

**Emerge Aotearoa Group**  
**Financial statements**  
**For the year ended 30 June 2020**

## Contents

|   | Page |
|---|------|
| Independent Auditor's report  | 2    |
| Trustees' responsibility statement  | 4    |
| Financial statements  |      |
| Statement of comprehensive revenue and expense  | 5    |
| Statement of changes in net assets/equity   | 6    |
| Balance sheet   | 7    |
| Statement of cash flows   | 8    |
| Notes to the financial statements   |      |
| 1 Statement of accounting policies for the year ended 30 June 2020                    | 9    |
| 2 Summary of significant accounting policies  | 9    |
| 3 Critical accounting estimates and judgements  | 14   |
| 4 Revenue   | 15   |
| 5 Revenue from exchange and non-exchange transactions                                 | 15   |
| 6 Expenses  | 16   |
| 7 Cash and cash equivalents   | 17   |
| 8 Trade and other receivables   | 17   |
| 9 Other financial assets  | 17   |
| 10 Property, plant and equipment  | 18   |
| 11 Intangible assets  | 19   |
| 12 Land and buildings   | 20   |
| 13 Trade and other payables   | 21   |
| 14 Employee benefits liabilities  | 21   |
| 15 Interest bearing liabilities   | 21   |
| 16 Other non-current liabilities  | 23   |
| 17 Equity   | 23   |
| 18 Capital commitments and operating leases   | 24   |
| 19 Contingencies  | 24   |
| 20 Capital adequacy   | 25   |
| 21 Reconciliation of net surplus/(deficit) to net cash flow from operating activities | 25   |
| 22 Financial instruments  | 26   |
| 23 Related party transactions   | 28   |
| 24 COVID-19   | 29   |
| 25 Events occurring after the balance date  | 29   |



## *Independent auditor's report*

To the Trustees of Emerge Aotearoa Trust

We have audited the financial statements which comprise:

- the balance sheet as at 30 June 2020;
- 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 financial statements, which include a summary of significant accounting policies.

### *Our opinion*

In our opinion, the accompanying financial statements of Emerge Aotearoa (the Trust), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards.

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### *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 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 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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.

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### *Information other than the financial statements and auditor's report*

The Trustees are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the Trustees for the financial statements*

The Trustees are responsible, on behalf of the Trust, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

### *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) 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 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.

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

For and on behalf of:

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants  
27 October 2020

Christchurch

**Emerge Aotearoa Group**  
**Trustees' responsibility statement**  
**30 June 2020**

**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 (the Group) as at 30 June 2020 and financial performance and cash flows for the year ended on that date.

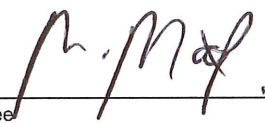
The Trustees consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

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.

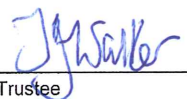
The Trustees consider they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Trustees of the Group have pleasure in presenting the financial statements for the year ended 30 June 2020 on pages 5 to 29.

The Board of Trustees authorised these financial statements for issue.

  
\_\_\_\_\_  
Trustee

27 October 2020

  
\_\_\_\_\_  
Trustee

27 October 2020

**Emerge Aotearoa Group**  
**Statement of comprehensive revenue and expense**  
**For the year ended 30 June 2020**

**Statement of comprehensive revenue and expense**

For the year ended 30 June 2020

|  |             | <b>Consolidated</b> |                     |
|--|-------------|---------------------|---------------------|
|  |             | <b>2020</b>         | <b>2019</b>         |
|  | <b>Note</b> | <b>\$</b>           | <b>\$</b>           |
| <b>Income</b>                                  |             |                     |                     |
| Operating revenue                              | 4           | 98,330,494          | 87,452,730          |
| Other income                                   | 4           | 4,873,275           | 3,860,553           |
| Finance income                                 |             | 661,414             | 549,865             |
| <b>Total income</b>                            |             | <b>103,865,183</b>  | <b>91,863,148</b>   |
| <b>Expenditure</b>                             |             |                     |                     |
| Employee benefits                              | 6           | (63,754,326)        | (58,002,366)        |
| Depreciation and amortisation                  | 6           | (585,192)           | (797,429)           |
| Other operating expenses                       | 6           | (29,285,305)        | (23,805,598)        |
| Finance costs                                  |             | (222,958)           | (269,911)           |
| <b>Total operating expenditure</b>             |             | <b>(93,847,781)</b> | <b>(82,875,304)</b> |
| <b>Surplus/(deficit)</b>                       |             | <b>10,017,402</b>   | <b>8,987,844</b>    |
| <b>Other comprehensive revenue and expense</b> |             |                     |                     |
| Gain on property revaluations                  | 12          | 3,006,881           | 5,018,175           |
| <b>Total comprehensive revenue and expense</b> |             | <b>13,024,283</b>   | <b>14,006,019</b>   |

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

**Emerge Aotearoa Group**  
**Statement of changes in net assets/equity**  
**For the year ended 30 June 2020**

**Statement of changes in net assets/equity**  
For the year ended 30 June 2020

| Consolidated                                   |           | Contributed funds | Asset revaluation reserve | Other reserves | Retained earnings | Pre- acquisition profits | Total equity       |
|--|-----------|-------------------|---------------------------|----------------|-------------------|--------------------------|--------------------|
|  | Note      | \$                | \$                        | \$             | \$                | \$                       | \$                 |
| Balance as at 1 July 2018                      |           | 211               | 20,417,116                | 51,946         | 34,478,338        | 19,915,228               | 74,862,839         |
| <b>Comprehensive revenue and expense</b>       |           |                   |                           |                |                   |                          |                    |
| Surplus/(deficit) for the year                 |           | -                 | -                         | -              | 8,987,844         | -                        | 8,987,844          |
| Interest earned on internal reserves           |           | -                 | -                         | 354            | -                 | -                        | 354                |
| Revaluation                                    | 12        | -                 | 5,018,175                 | -              | -                 | -                        | 5,018,175          |
| <b>Total comprehensive revenue and expense</b> |           | -                 | 5,018,175                 | 354            | 8,987,844         | -                        | 14,006,373         |
| <b>Balance as at 1 July 2019</b>               |           | <b>211</b>        | <b>25,435,291</b>         | <b>52,300</b>  | <b>43,466,182</b> | <b>19,915,228</b>        | <b>88,869,212</b>  |
| <b>Comprehensive revenue and expense</b>       |           |                   |                           |                |                   |                          |                    |
| Surplus/(deficit) for the year                 |           | -                 | -                         | -              | 10,017,402        | -                        | 10,017,402         |
| Interest earned on internal reserves           |           | -                 | -                         | 1,455          | -                 | -                        | 1,455              |
| Grant application                              |           | -                 | -                         | (2,676)        | -                 | -                        | (2,676)            |
| Revaluation                                    | 12        | -                 | 3,006,881                 | -              | -                 | -                        | 3,006,881          |
| <b>Total comprehensive revenue and expense</b> |           | -                 | 3,006,881                 | (1,221)        | 10,017,402        | -                        | 13,023,062         |
| <b>Balance as at 30 June 2020</b>              | <b>17</b> | <b>211</b>        | <b>28,442,172</b>         | <b>51,079</b>  | <b>53,483,584</b> | <b>19,915,228</b>        | <b>101,892,274</b> |

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

**Emerge Aotearoa Group**  
**Balance sheet**  
**As at 30 June 2020**

**Balance sheet**  
As at 30 June 2020

|                                      |      | Consolidated       |                    |
|--------------------------------------|------|--------------------|--------------------|
|                                      |      | 2020               | 2019               |
|                                      |      | \$                 | \$                 |
|                                      | Note |                    |                    |
| <b>ASSETS</b>                        |      |                    |                    |
| <b>Current assets</b>                |      |                    |                    |
| Cash and cash equivalents            | 7    | 13,528,388         | 7,126,731          |
| Trade and other receivables          | 8    | 11,585,999         | 11,268,235         |
| Other financial assets               | 9    | 35,105,177         | 35,484,864         |
| Property Held for Sale               | 12   | 2,060,279          | -                  |
| <b>Total current assets</b>          |      | <b>62,279,843</b>  | <b>53,879,830</b>  |
| <b>Non-current assets</b>            |      |                    |                    |
| Property, plant and equipment        | 10   | 3,775,325          | 1,978,563          |
| Intangible assets                    | 11   | 7,499              | 34,382             |
| Land and Buildings                   | 12   | 49,351,501         | 46,629,683         |
| <b>Total non-current assets</b>      |      | <b>53,134,325</b>  | <b>48,642,628</b>  |
| <b>Total assets</b>                  |      | <b>115,414,168</b> | <b>102,522,458</b> |
| <b>LIABILITIES</b>                   |      |                    |                    |
| <b>Current liabilities</b>           |      |                    |                    |
| Trade and other payables             | 13   | 3,267,574          | 4,211,187          |
| Employee benefits                    | 14   | 6,293,161          | 5,194,323          |
| Interest bearing liabilities         | 15   | 54,005             | 652,452            |
| Deferred income                      |      | 1,838,947          | 1,374,650          |
| <b>Total current liabilities</b>     |      | <b>11,453,687</b>  | <b>11,432,612</b>  |
| <b>Non-current liabilities</b>       |      |                    |                    |
| Interest bearing liabilities         | 15   | 1,352,292          | 1,453,971          |
| Other non-current liabilities        | 16   | 715,915            | 766,663            |
| <b>Total non-current liabilities</b> |      | <b>2,068,207</b>   | <b>2,220,634</b>   |
| <b>Total liabilities</b>             |      | <b>13,521,894</b>  | <b>13,653,246</b>  |
| <b>Net assets</b>                    |      | <b>101,892,274</b> | <b>88,869,212</b>  |
| <b>EQUITY</b>                        |      |                    |                    |
| Contributed funds                    |      | 211                | 211                |
| Retained earnings                    | 17   | 53,483,584         | 43,466,182         |
| Other reserves                       | 17   | 48,408,479         | 45,402,819         |
| <b>Total equity</b>                  |      | <b>101,892,274</b> | <b>88,869,212</b>  |

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



**Emerge Aotearoa Group**  
**Statement of cash flows**  
**For the year ended 30 June 2020**

**Statement of cash flows**  
For the year ended 30 June 2020

|   |             | <b>Consolidated</b> |                     |
|---|-------------|---------------------|---------------------|
|   |             | <b>2020</b>         | <b>2019</b>         |
|   | <b>Note</b> | <b>\$</b>           | <b>\$</b>           |
| <b>Cash flows from operating activities</b>                 |             |                     |                     |
| Receipts from contracts and clients                         |             | 97,151,959          | 90,415,406          |
| Interest and dividends received                             |             | 976,046             | 191,525             |
| Rent received   |             | 4,872,235           | 3,481,855           |
| Other income  |             | 604,584             | 438,162             |
| Payments to suppliers and employees                         |             | (80,073,703)        | (76,370,404)        |
| Interest and bank fees paid                                 |             | (3,067)             | (174,158)           |
| Rent paid   |             | (12,171,074)        | (8,580,970)         |
| <b>Net cash flow from operating activities</b>              | <b>21</b>   | <b>11,356,980</b>   | <b>9,401,416</b>    |
| <b>Cash flows from investing activities</b>                 |             |                     |                     |
| Receipts from of property, plant, and equipment             |             | -                   | 13,859              |
| Purchase of property, plant and equipment                   |             | (4,628,644)         | (1,439,708)         |
| Investments in other financial assets                       |             | 1,773,456           | (17,552,622)        |
| <b>Net cash flow from investing activities</b>              |             | <b>(2,855,188)</b>  | <b>(18,978,471)</b> |
| <b>Cash flows from financing activities</b>                 |             |                     |                     |
| Repayment of loans  |             | (693,584)           | (1,908,507)         |
| <b>Net cash flow from financing activities</b>              |             | <b>(693,584)</b>    | <b>(1,908,507)</b>  |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |             | <b>7,808,208</b>    | <b>(11,485,562)</b> |
| Cash and cash equivalents at the beginning of the year      |             | 7,126,731           | 22,362,461          |
| Portfolio investment reclassified                           |             | (1,406,551)         | (3,750,168)         |
| <b>Cash and cash equivalents at the end of the year</b>     | <b>7</b>    | <b>13,528,388</b>   | <b>7,126,731</b>    |

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

## **1 Statement of accounting policies for the year ended 30 June 2020**

The reporting entity (the "Emerge Aotearoa Group"), consists of seven entities. This includes the Emmerge Aotearoa Trust (parent), formerly named Richmond New Zealand Trust, a trust established by deed dated 3 August 2010, and Emmerge 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 Emmerge 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 Ignite Aotearoa Limited, formerly Mind and Body Learning and Development Limited which were acquired during the 2016 financial year. Both Emmerge Aotearoa Trust and Emmerge Aotearoa Limited commenced operating on 1 November 2010.

The Emmerge 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 Emmerge Aotearoa Housing Trust and rented to Emmerge 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, Emmerge 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.

The Government passed the Care and Support Workers (Pay Equity) Settlement bills which were effective from the 1<sup>st</sup> July 2017. All employees covered by the settlement in the aged and disability residential care and home and community support sectors receive the new legislated wage rates. This settlement has provided the Group with additional funding to support the increased wages of those affected employees. This funding has been introduced as a separate line where funding is provided specifically outside of a service contract. From the 1<sup>st</sup> of December 2018 all District Health Boards have now incorporated pay equity funding into service contracts.

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) Pay Equity funding is recognised as a result of meeting the obligations of the Care and Support Workers (Pay Equity) Settlement bills
- iii) Client benefits and client contributions is recognised when services have been performed
- iv) Interest income is recognised in the Statement of Comprehensive Revenue and Expense as it accrues, using the effective interest rate method.
- v) Rental income is recognised on a straight-line basis over the rental period.

## **2 Summary of significant accounting policies (continued)**

### *Exchange and non-exchange transactions*

The group enters into exchange transactions where it receives or provides assets or services, or has liabilities extinguished, and approximately equal value is provided 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.

### **2.3 Grant Income**

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**

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.

### **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 Summary of significant accounting policies (continued)**

### **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.

#### *(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
- Improvements - 5-10 years
- Plant and equipment - 3-7 years
- Motor vehicles - 5 years
- Other property, plant and equipment - 3 years

## **2 Summary of significant accounting policies (continued)**

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.

### **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 non-financial assets**

Property, plant, and equipment and intangible assets 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.

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.

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.

### **2.14 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.

Under the revaluation model, after initial recognition, land and buildings is carried at fair value less accumulated depreciation and impairment losses after the date of the most recent valuation.

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

## **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 2022. The Group will assess in 30 June 2021 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 its 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 2022, 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. Its implementation will be aligned to the effective date.

#### **PBE IPSAS 35 Consolidated financial statements**

Introduces a new definition of control requiring both power and exposure to variable benefits and includes more guidance on assessing control (including additional guidance on substantive and protective rights). Exceptions from consolidation are provided for investment entities and a parent of an investment entity. The standard also includes guidance on principal/agent relationships, network and partner agreements and on the application of consistent accounting policies when consolidating for-profit entities into a PBE group. The Group expects to adopt this standard from the mandatory effective date but does not expect it to have a material impact on the financial statements. The effective date is 1 July 2021

#### **PBE IPSAS 41 Financial instruments**

PBE IPSAS 41 will replace both PBE IPSAS 29 and PBE IFRS 9. Simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. It applies a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing. The Group expects to adopt this standard from the mandatory effective date but is yet to assess the impact on the financial statements. The effective date is 1 January 2022

#### **PBE IPSAS 40 PBE combinations**

This standard provides guidance on accounting for acquisitions and amalgamations. PBE IPSAS 40 requires a combination to be classified as either an acquisition or an amalgamation based on control and the economic substance of the combination. The Group expects to adopt this standard from the mandatory effective date but is yet to assess the impact on the financial statements. The effective date is 1 January 2021

## **2 Summary of significant accounting policies (continued)**

### **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.

Income has been reclassified to reflect the substance of the transactions. Total income remains unchanged.

Other financial assets have been reclassified to separately disclose those fixed interest investments greater than three months. Total other financial assets remain unchanged.

## **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.

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

The Group has assessed that there are doubtful debts totalling \$118,867 at balance date (2019: \$99,421) and there is no impairment of property, plant and equipment as at balance date (2019: \$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 at 8.5% (2019: 8.5%) by using historical lending trends over the last 25 years from the Reserve Bank of New Zealand.

If the estimated interest rate applied were reduce to 6%, this would result in an \$80,000 (2019: \$80,000) reduction in the estimated amortised interest charges.

**Emerge Aotearoa Group**  
**Notes to the financial statements**  
**30 June 2020**

**4 Revenue**

|   | Consolidated      |                   |
|---|-------------------|-------------------|
|   | 2020              | 2019              |
|   | \$                | \$                |
| <i>Operating revenue</i>                          |                   |                   |
| Contracted income                                 | 92,256,007        | 79,016,892        |
| Pay Equity Funding                                | 696,945           | 3,759,301         |
| Client benefits                                   | 4,722,210         | 4,187,669         |
| Grant Income                                      | 50,748            | 50,706            |
| Other income                                      | 604,584           | 438,162           |
| <b>Total operating revenue</b>                    | <b>98,330,494</b> | <b>87,452,730</b> |
| <i>Other income</i>                               |                   |                   |
| Rental income                                     | 4,872,235         | 3,481,855         |
| Gain/(loss) on fair value of Investment Portfolio | 1,040             | 378,698           |
| Gain on sale of property, plant and equipment     | -                 | -                 |
| <b>Total Other income</b>                         | <b>4,873,275</b>  | <b>3,860,553</b>  |

|   |                   |                   |
|---|-------------------|-------------------|
| Contract income is represented by:        | 2020              | 2019              |
|   | \$                | \$                |
| Ministry of Health                        | 7,011,435         | 7,154,611         |
| Ministry of Social Development            | 6,756,755         | 4,481,411         |
| Ministry of Housing and Urban Development | 22,100,290        | 15,043,484        |
| Department of Corrections                 | 3,298,410         | 3,526,076         |
| Accident Compensation Corporation         | -                 | 516,303           |
| District Health Boards                    | 52,679,366        | 47,721,777        |
| Other contracted income                   | 438,359           | 653,602           |
| <b>Total contract income</b>              | <b>92,284,615</b> | <b>79,097,264</b> |

**5 Revenue from exchange and non-exchange transactions**

|  | Consolidated       |                   |
|--|--------------------|-------------------|
|  | 2020               | 2019              |
|  | \$                 | \$                |
| <i>Exchange</i>                        |                    |                   |
| Operating revenue                      | 98,279,746         | 87,401,424        |
| Other income                           | 4,873,275          | 3,860,553         |
| Finance income                         | 661,414            | 549,865           |
| <b>Total exchange</b>                  | <b>103,814,435</b> | <b>91,811,842</b> |
| <i>Non-Exchange</i>                    |                    |                   |
| Other income                           | 50,748             | 51,306            |
| <b>Total non-exchange</b>              | <b>50,748</b>      | <b>51,306</b>     |
| <b>Total exchange and non-exchange</b> | <b>103,865,183</b> | <b>91,863,148</b> |



**Emerge Aotearoa Group**  
**Notes to the financial statements**  
**30 June 2020**

**6 Expenses**

|  | 2020              | 2019              |
|--|-------------------|-------------------|
|  | \$                | \$                |
| <i>Depreciation and amortisation</i>       |                   |                   |
| Plant and equipment                        | 45,953            | 94,123            |
| Leasehold improvements                     | 43,917            | 60,928            |
| Motor vehicles                             | -                 | 609               |
| Other property, plant and equipment        | 95,842            | 238,030           |
| Social Housing Buildings                   | 124,719           | 149,053           |
| Service Property Buildings                 | 249,632           | 195,548           |
| Amortisation of software                   | 25,129            | 59,138            |
| <b>Total depreciation and amortisation</b> | <b>585,192</b>    | <b>797,429</b>    |
| <i>Employee benefit expense</i>            |                   |                   |
| Salaries and wages                         | 61,299,203        | 55,546,556        |
| Kiwi saver contributions                   | 1,502,077         | 1,301,286         |
| ACC levies                                 | 279,830           | 335,059           |
| Training expenses                          | 441,948           | 576,263           |
| Other employee expenses                    | 231,268           | 243,202           |
| <b>Total employee benefit expense</b>      | <b>63,754,326</b> | <b>58,002,366</b> |
| <i>Other operating expenses</i>            |                   |                   |
| Audit fees paid to auditors                | 83,992            | 71,600            |
| Other accounting services                  | -                 |                   |
| Directors' remuneration                    | 281,948           | 242,878           |
| Client care and other expenses             | 14,333,239        | 12,768,272        |
| Bad & doubtful debts                       | 19,446            | 17,009            |
| Loss on disposal of plant and equipment    | 523,838           | 33,679            |
| Rates                                      | 227,353           | 200,963           |
| Rental expenses                            | 12,171,074        | 8,580,970         |
| Repairs and maintenance                    | 827,168           | 770,505           |
| Travel and accommodation                   | 817,247           | 999,722           |
| Other operating expenses                   | -                 | 120,000           |
| <b>Total operating expenses</b>            | <b>29,285,305</b> | <b>23,805,598</b> |

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:

|  |               |               |
|--|---------------|---------------|
| Independent Group Auditor - PwC                      | 59,142        | 60,000        |
| Surveillance audit - Health & Disability Auditing NZ | 24,850        | 11,600        |
| <b>Total Audit fees paid to auditors</b>             | <b>83,992</b> | <b>71,600</b> |

**Emerge Aotearoa Group**  
**Notes to the financial statements**  
**30 June 2020**

**7 Cash and cash equivalents**

|  | Consolidated      |                  |
|--|-------------------|------------------|
|  | 2020              | 2019             |
|  | \$                | \$               |
| Cash and cash equivalents              | 10,528,388        | 6,926,731        |
| Deposits at call                       | 3,000,000         | 200,000          |
| <b>Total cash and cash equivalents</b> | <b>13,528,388</b> | <b>7,126,731</b> |

**8 Trade and other receivables**

|  | Consolidated      |                   |
|--|-------------------|-------------------|
|  | 2020              | 2019              |
|  | \$                | \$                |
| <b>Net trade receivables</b>             |                   |                   |
| Trade receivables                        | 9,152,200         | 7,655,397         |
| Provision for doubtful receivables       | (118,867)         | (99,421)          |
| Pay Equity Funding Receivable            | -                 | 384,453           |
| Prepayments                              | 538,256           | 445,687           |
| <b>Other receivables</b>                 |                   |                   |
| Accrued income                           | 2,014,410         | 2,882,119         |
| <b>Total trade and other receivables</b> | <b>11,585,999</b> | <b>11,268,235</b> |

**9 Other financial assets**

|                                     | Consolidated      |                   |
|-------------------------------------|-------------------|-------------------|
|                                     | 2020              | 2019              |
|                                     | \$                | \$                |
| Other financial assets              | 23,357,051        | 27,294,621        |
| Investment portfolio                | 11,748,125        | 8,190,242         |
| Equity securities                   | 1                 | 1                 |
| <b>Total other financial assets</b> | <b>35,105,177</b> | <b>35,484,864</b> |

Current other financial assets are made up of a fixed interest investments greater than three months with Westpac Bank totalling \$10,572,710 (2019: \$17,552,621) and for the John Blackaby Memorial Fund of \$51,080 (2019: \$52,300) and fixed interest investments held with Forsyth Barr totalling \$12,733,262 (2019: \$9,689,700). Other financial assets also includes a \$1 shareholding in Community Support Services Industry Training Organisation Limited, and an investment portfolio of \$11,748,125 (2019: \$8,190,243).

**Emerge Aotearoa Group**  
**Notes to the financial statements**  
**30 June 2020**

**10 Property, plant and equipment**

|                                   | Assets in<br>progress<br>\$ | Improvements<br>\$ | Plant and<br>equipment<br>\$ | Motor<br>vehicles<br>\$ | Other PPE<br>\$ | Total<br>\$ |
|-----------------------------------|-----------------------------|--------------------|------------------------------|-------------------------|-----------------|-------------|
| <b>Cost</b>                       |                             |                    |                              |                         |                 |             |
| Balance as at 1 July 2018         | 1,444                       | 501,494            | 736,071                      | 69,635                  | 2,134,753       | 3,443,397   |
| <b>Year ended 30 June 2019</b>    |                             |                    |                              |                         |                 |             |
| Additions                         | 949,418                     | 164,834            | 117,762                      | -                       | 159,797         | 1,391,811   |
| Disposals                         | -                           | (4,911)            | (20,929)                     | (17,809)                | (18,280)        | (61,929)    |
| Balance as at 30 June 2019        | 950,862                     | 661,417            | 832,904                      | 51,826                  | 2,276,270       | 4,773,279   |
| <b>Year ended 30 June 2020</b>    |                             |                    |                              |                         |                 |             |
| Additions                         | 4,177,518                   | 171,351            | 151,632                      | -                       | 168,640         | 4,669,141   |
| Disposals                         | -                           | (372,390)          | (657,843)                    | (51,826)                | (2,106,844)     | (3,188,903) |
| Balance as at 30 June 2020        | 5,128,380                   | 460,378            | 326,693                      | -                       | 338,066         | 6,253,517   |
| <b>Accumulated depreciation</b>   |                             |                    |                              |                         |                 |             |
| Balance as at 1 July 2018         | -                           | (194,578)          | (472,276)                    | (67,809)                | (1,689,783)     | (2,424,446) |
| <b>Year ended 30 June 2019</b>    |                             |                    |                              |                         |                 |             |
| Depreciation charge               | -                           | (61,358)           | (89,503)                     | (609)                   | (240,464)       | (391,934)   |
| Depreciation released on disposal | -                           | -                  | 89                           | 16,592                  | 4,983           | 21,664      |
| Balance as at 30 June 2019        | -                           | (255,936)          | (561,690)                    | (51,826)                | (1,925,264)     | (2,794,716) |
| <b>Year ended 30 June 2020</b>    |                             |                    |                              |                         |                 |             |
| Depreciation charge               | -                           | (44,382)           | (43,822)                     | -                       | (96,180)        | (184,384)   |
| Depreciation released on disposal | -                           | 164,431            | 488,819                      | 51,826                  | 1,856,111       | 2,561,187   |
| Balance as at 30 June 2020        | -                           | (135,887)          | (116,693)                    | -                       | (165,333)       | (417,913)   |
| <b>As at 30 June 2019</b>         | 950,862                     | 405,481            | 271,214                      | -                       | 351,006         | 1,978,563   |
| <b>As at 30 June 2020</b>         | 5,128,380                   | 324,491            | 210,000                      | -                       | 172,733         | 5,835,604   |

**Emerge Aotearoa Group**  
**Notes to the financial statements**  
**30 June 2020**

**11 Intangible assets**

|                                   | Computer Software    |
|-----------------------------------|----------------------|
|                                   | \$                   |
| <b>Cost</b>                       |                      |
| Balance as at 1 July 2018         | 1,374,839            |
| <b>Year ended 30 June 2019</b>    |                      |
| Additions                         | -                    |
| Balance as at 30 June 2019        | <u>1,374,839</u>     |
| <b>Year ended 30 June 2020</b>    |                      |
| Additions                         | 28,814               |
| Disposals                         | (1,334,091)          |
| Balance as at 30 June 2020        | <u>69,562</u>        |
| <b>Accumulated Amortisation</b>   |                      |
| Balance as at 1 July 2018         | (1,281,151)          |
| <b>Year ended 30 June 2019</b>    |                      |
| Amortisation charge               | (59,306)             |
| Balance as at 30 June 2019        | <u>(1,340,457)</u>   |
| <b>Year ended 30 June 2020</b>    |                      |
| Amortisation charge               | (25,129)             |
| Amortisation released on disposal | 1,303,523            |
| Balance as at 30 June 2020        | <u>(62,063)</u>      |
| <b>As at 30 June 2019</b>         | <u><u>34,382</u></u> |
| <b>As at 30 June 2020</b>         | <u><u>7,499</u></u>  |

**Emerge Aotearoa Group**  
**Notes to the financial statements**  
**30 June 2020**

**12 Land and buildings**

|  | Property<br>Held for Sale | Social<br>Housing<br>Land | Social<br>Housing<br>Buildings | Service<br>Property<br>Land | Service<br>Property<br>Buildings | Total      |
|--|---------------------------|---------------------------|--------------------------------|-----------------------------|----------------------------------|------------|
| <b>Cost</b>                                |                           |                           |                                |                             |                                  |            |
| Balance as at 1 July 2018                  | -                         | 13,945,746                | 6,181,712                      | 14,203,786                  | 8,135,162                        | 42,466,406 |
| <b>Year ended 30 June 2019</b>             |                           |                           |                                |                             |                                  |            |
| Additions                                  | -                         | -                         | -                              | -                           | -                                | -          |
| Revaluation                                |                           | 24,254                    | 23,288                         | 4,000,142                   | 540,087                          | 4,587,771  |
| Balance as at 30 June 2019                 | -                         | 13,970,000                | 6,205,000                      | 18,203,928                  | 8,675,249                        | 47,054,177 |
| <b>Year ended 30 June 2020</b>             |                           |                           |                                |                             |                                  |            |
| Additions                                  | -                         | -                         | -                              | -                           | -                                | -          |
| Disposals                                  |                           |                           |                                |                             | (25,197)                         | (25,197)   |
| Reclass Properties Held For Sale           | 2,190,000                 | (1,200,000)               | (990,000)                      |                             |                                  | -          |
| Revaluation                                | (129,721)                 |                           |                                | 1,236,072                   | 1,691,194                        | 2,797,545  |
| Balance as at 30 June 2020                 | 2,060,279                 | 12,770,000                | 5,215,000                      | 19,440,000                  | 10,341,246                       | 49,826,525 |
| <b>Accumulated Depreciation</b>            |                           |                           |                                |                             |                                  |            |
| Balance as at 1 July 2018                  | -                         | -                         | (30,573)                       | -                           | (526,178)                        | (556,751)  |
| <b>Year ended 30 June 2019</b>             |                           |                           |                                |                             |                                  |            |
| Depreciation                               |                           |                           | (149,053)                      |                             | (195,548)                        | (344,601)  |
| Depreciation write back on revalued assets |                           |                           | 35,377                         |                             | 441,481                          | 476,858    |
| Balance as at 30 June 2019                 | -                         | -                         | (144,249)                      | -                           | (280,245)                        | (424,494)  |
| <b>Year ended 30 June 2020</b>             |                           |                           |                                |                             |                                  |            |
| Depreciation                               | (24,161)                  |                           | (124,719)                      |                             | (237,456)                        | (386,336)  |
| Depreciation Released On Disposal          |                           |                           |                                |                             | 9,404                            | 9,404      |
| Reclass Properties Held For Sale           | -                         |                           |                                |                             |                                  | -          |
| Depreciation write back on revalued assets | 24,161                    |                           |                                |                             | 302,241                          | 326,402    |
| Balance as at 30 June 2020                 | -                         | -                         | (268,968)                      | -                           | (206,056)                        | (475,024)  |
| <b>Closing Value</b>                       |                           |                           |                                |                             |                                  |            |
| As at 30 June 2019                         | -                         | 13,970,000                | 6,060,751                      | 18,203,928                  | 8,395,004                        | 46,629,683 |
| As at 30 June 2020                         | 2,060,279                 | 12,770,000                | 4,946,032                      | 19,440,000                  | 10,135,190                       | 49,351,501 |

|  | Consolidated     |                  |
|--|------------------|------------------|
| Gain on property revaluation represented by: | 2020             | 2019             |
|  | \$               | \$               |
| Revaluation of cost                          | 2,740,658        | 4,644,658        |
| Disposals of cost upon revaluation           | (60,179)         | (103,341)        |
| Depreciation write back on revalued assets   | 326,402          | 476,858          |
| <b>Total Gain on property revaluation</b>    | <b>3,006,881</b> | <b>5,018,175</b> |

Properties were independently valued as at 30 June 2020 by The Property Group Ltd. Fair 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 knowledgeably, prudently and without compulsion"

**Emerge Aotearoa Group**  
**Notes to the financial statements**  
**30 June 2020**

**12 Land and buildings (continued)**

Any other assets (such as improvements) previously recognised at cost less accumulated depreciation that are included as part of the revaluation of buildings are identified and disposed of against the asset revaluation reserve. This does not include any chattels held at these revalued buildings.

| Property held for sale represented by:      | 2020             | 2019     |
|---|------------------|----------|
|   | \$               | \$       |
| 218 Greenhithe Rd, Auckland                 | 1,217,805        | -        |
| 18 Exeter Pl, Rotorua                       | 842,474          | -        |
| <b>Book Value of property held for sale</b> | <b>2,060,279</b> | <b>-</b> |

218 Greenhithe Rd, Auckland and 18 Exeter Pl, Rotorua were subsequently sold on 31 July 2020 and 4 September 2020, respectively. They were therefore revalued to their sale price less costs of disposal to accurately reflect their fair value at 30 June 2020.

**13 Trade and other payables**

|   | Consolidated     |                  |
|---|------------------|------------------|
|   | 2020             | 2019             |
|   | \$               | \$               |
| Trade payables                            | 1,294,439        | 1,407,466        |
| Accrued expenses                          | 490,919          | 384,711          |
| GST payable                               | 818,043          | 1,440,395        |
| Other payables                            | 664,173          | 978,615          |
| <b>Total creditors and other payables</b> | <b>3,267,574</b> | <b>4,211,187</b> |

**14 Employee benefits liabilities**

|                                 | Consolidated     |                  |
|---------------------------------|------------------|------------------|
|                                 | 2020             | 2019             |
|                                 | \$               | \$               |
| Annual leave & Alternative days | 3,495,533        | 2,791,018        |
| Pay Equity Funding Payable      | 191,069          | 394,859          |
| Accrued wages and salaries      | 1,673,498        | 1,100,135        |
| PAYE and kiwi saver             | 700,002          | 604,635          |
| ACC                             | 233,059          | 303,676          |
| <b>Total current portion</b>    | <b>6,293,161</b> | <b>5,194,323</b> |

**15 Interest bearing liabilities**

|  | Consolidated     |                  |
|--|------------------|------------------|
|  | 2020             | 2019             |
|  | \$               | \$               |
| <b>Current portion - secured</b>                                 |                  |                  |
| Westpac Limited Loan   | -                | 604,984          |
| Housing New Zealand Loans  | 54,005           | 47,468           |
| <b>Total current secured current interest bearing borrowings</b> | <b>54,005</b>    | <b>652,452</b>   |
| <b>Non-current portion - secured</b>                             |                  |                  |
| Westpac Limited Loan   | -                | -                |
| Housing New Zealand Loans  | 1,352,292        | 1,453,971        |
| <b>Total secured non-current interest bearing borrowings</b>     | <b>1,352,292</b> | <b>1,453,971</b> |
| <b>Total secured interest bearing borrowings</b>                 | <b>1,406,297</b> | <b>2,106,423</b> |

## 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-Oct-19     | 700,000     | Interest only          | Floating         | 5.40%         | \$ -             |
| 2 | 24-Apr-14     | 24-Oct-19     | 300,000     | Interest only          | Floating         | 5.40%         | \$ -             |
| 3 | 4-Jun-14      | 4-Oct-19      | 600,000     | Interest only          | Floating         | 6.34%         | \$ 2,737         |
| 4 | 11-Nov-14     | 4-Oct-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.

All four Westpac loans have been repaid in full.

### 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 and Interest | 26-Sep-17             | 3.29%         | \$ 1,236         |
| 2  | 9-Nov-07      | 8-Nov-32      | 309,383     | Principal and Interest | 27-Mar-18             | 3.29%         | \$ 1,180         |
| 3  | 14-Mar-08     | 13-Mar-33     | 283,684     | Principal and Interest | 14-Mar-18             | 3.29%         | \$ 1,345         |
| 4  | 22-May-08     | 21-May-33     | 291,014     | Principal and Interest | 22-May-18             | 4.95%         | \$ 970           |
| 5  | 30-Jun-08     | 29-Jun-33     | 226,651     | Principal and Interest | 30-Jun-18             | 3.29%         | \$ 954           |
| 6  | 31-May-09     | 24-May-34     | 308,853     | Principal and Interest | 31-May-19             | 3.29%         | \$ 1,253         |
| 7  | 17-Jul-09     | 28-Aug-34     | 371,460     | Principal and Interest | 1-Sep-19              | 4.29%         | \$ 1,239         |
| 8  | 5-Aug-09      | 28-Aug-34     | 244,034     | Principal and Interest | 1-Oct-19              | 4.15%         | \$ 1,100         |
| 9  | 29-Apr-10     | 29-Apr-35     | 75,653      | Principal and Interest | 1-May-20              | 3.29%         | \$ 318           |
| 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.

**Emerge Aotearoa Group**  
**Notes to the financial statements**  
**30 June 2020**

**16 Other non-current liabilities**

|                           | Consolidated |         |
|---------------------------|--------------|---------|
|                           | 2020         | 2019    |
|                           | \$           | \$      |
| Housing New Zealand grant | 715,915      | 766,663 |

Housing New Zealand Corporation (the lender) has conditionally granted \$715,915 (2019: \$766,663) 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      |                   |
|--------------------------------|-------------------|-------------------|
|                                | 2020              | 2019              |
|                                | \$                | \$                |
| <b>Retained earnings</b>       |                   |                   |
| Balance at 1 July              | 43,466,182        | 34,478,338        |
| Surplus/(deficit) for the year | 10,017,402        | 8,987,844         |
| <b>Balance 30 June</b>         | <b>53,483,584</b> | <b>43,466,182</b> |
| <b>Reserves</b>                |                   |                   |
| Asset revaluation Reserve      | 28,442,172        | 25,435,291        |
| Special fund                   | 51,079            | 52,300            |
| Pre -acquisition Profits       | 19,915,228        | 19,915,228        |
| <b>Total reserves</b>          | <b>48,408,479</b> | <b>45,402,819</b> |

**(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.



## **18 Capital commitments and operating leases**

As at 30 June 2020 the Trust committed \$6,642,000 by way of a signed a purchase agreement for 6 one bedroom units and 9 two bedroom units in Manurewa. The deposit \$738,000 (2019: \$738,000) for this project has been recognised as assets in progress.

The Trust also has entered into a development agreement with Modus Group Limited for the acquisition of land, development and construction of 16 one bedroom units in Manurewa. The total development project shall not exceed \$6,911,999. The deposit and the ongoing progress payments for construction as at 30 June 2020 is \$3,308,000 (2019: \$Nil). This has been recognised as assets in progress.

The Trust has also letter of support from Westpac to support the capital requirements and an 25 year service agreement with the Ministry of Housing and Urban Development to facilitate the repayments of market rent. (2019: \$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.

|   | <b>Consolidated</b> |                   |
|---|---------------------|-------------------|
|   | <b>2020</b>         | <b>2019</b>       |
|   | <b>\$</b>           | <b>\$</b>         |
| Not later than one year                           | 10,709,519          | 7,626,512         |
| Later than one year and not later than five years | 9,732,037           | 4,275,287         |
| Later than five years                             | -                   | -                 |
| <b>Total non-cancellable operating leases</b>     | <b>20,441,556</b>   | <b>11,901,799</b> |

The Group leases residential properties for use by its service recipients. Residential property held as periodic arrangements or leases without any agreed fixed term commitments 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 2020 the Group had no contingent liabilities or assets (2019: \$Nil).

## 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      |                  |
|--|-------------------|------------------|
|  | 2020              | 2019             |
|  | \$                | \$               |
| <b>Surplus/(deficit)</b>                                       | <b>10,017,402</b> | <b>8,987,844</b> |
| <b>Add/(less) non-cash items</b>                               |                   |                  |
| Depreciation and amortisation expense                          | 585,192           | 795,831          |
| Movements in doubtful debts                                    | 19,446            | 17,009           |
| Amortised interest free period                                 | -                 | 60,892           |
| Increase in reserves   | -                 | (354)            |
| (Gains) / losses on disposal of property, plant, and equipment | 507,761           | 25,822           |
| (Gains) / losses on fair value of investments                  | 1,040             | (935,323)        |
| <b>Total non-cash items</b>                                    | <b>1,113,439</b>  | <b>(36,123)</b>  |
| <b>Add/(less) movements in working capital items</b>           |                   |                  |
| (Increase) / decrease in receivables                           | (720,369)         | 3,186,912        |
| Increase / (decrease) in payables                              | (716,308)         | 715,400          |
| Increase / (decrease) in income in advance                     | 332,783           | 400,072          |
| Increase / (decrease) in employee entitlements                 | 1,380,781         | (3,801,983)      |
| Increase / (decrease) in other non current liabilities         | (50,748)          | (50,706)         |
| (Increase) / decrease in current tax receivables               | -                 | -                |
| <b>Total movements in working capital</b>                      | <b>226,139</b>    | <b>449,695</b>   |
| <b>Net cash inflow/(outflow) from operating activities</b>     | <b>11,356,980</b> | <b>9,401,416</b> |

## 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.

| 2020                         | -1%              |              | +1%            |            |
|------------------------------|------------------|--------------|----------------|------------|
| Interest rate sensitivity    | Surplus          | Equity       | Surplus        | Equity     |
| <b>Financial assets</b>      |                  |              |                |            |
| Cash and cash equivalents    | (270,373)        | (450)        | 270,373        | 450        |
| <b>Financial liabilities</b> |                  |              |                |            |
| Borrowings                   | 17,884           | -            | (17,884)       | -          |
| <b>Total sensitivity</b>     | <b>(252,489)</b> | <b>(450)</b> | <b>252,489</b> | <b>450</b> |

| 2019                         | -1%              |              | +1%            |            |
|------------------------------|------------------|--------------|----------------|------------|
| Interest rate sensitivity    | Surplus          | Equity       | Surplus        | Equity     |
| <b>Financial assets</b>      |                  |              |                |            |
| Cash and cash equivalents    | (255,765)        | (523)        | 255,765        | 523        |
| <b>Financial liabilities</b> |                  |              |                |            |
| Borrowings                   | 24,954           | -            | (24,954)       | -          |
| <b>Total sensitivity</b>     | <b>(230,811)</b> | <b>(523)</b> | <b>230,811</b> | <b>523</b> |

### (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.

## 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.

| Contractual maturities of financial instruments | Maturity with 1 year | Maturity within 1 to 5 years | Maturity over 5 years | Total             |
|---|----------------------|------------------------------|-----------------------|-------------------|
| <b>As at 30 June 2020</b>                       |                      |                              |                       |                   |
| Trade and other payables                        | (2,449,531)          | -                            | -                     | (2,449,531)       |
| Employee benefits liabilities                   | (6,293,161)          | -                            | -                     | (6,293,161)       |
| Interest bearing liabilities                    | (54,005)             | (111,820)                    | (1,240,472)           | (1,406,297)       |
| Cash and cash equivalents                       | 13,528,388           | -                            | -                     | 13,528,388        |
| Receivables & other receivables                 | 11,585,999           | -                            | -                     | 11,585,999        |
| Investment portfolio                            | 11,748,125           | -                            | -                     | 11,748,125        |
| Other financial assets                          | 23,357,051           | -                            | -                     | 23,357,051        |
| <b>Total financial instruments</b>              | <b>51,422,866</b>    | <b>(111,820)</b>             | <b>(1,240,472)</b>    | <b>50,070,574</b> |

|                                    | Maturity with 1 year | Maturity within 1 to 5 years | Maturity over 5 years | Total             |
|------------------------------------|----------------------|------------------------------|-----------------------|-------------------|
| <b>As at 30 June 2019</b>          |                      |                              |                       |                   |
| Trade and other payables           | (2,770,792)          | -                            | -                     | (2,770,792)       |
| Employee benefits liabilities      | (5,194,323)          | -                            | -                     | (5,194,323)       |
| Interest bearing liabilities       | (652,452)            | (129,990)                    | (1,323,981)           | (2,106,423)       |
| Cash and cash equivalents          | 7,126,731            | -                            | -                     | 7,126,731         |
| Receivables & other receivables    | 11,268,235           | -                            | -                     | 11,268,235        |
| Investment portfolio               | 8,190,242            | -                            | -                     | 8,190,242         |
| Other financial assets             | 27,294,621           | -                            | -                     | 27,294,621        |
| <b>Total financial instruments</b> | <b>45,262,262</b>    | <b>(129,990)</b>             | <b>(1,323,981)</b>    | <b>43,808,291</b> |

### (d) Financial instrument categories

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

|  | Consolidated      |                   |
|--|-------------------|-------------------|
|  | 2020              | 2019              |
|  | \$                | \$                |
| <b>Financial Assets</b>  |                   |                   |
| <b>Loans and receivables</b>   |                   |                   |
| Cash and cash equivalents  | 13,528,388        | 7,126,731         |
| Receivables & other receivables  | 11,585,999        | 11,268,235        |
| <b>Total loans and receivables</b>                                     | <b>25,114,387</b> | <b>18,394,966</b> |
| <b>Financial assets at fair value through surplus or deficit</b>       |                   |                   |
| Investment portfolio*  | 11,748,125        | 8,190,242         |
| <b>Total financial assets at fair value through surplus or deficit</b> | <b>11,748,125</b> | <b>8,190,242</b>  |
| <b>Held to maturity investments</b>                                    |                   |                   |
| Other financial assets*  | 23,357,051        | 27,294,621        |
| <b>Total Held to maturity investments</b>                              | <b>23,357,051</b> | <b>27,294,621</b> |
| <b>Financial Liabilities</b>   |                   |                   |
| <b>Financial liabilities at amortised cost</b>                         |                   |                   |
| Trade and other payables   | 2,449,531         | 2,770,792         |
| Employee benefits liabilities  | 6,293,161         | 5,194,323         |
| Interest bearing liabilities   | 1,406,297         | 2,106,423         |
| <b>Total financial liabilities at amortised cost</b>                   | <b>10,148,989</b> | <b>10,071,536</b> |

\* these assets are classified as other financial assets in the statement of financial position.

## 22 Financial instruments (continued)

### (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      |                   |
|------------------------|-------------------|-------------------|
|                        | 2020              | 2019              |
|                        | \$                | \$                |
| <b>Level 1</b>         |                   |                   |
| Investment portfolio   | 11,748,125        | 8,190,242         |
| Other financial assets | 23,357,051        | 27,294,621        |
| <b>Total Level 1</b>   | <u>35,105,176</u> | <u>35,484,863</u> |
| <b>Total Level 2</b>   | <u>-</u>          | <u>-</u>          |
| <b>Total Level 3</b>   | <u>-</u>          | <u>-</u>          |

## 23 Related party transactions

|  | <b>Members</b> |         | <b>Compensation</b>  |                      |
|--|----------------|---------|----------------------|----------------------|
|  | 2020           | 2019    | 2020                 | 2019                 |
|  | \$             | \$      | \$                   | \$                   |
| <b>Key management personnel compensation</b>       |                |         |                      |                      |
| Emerge Aotearoa Trust                              | 7              | 7       | 46,078               | 21,250               |
| Emerge Aotearoa Limited                            | 8              | 7       | 143,103              | 170,000              |
| Emerge Aotearoa Housing Trust                      | 6              | 8       | 56,284               | 33,250               |
| Mind and Body Consultants Limited                  | 4              | 5.5     | 12,000               | 4,000                |
| Ignite Aotearoa Limited                            | 3              | 4.5     | 6,000                | 1,500                |
| Recovery Solutions Group                           | 7              | 7       | -                    | -                    |
| Recovery Solutions Services Limited                | 7              | 7       | -                    | -                    |
| <br>Group Executive Team                           | <br>4.8        | <br>4.5 | <br><u>1,225,095</u> | <br><u>1,151,431</u> |
| <b>Total key management personnel compensation</b> |                |         | <u>1,488,560</u>     | <u>1,381,431</u>     |

| <b>Transactions with related parties</b> |                               | <b>Payments/(invoices) made during year</b> |              | <b>Payable/(receivable) at period end</b> |             |
|--|-------------------------------|---|--------------|---|-------------|
| <b>Related party</b>                     | <b>Nature of transaction</b>  | <b>2020</b>                                 | <b>2019</b>  | <b>2020</b>                               | <b>2019</b> |
|  |                               | \$  | \$           | \$  | \$          |
| Platform Trust                           | Membership fees               | 7,750                                       | 7,500        | 750                                       | -           |
| Vaka Tautua Limited                      | Service delivery for contract | 231,355                                     | 376,275      | 73,401                                    | -           |
| Counties Manukau DHB                     | Service delivery for contract | (9,661,281)                                 | (10,632,149) | (855,409)                                 | (937,662)   |
| Auckland DHB                             | Service delivery for contract | (7,021,902)                                 | (7,551,225)  | (556,896)                                 | (684,897)   |

All entities listed above are related parties due to the involvement of various Board members within these entities. The arrangements 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 COVID-19**

On 30 January, the World Health Organisation (WHO) officially declared a public health emergency of international concern related to the coronavirus outbreak known as Covid-19.

In response to the outbreak New Zealand was moved to Alert Level 4 on 25 March 2020 (first lock down). This meant a nationwide lockdown, and all non-essential businesses ceased face to face trading.

The impact on the Group from the first lockdown was:

The Group's range of services were reviewed against the Ministry of Health and funding agencies safe practise guidelines. Our business continuity plan was activated, and our staff worked from home where able. Services deemed essential continued to deliver contractual requirements face to face and adopted the infection, prevention and control measures and guidelines from the Ministry of Health. Services deemed non-essential continued to be delivered remotely through technology where possible.

The Group received funding surety from all funders during this period of lock down. This provided the necessary certainty for continuation of contracts and funding. As a result of the funding surety provided, Emerge Aotearoa did not apply for any government subsidies.

The Group did not require any changes to lending terms and conditions. It remained able to meet all repayments and conditions to satisfy the existing loans.

On the 12 of August 2020 (second lock down), Auckland moved to Alert Level 3 and the rest of New Zealand moved to Alert level 2. Emerge Aotearoa implemented the same practises and measures that operated under the first lock down. Funding surety was again provided by funders.

The Group has sufficient cash reserves to maintain current expenditure for at least 12 months from the date of signing these financial statements.

## **25 Events occurring after the balance date**

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