class.

2.14 Land and Buildings

Land and Buildings is measured initially at its cost, including transaction costs. Land and buildings are subsequently measured under the revaluation model.

Revaluation model: fair value, less accumulated depreciation and accumulated impairment losses recognised after the date of most recent revaluation or where indicators of impairment exist.

Valuations are performed with sufficient frequency to ensure that the fair value of a revaluated asset does not differ materiality from its carrying value.

Gains or losses on revaluation are recognised in the other comprehensive revenue and expense and presented in the asset revaluation reserve with net assets/equity. Gains or losses relating to individual items are offset against those from other items in the same class of land and buildings; however gains or losses between classes of land and buildings are not offset.

Any of the revaluations losses in excess of the credit balance of the revaluation surpluses for that class of land and building are recognised in the Statement of comprehensive revenue and expense as an impairment.

Upon disposal of revalued items of land and buildings, any associated gain or losses on revaluation to that item are transferred from asset revaluation reserve to comprehensive revenue and expense.

2.15 Creditors and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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2 Summary of significant accounting policies (continued)

2.16 Employee entitlements

Provision is made for benefits accruing to employees in respect of salaries and wages, and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at amounts expected to be paid.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Emerge Aotearoa Group in respect of services provided by employees up to balance date.

2.17 Standards, amendments and interpretations to existing standards that are not yet effective

PBE FRS 48 Service performance reporting

In November 2017, the External Reporting Board issued PBE FRS 48 Service performance reporting. This is a new accounting standard that will be effective as a Tier 1 PBE from 1 January 2021. The Group will assess in 30 June 2020 the early adoption of this standard.

This standard establishes principles and requirements for presenting service performance information (including both financial and non-financial measures) that describes and illustrates the Group's performance against it's charitable purpose.

PBE IFRS 9 Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9 Financial Instruments. This replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.

- A new impairment model for financial assets based on expected losses, which may result in the early recognition of impairment losses.

The Group expects that under this standard, there will be minimal change in applying this accounting standard. It's implementation will be aligned to the effective date.

2.18 Changes in accounting policies

The accounting policies adopted in these financial statements are consistent with those of the previous reporting period.

2.19 Comparatives

When presentation or classification of items in the financial statements is amended, comparative figures are re-stated to ensure consistency with the current period.

3 Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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2 Summary of significant accounting policies (continued)

(a) *Estimated impairment in trade receivables and property, plant and equipment*

The Group has assessed that there are doubtful debts totalling $82,412 at balance date (2017: $71,095) and there is no impairment of property, plant and equipment as at balance date (2017: $nil).

(b) Interest free period

The Group has applied the effective interest rate with respect to the interest free period on the Housing New Zealand loans. Amortised interest charges over the interest free period have been estimated by using historical lending trends over the last 25 years from the Reserve Bank of New Zealand.

(c) Fair value of land and buildings

Fair value of land and buildings is determined in accordance with the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgably, prudently and without compulsion.

The Group has assessed and considered the fair value of land and buildings and have concluded that the estimates from previously performed revaluations to be relevant, that there are no material indicators of impairment and that the revaluation frequency for asset classes appropriate.

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4 Revenue

	Consolidated 2018 $	2017 $
Operating revenue		
Contracted income	**68,600,844**	55,853,236
Pay Equity Funding	**4,763,467**	-
Client benefits	**3,150,021**	2,703,967
Other income	**440,334**	353,791
Total operating revenue	**76,954,666**	58,910,994
Other income		
Rental income	**2,205,407**	1,275,018
Gain/(loss) on fair value of investments	**765,433**	386,035
Gain on sale of property, plant and equipment	**-**	266,942
Total Other income	**2,970,840**	1,927,995

5 Revenue from exchange and non-exchange transactions

	Consolidated 2018 $	2017 $
Exchange		
Operating revenue	**76,954,666**	58,910,994
Other income	**2,970,840**	1,927,995
Finance income	**469,490**	535,446
Total exchange	**80,394,996**	61,374,435
Total non-exchange	**-**	-
Total exchange and non-exchange	**80,394,996**	61,374,435

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6 Expenses

	Consolidated 2018 $	2017 $
Depreciation and amortisation		
Plant and equipment	**87,625**	68,792
Leasehold improvements	**53,300**	42,682
Motor vehicles	**10,205**	22,151
Other property, plant and equipment	**248,519**	247,527
Social Housing Buildings	**124,758**	125,645
Service Housing Buildings	**179,413**	174,567
Amortisation of software	**175,536**	173,458
Total depreciation and amortisation	**879,356**	854,822
Employee benefit expense		
Salaries and wages	**43,729,003**	39,257,830
Kiwi saver contributions	**1,085,076**	932,082
ACC levies	**301,590**	270,184
Pay Equity Funding	**4,763,467**	-
Training expenses	**480,086**	431,437
Other employee expenses	**240,781**	182,712
Total employee benefit expense	**50,600,003**	41,074,245
Other operating expenses		
Audit fees paid to auditors	**47,950**	75,230
Other accounting services	**6,101**	13,798
Directors' remuneration	**277,769**	267,772
Client care and other expenses	**10,840,047**	8,785,185
Bad & doubtful debts	**13,156**	9,041
Loss on disposal of plant and equipment	**(482)**	-
Rates	**189,520**	189,310
Rental expenses	**6,256,439**	3,335,478
Repairs and maintenance	**561,591**	590,825
Travel and accommodation	**752,428**	679,316
Other operating expenses	**120,000**	120,000
Total operating expenses	**19,064,519**	14,065,955

The nature of health services provided and accreditations held by the group have resulted in specific audit, review and agreed upon procedures performed by various auditors. These services are detailed below:

	2018	2017
Independent Group Auditor - PwC	**47,950**	47,950
NZQA required review - O'Meara & Company	-	2,260
NZQA agreed upon procedures - O'Meara & Company	-	1,620
Certification audit - Health & Disability Auditing NZ	-	23,400
Total Audit fees paid to auditors	**47,950**	75,230

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7 Cash and cash equivalents

	Consolidated	
	2018	2017
	$	$
Cash and cash equivalents	**16,182,620**	11,094,331
Deposits at call	**6,179,841**	6,500,000
Total cash and cash equivalents	**22,362,461**	17,594,331

8 Trade and other receivables

	Consolidated	
	2018	2017
	$	$
Net trade receivables		
Trade receivables	**8,188,302**	4,401,757
Pay Equity Funding Receivable	**4,763,467**	
Provision for doubtful receivables	**(82,412)**	(71,095)
Prepayments	**414,471**	327,763
Other receivables		
Accrued income	**1,036,314**	1,559,146
Total trade and other receivables	**14,320,142**	6,217,571

9 Other financial assets

	Consolidated	
	2018	2017
	$	$
Other financial assets	**52,858**	58,616
Investment portfolio	**13,194,452**	11,570,197
Equity securities	**1**	1
Total other financial assets	**13,247,311**	11,628,814

Current other financial assets are made up of a term deposit for the John Blackaby Memorial Fund of $52,858 (2017: $58,616). Other financial assets also includes a $1 shareholding in Community Support Services Industry Training Organisation Limited, and an investment portfolio of $13,194,452 (2017: $11,570,197).

Investment Portfolio represents New Zealand equities, Offshore equities, New Zealand bonds, Offshore bonds and term deposits held. The portfolios were managed by JB Were and Forsyth Barr but as at 30 June 2018 the portfolio is managed soley by Forsyth Barr.

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10 Property, plant and equipment

	Assets in progress	Leasehold improvement	Plant and equipment	Motor vehicles	Other PPE	Total
	$	$	$	$	$	$
Cost						
Balance as at 1 July 2016	**848**	**303,357**	**482,673**	**1,651,789**	**1,579,517**	**4,018,184**
Year ended 30 June 2017						
Additions	-	89,053	129,921	-	232,512	451,486
Disposals	(848)	-	(780)	(1,462,201)	-	(1,463,829)
Balance as at 30 June 2017	-	**392,410**	**611,814**	**189,588**	**1,812,029**	**3,005,841**
Year ended 30 June 2018						
Additions	1,444	109,084	135,082	-	322,724	568,334
Disposals	-	-	(10,825)	(119,953)	-	(130,778)
Balance as at 30 June 2018	**1,444**	**501,494**	**736,071**	**69,635**	**2,134,753**	**3,443,397**
Accumulated depreciation						
Balance as at 1 July 2016	-	**(98,279)**	**(317,346)**	**(1,410,966)**	**(1,193,038)**	**(3,019,629)**
Year ended 30 June 2017						
Depreciation charge	-	(42,682)	(68,792)	(22,151)	(247,527)	(381,152)
Depreciation released on disposal	-	-	-	1,266,985	-	1,266,985
Balance as at 30 June 2017	-	**(140,961)**	**(386,138)**	**(166,132)**	**(1,440,565)**	**(2,133,796)**
Year ended 30 June 2018						
Depreciation charge	-	(53,617)	(86,289)	(10,205)	(249,218)	(399,329)
Depreciation released on disposal	-	-	151	108,528	-	108,679
Balance as at 30 June 2018	-	**(194,578)**	**(472,276)**	**(67,809)**	**(1,689,783)**	**(2,424,446)**
As at 30 June 2017	-	**251,449**	**225,676**	**23,456**	**371,464**	**872,045**
As at 30 June 2018	**1,444**	**306,916**	**263,795**	**1,826**	**444,970**	**1,018,951**

11 Intangible assets

	Computer Software
	$
Cost	
Balance as at 1 July 2016	**1,265,080**
Year ended 30 June 2017	
Additions	78,154
Balance as at 30 June 2017	**1,343,234**
Year ended 30 June 2018	
Additions	31,605
Balance as at 30 June 2018	**1,374,839**
Accumulated Amortisation	
Balance as at 1 July 2016	**(932,157)**
Year ended 30 June 2017	
Amortisation charge	(173,458)
Balance as at 30 June 2017	**(1,105,615)**
Year ended 30 June 2018	
Amortisation charge	(175,536)
Balance as at 30 June 2018	**(1,281,151)**
As at 30 June 2017	**237,619**
As at 30 June 2018	**93,688**

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12 Land and buildings

	Social Housing Land	Social Housing Buildings	Service Property Land	Service Property Buildings	Total
Cost					
Balance as at 1 July 2016	**10,410,746**	**5,556,712**	**13,095,000**	**7,236,443**	**36,298,901**
Year ended 30 June 2017					
Balance as at 30 June 2017	**10,410,746**	**5,556,712**	**13,095,000**	**7,236,443**	**36,298,901**
Year ended 30 June 2018					
Additions	-	-	538,786	458,719	997,505
Revaluation	3,535,000	625,000	570,000	440,000	5,170,000
Balance as at 30 June 2018	**13,945,746**	**6,181,712**	**14,203,786**	**8,135,162**	**42,466,406**
Accumulated Depreciation					
Balance as at 1 July 2016	-	(133,141)	-	(182,652)	(315,793)
Year ended 30 June 2017					
Depreciation	-	(125,645)	-	(174,567)	(300,212)
Balance as at 30 June 2017	**-**	**(258,786)**	**-**	**(357,219)**	**(616,005)**
Year ended 30 June 2018					
Depreciation	-	(125,644)	-	(231,180)	(356,824)
Depreciation write back on revalued assets	-	353,857	-	62,221	416,078
Balance as at 30 June 2018	**-**	**(30,573)**	**-**	**(526,179)**	**(556,752)**
Closing Value					
As at 30 June 2017	**10,410,746**	**5,297,926**	**13,095,000**	**6,879,224**	**35,682,896**
As at 30 June 2018	**13,945,746**	**6,151,139**	**14,203,786**	**7,608,984**	**41,909,655**

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12 Land and buildings (continued)

Gain on property revaluation represented by:	Consolidated 2018 $	2017 $
Revaluation of cost	5,170,000	-
Disposals upon revaluation	-	-
Depreciation write back on revalued assets	416,078	-
Total Gain on property revaluation	5,586,078	-

Properties were independently valued as at 30 June 2018 by The Property Group Ltd. Value has been determined in accordance with "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgably, prudently and without compulsion"

13 Trade and other payables

	Consolidated 2018 $	2017 $
Trade payables	**913,958**	916,260
Accrued expenses	**369,779**	477,213
GST payable	**1,093,005**	472,416
Other payables	**1,177,474**	1,786,302
Total creditors and other payables	**3,554,216**	3,652,191

14 Employee benefits liabilities

	Consolidated 2018 $	2017 $
Annual leave & Alternative days	**2,357,149**	1,961,137
Pay Equity Funding Payable	**4,763,467**	-
Accrued wages and salaries	**911,103**	694,556
PAYE and kiwi saver	**503,674**	435,808
ACC	**178,971**	117,952
Total current portion	**8,714,364**	3,209,453

15 Interest bearing liabilities

	Consolidated 2018 $	2017 $
Current portion - secured		
Westpac Limited Loan	**1,636,596**	29,327
Housing New Zealand Loans	**74,450**	54,404
ANZ Loan	**773,228**	803,218
Total current secured current interest bearing borrowings	**2,484,274**	886,949
Non-current portion - secured		
Westpac Limited Loan	-	1,636,894
Housing New Zealand Loans	**1,493,428**	1,558,080
Total secured non-current interest bearing borrowings	**1,493,428**	3,194,974
Total secured interest bearing borrowings	**3,977,702**	4,081,923

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15 Interest bearing liabilities (continued)

Westpac Limited Loans

Westpac Limited has provided 4 mortgage facilities to Emerge Aotearoa Housing Trust. Details of the drawdowns are below:

	Drawdown date	Maturity date	Amount ($)	Repayment programme	Interest Options	Interest rate	Monthly payments	
1	24-Apr-14	24-Apr-19	700,000	Interest only	Floating	5.56%	$	3,449
2	24-Apr-14	24-Apr-19	300,000	Interest only	Floating	5.56%	$	1,478
3	4-Jun-14	24-Jun-19	600,000	Interest only	Floating	6.34%	$	3,304
4	11-Nov-14	11-Nov-19	140,000	Principal and Interest	Fixed	6.34%	$	2,737

Westpac Limited has a first charged registered mortgage over the following properties:

Loan 1: Registered first mortgage over residential property situated 290 Paremoremo Road, Albany.

Loan 2: Registered first mortgage over residential property situated 16 Galbraith Street, Rotorua.

Loan 3: Registered first mortgage over residential property situated 62 Westminster Drive, Tauranga.

Loan 4: Registered first mortgage over residential property situated 191 Wainui Road, Gisborne.

Housing New Zealand Loan

Housing New Zealand Corporation has provided a mortgage facility of $3,100,000 to Emerge Aotearoa Housing Trust. This facility is to be used to purchase and modify existing houses in the Auckland district in order to provide affordable, long-term rental accommodation for people experiencing mental illness.

The terms for each amount drawn down commence from the drawdown date and are the same for each amount. These are: twenty-five (25) year terms with ten (10) years interest free. The interest rate to be charged following the interest free period is the lender's fixed or floating residential mortgage lending rate plus, where required, a margin advised to the borrower.

Details of the drawdowns are below:

	Drawdown date	Maturity date	Amount ($)	Repayment programme	Interest charged date	Interest rate	Monthly payments	
1	26-Sep-07	25-Sep-32	289,268	Principal	26-Sep-17	4.99%	$	1,373
2	9-Nov-07	8-Nov-32	309,383	Principal	27-Mar-18	4.99%	$	1,315
3	14-Mar-08	13-Mar-33	283,684	Principal	14-Mar-18	5.05%	$	1,346
4	22-May-08	21-May-33	291,014	Principal	22-May-18	4.95%	$	970
5	30-Jun-08	29-Jun-33	226,651	Principal	30-Jun-18	4.95%	$	1,059
6	31-May-09	24-May-34	308,853	Principal	31-May-19	Interest free	$	1,030
7	17-Jul-09	28-Aug-34	371,460	Principal	1-Sep-19	Interest free	$	1,238
8	5-Aug-09	28-Aug-34	244,034	Principal	1-Oct-19	Interest free	$	813
9	29-Apr-10	29-Apr-35	75,653	Principal	1-May-20	Interest free	$	252
10	28-Mar-12	27-Mar-37	700,000	Principal	28-May-22	Interest free	$	2,333

Monthly repayments are those for the interest free period. When interest charges commence, the minimum repayment will include the monthly interest charge. Housing New Zealand has a first charge registered mortgage over each and every property purchased with the funds from these loans.

ANZ Limited Loan

ANZ Limited has provided a mortgage facility to Emerge Aotearoa Housing Trust. Details of the drawdown are below:

	Drawdown date	Maturity date	Amount	Repayment terms	Interest Options	Interest rate	Monthly payments	
1	19-Dec-13	19-Dec-18	900,000	Principal and Interest	Floating	5.79%	$	6,328

ANZ Limited has a first charged registered mortgage over the following properties:

All property situated at 1/11 Arthur Road, Manurewa

All property situated at 2/11 Arthur Road, Manurewa

All property situated at 9 Fraser Avenue, Northcote

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16 Other non-current liabilities

	Consolidated	
	2018	2017
	$	$
Housing New Zealand grant	817,369	868,103

Housing New Zealand Corporation (the lender) has conditionally granted $817,369 (2017: $868,103) to Emerge Aotearoa Housing Trust for the purpose of providing social housing (the "Project Purchase"). If, after 10 years from the date of settlement of the purchase of the first property (and without limiting any other provisions of this Agreement), each Property has been used for the Project Purpose or such other social housing purpose as is approved by the Lender (such approval not to have been unreasonably withheld), the amount of the Conditional Grant shall be non-repayable to, and non-recoverable by, the lender. This conditional grant income is recognised over the original 25 year life of the loans as indicated in note 15.

17 Equity

	Consolidated	
	2018	2017
	$	$
Retained earnings		
Balance at 1 July	24,937,432	19,862,439
Retained earnings on business acquisition	-	-
Transfer to reserves	-	-
Surplus/(deficit) for the year	9,540,795	5,074,993
Balance 30 June	34,478,227	24,937,432

	2018	2017
Reserves		
Asset revaluation Reserve	20,417,116	14,831,038
Special fund	52,057	51,946
Pre -acquisition Profits	19,915,228	19,915,228
Total reserves	40,384,401	34,798,212

(a) Purpose of each reserve fund

(i) Asset revaluation reserve

The Asset revaluation reserve is used to record increments and decrements on the revaluation of Land and Buildings as described in note 2.

(ii) Special fund

John Blackaby, a former trustee of a Emerge Aotearoa Group entity, bequeathed to the Emerge Aotearoa Group the sum of $25,000. The Emerge Aotearoa Group agreed to match this bequest with a further sum of $25,000, creating a reserve totalling $50,000, to which interest (net of grants) have been added. The cash funds represented by this reserve are held in a separate, interest bearing bank account. The cash funds are available to staff members of the Emerge Aotearoa Group, to contribute towards course fees or educational events that are of direct relevance to an applicant's work area.

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18 Capital commitments and operating leases

As at 30 June 2018 the Group had no capital commitments (2017: $Nil).

Operating leases as lessee

The Group has lease commitments for offices, residential properties, motor vehicles and office equipment. Items of plant and equipment have lease terms of between 0 to 5 years, while land and buildings have lease terms of between 0 to 3 years. Most of these operating leases have rights of renewal for further terms and have normal provisions for periodic rent reviews to market rates. The Emerge Aotearoa Group does not have an option to purchase the property at the expiry of the lease period.

	Consolidated	
	2018	2017
	$	$
Not later than one year	**5,439,282**	3,347,972
Later than one year and not later than five years	**6,359,552**	4,041,797
Later than five years	**69,717**	88,767
Total non-cancellable operating leases	**11,868,551**	7,478,536

The Group leases residential properties for use by its service recipients. Residential property held as periodic arrangements or leases without any agreed fixed term committments are not included in the above table.

No operating leases impose any restrictions on the Group's ability to raise debt or enter into further leasing arrangements.

19 Contingencies

As at 30 June 2018 the Group had no contingent liabilities or assets (2017: $Nil).

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20 Capital adequacy

As a public benefit entity, the Group has a number of roles and responsibilities in managing capital. It defines its capital as its equity, which comprises retained earnings and an internal reserve. Equity is represented by net assets.

Revenues, expenses, assets and liabilities, investments and financial dealings are managed prudently and in a manner that promotes the current and future interests of the Group. Equity is managed as a result of managing revenues, expenses, assets, liabilities, investments and general financial dealings. The objective of managing these items is to achieve sustainable equity, which is a key strategic priority for the trustees of the Group.

The Group does not have any externally imposed capital requirements or obligation (such as the traditional quantitative measures set by bank covenants, debt to equity ratios, and the like) given the nature of operations, the asset allocation and funding structure.

There have been no changes to capital management since the prior year.

21 Reconciliation of net surplus/(deficit) to net cash flow from operating activities

	Consolidated	
	2018	2017
	$	$
Surplus/(deficit)	**9,540,906**	5,074,993
Add/(less) non-cash items		
Depreciation and amortisation expense	**879,356**	854,822
Movements in doubtful debts	**(13,156)**	(9,041)
Amortised interest free period	**68,545**	81,980
Increase in reserves	**(111)**	6,380
(Gains) / losses on disposal of property, plant, and equipment	**-**	(266,942)
(Gains) / losses on fair value of investments	**(1,304,096)**	(938,809)
Total non-cash items	**(369,462)**	(271,610)
Add/(less) movements in working capital items		
(Increase) / decrease in receivables	**(7,855,483)**	(606,840)
Increase / (decrease) in payables	**(371,456)**	(154,478)
Increase / (decrease) in income in advance	**309,352**	34,820
Increase / (decrease) in employee entitlements	**5,504,911**	133,837
Increase / (decrease) in other non current liabilities	**(50,734)**	(51,183)
(Increase) / decrease in current tax receivables	**30,613**	-
Total movements in working capital	**(2,432,797)**	(643,844)
Net cash inflow/(outflow) from operating activities	**6,738,647**	4,159,539

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22 Financial instruments

The Group's activities expose it to a variety of financial risks (market risk, liquidity risk and credit risk). The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(a) Market risk

Interest rate risk

Interest rate risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group is exposed to interest rate risk in respect to its cash and cash equivalents, term deposits and term loans. The Group manages interest rate risk by monitoring the level of borrowings and deposits secured using fixed rate instruments.

2018	**-1%**		**+1%**	
Interest rate sensitivity	**Surplus**	**Equity**	**Surplus**	**Equity**
Financial assets				
Cash and cash equivalents	(223,159)	(519)	223,159	519
Financial liabilities				
Borrowings	43,916	-	(43,916)	-
Total sensitivity	(179,243)	(519)	179,243	519

2017	**-1%**		**+1%**	
Interest rate sensitivity	**Surplus**	**Equity**	**Surplus**	**Equity**
Financial assets				
Cash and cash equivalents	(175,860)	(586)	175,860	586
Financial liabilities				
Borrowings	45,683	-	(45,683)	-
Total sensitivity	(130,177)	(586)	130,177	583

(b) Credit risk

The Group has no significant concentrations of credit risk. Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a deficit. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, credit exposures to receivables and other debtors as well as derivative financial instruments.

The Group places its cash and cash equivalents and any term deposits with quality financial institutions with good credit ratings. The Group enters into financial arrangements under service contracts with government departments. They also transact with various counterparties who are entitled to government subsidies. The Group does not require any collateral or security to support these financial arrangements.

The maximum credit risk is the carrying value of the financial assets detailed below, however the Group considers the risk of non-recovery of these amounts to be low.

The maximum exposures are net of any recognised impairment losses on these financial instruments.

All of the Group's cash and cash equivalents are with large and reputable banks. The investment portfolio is managed by reputable organisations.

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22 Financial instruments (continued)

(c) Liquidity risk

Liquidity risk represents the Group's ability to meet their financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate bank balances and continuously monitoring cash flow forecasts.

(d) Financial instrument categories

The accounting policies for financial instruments have been applied to the line items below:

	Consolidated	
	2018	2017
Financial Assets	**$**	$
Loans and receivables		
Cash and cash equivalents	22,362,461	17,594,331
Receivables & current tax receivables	14,320,142	6,248,185
Total loans and receivables	**36,682,603**	23,842,516
Financial assets at fair value through surplus or deficit		
Other financial assets:		
Investment portfolio	13,194,452	11,570,197
Non classified other financial assets	52,858	58,616
Total financial assets at fair value through surplus or deficit	**13,247,310**	11,628,813
Financial Liabilities		
Financial liabilities at amortised cost		
Trade and other payables	2,461,211	3,179,775
Employee benefits liabilities	8,714,364	3,209,453
Interest bearing liabilities	3,977,702	4,081,923
Total financial liabilities at amortised cost	**15,153,277**	10,471,149

(e) Fair Value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its non-financial assets and liabilities into three levels as follows:

Level 1: Quoted unadjusted prices in active markets for identical instruments
Level 2: Inputs that are not level 1 that are observable either directly or indirectly
Level 3: Inputs that are not observable

	Consolidated	
	2018	2017
	$	$
Level 1		
Investment portfolio	**13,194,452**	11,570,197
Non classified other financial assets	**52,858**	58,616
Total Level 1	**13,247,310**	11,628,813
Total Level 2	-	-
Total Level 3	-	-

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23 Related party transactions

	Consolidated	
Transactions with key management personnel	**2018**	2017
Key management personnel compensation	**$**	$
Board members remuneration	**237,500**	237,500
Full-time equivalent members	**8**	8
Senior Management Team remuneration	**1,199,931**	1,465,565
Full-time equivalent members	**5**	8
Total key management personnel compensation	**1,437,431**	1,703,065
Total full-time equivalent personnel	**13**	16

In January 2018 the Leadership team was restructured and the number of Leadership team members reduced from 8 to 5.

Transactions with related parties		**Payments/(invoices) made during year**		**Payable/(receivable) at period end**	
Related party	**Nature of transaction**	**2018**	2017	**2018**	2017
		$	$	**$**	$
Yesterday Today Tomorrow Limited	Purchase of consulting services	**-**	20,527	**-**	1,955
Mental Health Foundation	Reimbursement travel costs	**-**	(2,535)	**-**	(571)
Vaka Tautua Limited	Service delivery for contract	**217,561**	25,700	**24,561**	25,700
Auckland District Health Board	Service delivery for contract	**(6,129,330)**	-	**(558,427)**	-

All entities listed above are related parties due to the involvement of various Board members within these entities. The arragements with related parties are within a normal supplier or client/recipient relationship on terms and condition no more or less favourable than those that it is reasonable to expect the Emerge Aotearoa Group would have adopted in dealing with the party at arm's length in the same circumstances.

24 Events occurring after the balance date

There were no events occurring subsequent to balance date which require adjustment to or disclosure in the financial statements.

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