

Jade  
(Ngāti Tai)  
Ara graduate



Institute of Canterbury

Ara rau, taumata rau

# ANNUAL REPORT

for 10 months ended  
31 October 2022

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### **Publication Format**

The 2022 Ara Annual Report has been specifically designed, published and distributed in keeping with our commitment to sustainable principles as a digital publication online.

In line with legislative requirements, a limited number have been printed.

The digital version can be viewed at:

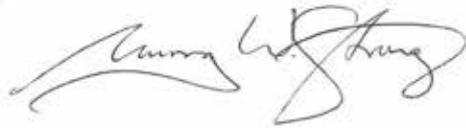
<https://www.ara.ac.nz/about-us/annual-reports/>

## Statement of Responsibility

The Ara Institute of Canterbury Ltd hereby certifies that:

- 1 It has been responsible for the preparation of these financial statements and statement of service performance and judgements used therein; and
- 2 It has been responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and
- 3 It is of the opinion that these Financial Statements and Statement of Service Performance fairly reflect the financial position and operations of the Ara Institute of Canterbury Ltd for the year ended 31 October 2022.

The financial statements were authorised for issue by Te Pūkenga - New Zealand Institute of Skills and Technology Council on 3 May 2023.



**Murray Strong**  
Te Pūkenga Council Chair



**Peter Winder**  
Te Pūkenga Chief Executive

**Statement of Comprehensive Revenue and Expenses**

for the Year Ended 31 October 2022

Notes	Parent			Group			
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000	
<b>Revenue</b>							
Government Grants	2	68,428	73,880	73,197	68,428	73,880	73,197
Student Tuition Fees	2	35,642	38,534	41,577	35,642	38,534	41,577
Other Revenue	2	6,308	7,588	6,962	6,630	7,948	7,365
Finance Revenue	2	1,150	894	563	359	1,636	1,110
Gain on Investment Property Revaluations	2	-	-	-	-	150	620
Gain on Interest Rate Swaps	2	-	-	-	-	-	377
<b>Total Revenue</b>		<b>111,528</b>	<b>120,896</b>	<b>122,299</b>	<b>111,059</b>	<b>122,148</b>	<b>124,246</b>
<b>Operating Expenses</b>							
Employee Benefit Expenses	2	66,074	77,932	76,489	66,074	77,932	76,489
Depreciation Expense	2, 8	9,924	10,975	10,629	10,581	11,695	11,452
Amortisation Expense	2, 9	244	275	534	244	275	534
Finance Costs	2	1,130	1,355	1,373	1,498	1,823	1,825
Other Expenses	2	24,016	28,709	28,339	23,050	27,616	27,275
Transformation Expenses	2	1,495	3,000	1,538	1,495	3,000	1,538
<b>Total Operating Expenses</b>		<b>102,883</b>	<b>122,246</b>	<b>118,902</b>	<b>102,942</b>	<b>122,341</b>	<b>119,113</b>
Share of associate (deficit)/surplus	16	-	-	(405)	-	-	(405)
<b>Net Surplus/(Deficit)</b>		<b>8,645</b>	<b>(1,350)</b>	<b>2,992</b>	<b>8,117</b>	<b>(193)</b>	<b>4,728</b>
<b>Other Comprehensive Revenue and Expenses</b>							
Impairment of Land and Buildings	8	(28,726)	-	-	(28,726)	-	-
Gains on Property Revaluations	8	-	-	50,819	-	-	50,819
<b>Total Other Comprehensive Revenue and Expenses</b>		<b>(28,726)</b>	<b>-</b>	<b>50,819</b>	<b>(28,726)</b>	<b>-</b>	<b>50,819</b>
<b>Total Comprehensive Revenue and Expenses</b>		<b>(20,081)</b>	<b>(1,350)</b>	<b>53,811</b>	<b>(20,609)</b>	<b>(193)</b>	<b>55,547</b>
<b>Net Operating Surplus analysed for non-recurring items</b>							
Notes	Parent			Group			
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000	
<b>Net Operating Surplus</b>	<b>10,140</b>	<b>1,650</b>	<b>4,530</b>	<b>9,612</b>	<b>2,807</b>	<b>6,266</b>	
Transformation Expenses	(1,495)	(3,000)	(1,538)	(1,495)	(3,000)	(1,538)	
<b>Net Surplus/(Deficit)</b>	<b>8,645</b>	<b>(1,350)</b>	<b>2,992</b>	<b>8,117</b>	<b>(193)</b>	<b>4,728</b>	

The accompanying notes form part of these financial statements.

**Statement of Financial Position**

for the Year Ended 31 October 2022

Notes	Parent			Group			
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000	
<b>ASSETS</b>							
<b>Current Assets</b>							
Cash and Cash Equivalents	3, 18	25,276	3,367	11,462	26,934	7,281	12,460
Trade and Other Receivables	4, 18	11,324	2,000	7,407	11,475	2,020	7,575
Inventories	5	1,158	702	1,021	1,158	702	1,021
Prepayments		1,745	2,291	2,941	1,745	2,291	2,941
Other Financial Assets	6, 18	59,300	67,000	58,800	63,700	67,000	63,184
<b>Total Current Assets</b>		<b>98,803</b>	<b>75,360</b>	<b>81,631</b>	<b>105,012</b>	<b>79,294</b>	<b>87,181</b>
<b>Non-Current Assets</b>							
Land and Buildings	8	307,591	317,331	340,804	336,826	348,231	369,640
Plant and Equipment	8	14,669	13,762	14,716	15,046	13,762	15,143
Investment accounted for using the equity method	16	-	1,169	-	-	1,169	-
Other Financial Assets	6	-	-	-	5,847	8,105	7,040
Investment Properties	7	-	-	-	3,615	3,445	4,415
Intangible Assets	9	420	687	665	420	687	665
<b>Total Non-Current Assets</b>		<b>322,860</b>	<b>332,949</b>	<b>356,185</b>	<b>361,754</b>	<b>375,399</b>	<b>396,903</b>
<b>TOTAL ASSETS</b>		<b>421,483</b>	<b>408,309</b>	<b>437,816</b>	<b>466,766</b>	<b>454,693</b>	<b>484,084</b>
<b>LIABILITIES</b>							
<b>Current Liabilities</b>							
Trade and Other Payables	10, 18	4,711	5,000	6,129	4,920	5,048	6,324
Finance Leases Current	11	886	668	860	886	668	860
Loans and Borrowings	11	-	-	-	560	-	560
Employee Benefit Liabilities	12	7,899	4,446	4,008	7,899	4,446	4,008
Revenue Received in Advance	13	8,273	10,325	6,808	8,273	10,325	6,808
<b>Total Current Liabilities</b>		<b>21,769</b>	<b>20,439</b>	<b>17,805</b>	<b>22,538</b>	<b>20,487</b>	<b>18,560</b>
<b>Non-Current Liabilities</b>							
Finance Lease Non-current	11	25,064	24,275	25,276	25,064	24,275	25,276
Loans and Borrowings	11	-	-	-	10,031	10,498	10,498
Employee Benefit Liabilities Non-current	12	226	228	229	226	228	229
Interest Rate Swaps		-	-	-	22	-	23
<b>Total Non-Current Liabilities</b>		<b>25,290</b>	<b>24,503</b>	<b>25,505</b>	<b>35,343</b>	<b>35,002</b>	<b>36,026</b>
<b>TOTAL LIABILITIES</b>		<b>47,059</b>	<b>44,942</b>	<b>43,310</b>	<b>57,881</b>	<b>55,489</b>	<b>54,586</b>
<b>NET ASSETS</b>		<b>374,424</b>	<b>363,367</b>	<b>394,506</b>	<b>408,885</b>	<b>399,204</b>	<b>429,498</b>
<b>EQUITY</b>							
Accumulated Comprehensive Revenue and Expense		248,128	240,424	239,488	269,510	262,159	259,804
Asset Revaluation Reserve		125,461	122,102	154,187	138,540	136,204	168,864
Trusts and Bequests Reserves		835	841	831	835	841	830
<b>TOTAL EQUITY</b>		<b>374,424</b>	<b>363,367</b>	<b>394,506</b>	<b>408,885</b>	<b>399,204</b>	<b>429,498</b>

The accompanying notes form part of these financial statements.

**Statement of Cash Flows**

for the Year Ended 31 October 2022

Notes	Parent			Group			
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000	
<b>Cash Flows from Operating Activities</b>							
Receipts of Government Grants	62,092	76,280	73,105	62,092	76,280	73,105	
Receipts of Student Tuition Fees	36,586	38,363	38,572	36,586	38,363	38,572	
Receipts of Other Income	9,412	7,552	3,776	9,727	7,912	4,175	
Interest Received	878	912	604	1,012	947	686	
Payments to Employees	(62,186)	(74,046)	(76,095)	(62,186)	(74,046)	(76,095)	
Payments to Suppliers	(24,375)	(32,401)	(28,876)	(23,408)	(31,308)	(27,803)	
Payments relating to transformation costs	(1,495)	(3,003)	(1,538)	(1,495)	(3,003)	(1,538)	
Interest Paid	-	-	-	(368)	(453)	(451)	
<b>Net Cash Flows from Operating Activities</b>	<b>3</b>	<b>20,912</b>	<b>13,657</b>	<b>9,548</b>	<b>21,960</b>	<b>14,692</b>	<b>10,651</b>
<b>Cash Flows from Investing Activities</b>							
Proceeds from Sale of Property, Plant and Equipment	108	56	76	108	56	76	
Proceeds from Sale and Maturity of Investments	58,800	(10,000)	58,800	59,100	(10,000)	58,800	
Proceeds from Sale of Investment Property	-	-	-	800	-	-	
Investment in Term Deposits	-	-	-	(16)	-	(348)	
Purchase of Intangible Assets	-	(182)	(6)	-	(182)	(6)	
Purchase of Property, Plant and Equipment	(4,699)	(18,480)	(6,786)	(5,704)	(20,320)	(6,868)	
Purchase of Investments	(59,300)	-	(55,401)	(59,300)	-	(56,074)	
<b>Net Cash Flows from Investing Activities</b>	<b>(5,091)</b>	<b>(28,606)</b>	<b>(3,317)</b>	<b>(5,012)</b>	<b>(30,446)</b>	<b>(4,420)</b>	
<b>Cash Flows from Financing Activities</b>							
Repayments of Loans and Borrowings	-	-	-	(467)	(559)	(560)	
Repayment of Finance Lease Liabilities	(2,007)	(2,327)	(2,403)	(2,007)	(2,327)	(2,403)	
<b>Net Cash Flows from Financing Activities</b>	<b>(2,007)</b>	<b>(2,327)</b>	<b>(2,403)</b>	<b>(2,474)</b>	<b>(2,886)</b>	<b>(2,963)</b>	
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>	<b>13,814</b>	<b>(17,276)</b>	<b>3,828</b>	<b>14,474</b>	<b>(18,640)</b>	<b>3,268</b>	
Cash and Cash Equivalents at the beginning of the year	11,462	20,643	7,634	12,460	25,921	9,192	
<b>Cash and Cash Equivalents at the end of the period</b>	<b>3</b>	<b>25,276</b>	<b>3,367</b>	<b>11,462</b>	<b>26,934</b>	<b>7,281</b>	<b>12,460</b>

The accompanying notes form part of these financial statements.

**Statement of Changes in Equity**

for the Year Ended 31 October 2022

Notes	Parent			Group		
	Actual 10 months ended 31 Oct 2022	Budget 12 months ended 31 Dec 2022	Actual 12 months ended 31 Dec 2021	Actual 10 months ended 31 Oct 2022	Budget 12 months ended 31 Dec 2022	Actual 12 months ended 31 Dec 2021
	\$000	\$000	\$000	\$000	\$000	\$000
Opening balance	394,505	364,717	341,459	429,493	399,397	374,715
Total Comprehensive Revenue and Expenses	8,645	(1,350)	53,811	8,117	(193)	55,547
Transfer of shares in associates - TANZ eCampus	-	-	(764)	-	-	(764)
Impairment of Property Plant and Equipment	(28,726)	-	-	(28,726)	-	-
<b>Closing Balance</b>	<b>374,424</b>	<b>363,367</b>	<b>394,506</b>	<b>408,884</b>	<b>399,204</b>	<b>429,498</b>

**By Class****Accumulated comprehensive revenue and expense**

Opening balance	239,488	241,774	237,243	261,399	262,352	255,822
Net Surplus/(Deficit) for the period	8,645	(1,350)	2,992	8,118	(193)	4,728
TANZ eCampus Amalgamation	-	-	(764)	-	-	(764)
Appropriation of Net Surplus from(to) Restricted Reserves	(5)	-	17	(8)	-	17
<b>Closing Balance</b>	<b>248,128</b>	<b>240,424</b>	<b>239,488</b>	<b>269,509</b>	<b>262,159</b>	<b>259,804</b>

**Trusts and Bequests Reserves**

Opening Balance	831	841	848	831	841	848
Appropriation of Net Surplus	14	-	5	14	-	5
Application of Trusts and Bequests	(10)	-	(22)	(10)	-	(22)
<b>Closing Balance</b>	<b>835</b>	<b>841</b>	<b>831</b>	<b>835</b>	<b>841</b>	<b>830</b>

Restricted reserves consist of scholarships, bequests and trust funds held by the Institute on behalf of others.

**Asset Revaluation Reserve**

Opening Balance	154,187	122,102	103,368	167,267	136,204	118,045
Revaluation of Land and Buildings	-	-	50,819	-	-	50,819
Impairment of Land and Buildings	(28,727)	-	-	(28,727)	-	-
<b>Closing Balance</b>	<b>125,461</b>	<b>122,102</b>	<b>154,187</b>	<b>138,540</b>	<b>136,204</b>	<b>168,864</b>

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another.

Asset Revaluation Reserve is comprised of:

Land	64,833	46,839	64,833	72,260	46,839	73,857
Buildings	60,628	75,263	89,354	66,280	89,365	95,007
<b>Total</b>	<b>125,461</b>	<b>122,102</b>	<b>154,187</b>	<b>138,540</b>	<b>136,204</b>	<b>168,864</b>

The accompanying notes form part of these financial statements.

**Statement of Childcare Operating Income and Expenditure**

for the Year Ended 31 October 2022

	<b>Actual 10 mths ended 31 Oct 2022</b>	<b>Budget 12 mths ended 31 Dec 2022</b>	<b>Actual 12 mths ended 31 Dec 2021</b>
<b>Revenue</b>			
Operating Grants	337,508	527,196	499,515
Fees	131,419	212,214	171,660
<b>Total</b>	<b>468,927</b>	<b>739,410</b>	<b>671,175</b>
<b>Expenditure</b>			
Salaries and Related Costs	504,114	678,069	626,729
Consumables	2,411	4,971	5,142
Administration	8,157	14,113	13,728
Occupancy Costs	48,475	58,168	58,000
Depreciation	1	1,369	-
<b>Total</b>	<b>563,158</b>	<b>756,690</b>	<b>703,599</b>
<b>Net (Deficit)</b>	<b>(94,231)</b>	<b>(17,280)</b>	<b>(32,424)</b>
<b>Total Child Funded Hours</b>			
	<b>Oct 2022</b>		<b>2021</b>
Children Aged Under Two	6,879		10,228
Children Aged Two and Over	9,193		9,104
20 Hours ECE	18,916		25,415
Plus 10 Subsidy	2,418		2,961
<b>Total</b>	<b>37,406</b>		<b>47,708</b>

## Notes to the Financial Statements

### 1 General Information

#### 1.1 Reporting Entity

Ara Institute of Canterbury Limited (Ara or the Institute) is a Crown entity subsidiary that is domiciled and operates in New Zealand. The Institute was established on 1 April 2020 and its immediate controlling entity is Te Pūkenga— New Zealand Institute of Skills and Technology, and the ultimate controlling entity is the New Zealand Crown. The relevant legislation governing the Institute's operations includes the Education and Training Act 2020, the Crown Entities Act 2004, and the Companies Act 1993.

The financial statements are for Ara, its subsidiaries, its associate and its joint venture (together, the Group).

Ara and the Group provide educational and research services for the benefit of the community. It does not operate to make a financial return. Accordingly, Ara has designated itself and the Group as public benefit entities (PBEs) for financial reporting purposes.

The financial statements of Ara and Group are for the 10 months ended 31 October 2022, with the comparative reporting period being the year ended 31 December 2022. The financial statements were authorised for issue by the Te Pūkenga on 3 May 2023.

#### 1.2 Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the Education and Training Act 2020 and the Crown Entities Act 2004, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

The Minister of Education announced the Government's decisions on the Reform of Vocational Education proposals on 1 August 2019, and has since enacted the Education (Vocational Education and Training Reform) Amendment Act (the Act) on 24 February 2020 to give effect to those reforms.

In essence, the Act reforms the delivery of vocational education in New Zealand by creating a new Crown entity, Te Pūkenga and converting all existing institutes of technology and polytechnics (ITPs) into crown entity companies, which will take over the operational activities of existing ITPs. On 1 April 2020, all assets and liabilities were transferred to the new entity Ara Institute of Canterbury Limited.

The Education and Training Act 2020 (the Act) states that each Te Pūkenga subsidiary would continue in existence until the close of 31 December 2022, or at an earlier date as resolved by Te Pūkenga. Te Pūkenga resolved to disestablish Ara Institute of Canterbury Limited on 31 October 2022, at which point all the rights, assets, and liabilities of Ara were transferred to Te Pūkenga. As a result, the financial statements have been prepared on a disestablishment basis. However, because the education services will continue to be provided by Te Pūkenga, no changes have been made to the recognition and measurement basis, or presentation of assets and liabilities in these financial statements due to the disestablishment basis of preparation.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000). The functional and presentation currency of Ara and the Group is New Zealand dollars (\$).

#### 1.3 Budget Figures

The budget figures for Ara are those approved by the Board prior to the beginning of the 2022 financial year. The Group budget figures consists of a combination of the budget of Ara and the individual budgets of the Institute's subsidiaries. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Ara in preparing these financial statements.

#### 1.4 Group Structure

##### Subsidiaries

Ara has the following subsidiaries: Ara Foundation and Ōtautahi Education Development Trust (OEDT). All subsidiaries are incorporated and domiciled in New Zealand.

##### Associate

Ara holds a 16.7% equity share of its associate TANZ eCampus Limited. On 1 December 2021, TANZ eCampus Limited became a business division of the Open Polytechnic of New Zealand Limited. Consequently, Ara's equity share of the entity ceased on 30 November 2021. The financial statements have been prepared to reflect this.

##### Joint Operation

Ara holds its 50% interest in the Health Precinct lease by way of a joint operation. Ara has determined that its interest in the jointly controlled asset constitutes a joint operation, as both parties to the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Ara recognises its share of assets, liabilities, revenue and expenses of the joint operation. For further details of the lease, refer to note 11.

##### Principles of Consolidation

Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent. Subsidiaries are consolidated by aggregating like items of assets, liabilities, revenues, expenses and cash flows on a line-by-line basis. The balances and transactions between subsidiaries and the Parent are eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Ara has control.

An associate is an entity over which the Parent has significant influence and that is neither a subsidiary nor an interest in a joint operation. The Parent's associate investment is accounted for in the Group financial statements using the equity method. The investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of the change in net assets of the associate after the date of acquisition. The Group's share of the associate's surplus or deficit is recognised in the Group surplus or deficit. Distributions received from an associate reduce the carrying amount of the investment in the Group financial statements.

Accordingly, the results of Ara, the Ara Foundation and OEDT have been consolidated into Ara's financial statements for the 10 months ended 31 October 2022. Its 16.7% equity share of its associate TANZ eCampus Limited has been equity accounted until the change (as noted above) on 30 November 2021. Its joint operation with CDHB is accounted for as noted under 'Joint Operation' above.

## Notes to the Financial Statements

### 1 General Information (continued)

#### 1.5 New Standards

##### Standards issued and adopted

###### *Financial Instruments*

Ara and the Group had early adopted PBE IPSAS 41 Financial Instruments for the year ended 31 December 2021. Any recognition and disclosures requirements were undertaken then.

###### *Leases*

Ara and the Group had early adopted PBE IPSAS 13 Lease for the year ended 31 December 2021 and assessed no impacts on the financials.

##### Standards issued and not yet effective and not early adopted

###### *Service Performance Reporting*

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for year ended 31 December 2023, with early application permitted. Ara and the Group has not yet assessed in detail the impact of PBE FRS 48 on its Statement of Service Performance.

#### 1.6 Summary of Significant Accounting Policies

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below:

##### Foreign currency transactions

Foreign exchange transactions are translated into New Zealand dollars (the functional currency) using the exchange rates prevailing at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

##### Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of GST, except for trade receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

##### Taxation

Ara and the Group are exempt from the payment of income tax as it is classified by the IRD as a charitable organisation. Accordingly, no charge for income tax applies or has been provided for.

##### Share Capital

On 1 April 2020, the Institute issued 100 shares to Te Pūkenga in accordance with clause 20(1)(c) of Schedule 1 to the Education and Training Act 2020. Each share carries one vote and an equal share in dividends and distribution of the Institute's surplus assets. These shares do not have a nominal or par value.

##### Critical accounting judgements, estimates and assumptions

In preparing these financial statements, Ara has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are:

- Estimating the fair value of land, buildings and infrastructure - refer to note 8.
- Long service leave - refer to note 12.

Management has exercised the following critical judgements in applying accounting principles:

- Crown owned land and buildings - refer to note 8.
- Accounting treatment of the Manawa lease - refer to Note 11.

##### Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impractical to do so.

## Notes to the Financial Statements

### 2 Revenue and Expenses

#### Revenue Accounting Policy

##### Revenue classification

Revenue is measured at fair value. Ara classifies its revenue into exchange and non-exchange transactions.

##### Exchange transactions

An exchange transaction is one in which Ara receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

##### Non-exchange transactions

A non-exchange transaction is one in which Ara either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. Included in this category are transfers, which are inflows of future economic benefits or service potential from non-exchange transactions.

The specific accounting policies for significant revenue items are explained below:

##### Student Achievement Component (SAC) funding

SAC Funding

Student Achievement Component (SAC) funding is the main source of operational funding from Te Pūkenga. The Institute considers SAC funding to be nonexchange and recognises SAC funding as revenue when the course withdrawal date has passed, based on the number of eligible students enrolled in the course at that date and the value of the course. This is adjusted for any expected adjustments as part of the final wash-up process with Te Pūkenga.

##### Fees-Free Revenue

The Institute considers fees-free revenue is non-exchange revenue and recognises revenue when the course withdrawal date for an eligible student has passed.

The Institute has presented funding received for fees-free as part of tuition fees. This is on the basis that receipts from Te Pūkenga are for payment on behalf of the student as specified in the relevant funding mechanism.

##### Performance-Based Research Fund (PBRF)

The Institute considers funding received from Performance- Based Research Fund (PBRF) to be non-exchange in nature. PBRF revenue is measured based on the funding entitlement allocated by Te Pūkenga adjusted for any expected adjustments as part of the final wash-up process. Indicative funding for future periods is not recognised until confirmed for that future period.

##### Student Tuition Fees

Domestic student tuition fees are subsidised by government funding and are considered non-exchange. Revenue is recognised when the course withdrawal date has passed, which is when a student is no longer entitled to a refund for withdrawing from the course. International student tuition fees are accounted for as exchange transactions and recognised as revenue on a course percentage of completion basis. The percentage of completion is measured by reference to the days of the course completed as a proportion of the total course days.

##### Interest

Interest revenue is recognised using the effective interest method.

## Notes to the Financial Statements

### 2 Revenue and Expenses (continued)

Revenue	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000
<b>Government Grants</b>				
Normal Operational Grants	67,990	72,879	67,990	72,879
Special Supplementary Grants	438	318	438	318
<b>Total Government Grants</b>	<b>68,428</b>	<b>73,197</b>	<b>68,428</b>	<b>73,197</b>
<b>Student Tuition Fees</b>	<b>35,642</b>	<b>41,577</b>	<b>35,642</b>	<b>41,577</b>
<b>Other Revenue</b>				
Gains on Disposal of Property, Plant and Equipment	108	76	108	76
Other Revenue Activities	6,200	6,886	6,522	7,289
<b>Total Other Revenue</b>	<b>6,308</b>	<b>6,962</b>	<b>6,630</b>	<b>7,365</b>
<b>Finance Revenue</b>				
Interest Earned on Investments (including Bank Deposits)	1,150	563	359	1,110
<b>Total Finance Revenue</b>	<b>1,150</b>	<b>563</b>	<b>359</b>	<b>1,110</b>
<b>Gain on Property Investment Revaluations</b>	-	-	-	<b>620</b>
<b>Gain on Interest Rate Swaps</b>	-	-	-	<b>377</b>
<b>Total Revenue</b>	<b>111,528</b>	<b>122,299</b>	<b>111,059</b>	<b>124,246</b>
<b>Revenue under exchange and non exchange transactions</b>				
<b>Revenue under exchange transactions</b>				
International Student Fees	3,737	7,030	3,737	7,030
Other Revenue	4,590	5,448	4,912	5,851
Finance Revenue	1,150	563	359	1,110
Gain on Property Investment Revaluations	-	-	-	620
Gain on Interest Rate Swaps	-	-	-	377
<b>Total Exchange Revenue</b>	<b>9,477</b>	<b>13,041</b>	<b>9,008</b>	<b>14,988</b>
Other exchange revenue is mainly made up of: teaching delivery to external parties, student accommodation rent, facilities hire and restaurant revenue.				
<b>Revenue under non exchange transactions</b>				
Government Grants	68,428	73,197	68,428	73,197
Domestic Student Fees	30,503	32,751	30,503	32,751
Student Services Levy	1,402	1,796	1,402	1,796
Other Revenue	1,718	1,514	1,718	1,514
<b>Total Non Exchange Revenue</b>	<b>102,051</b>	<b>109,258</b>	<b>102,051</b>	<b>109,258</b>
Other Non Exchange revenue is mainly Industry Training Organisations (ITOs) revenue.				
<b>Total Revenue</b>	<b>111,528</b>	<b>122,299</b>	<b>111,059</b>	<b>124,246</b>

## Notes to the Financial Statements

### 2 Revenue and Expenses (continued)

	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000
<b>Expenses</b>				
Finance Charge*	1,130	1,373	1,130	1,373
Interest on Bank Loans	-	-	368	452
<b>Total Finance Costs</b>	<b>1,130</b>	<b>1,373</b>	<b>1,498</b>	<b>1,825</b>
*Finance charge arises as a result of the Manawa lease classification. The lease is not funded through loans or borrowings, therefore the interest charge is a non cash item. Refer to Note 11 for an explanation of this charge.				
<b>Employee Benefit Expenses</b>				
Wages and Salaries	62,186	76,095	62,186	76,095
Increase (Decrease) in Employee Benefit Liabilities	3,888	394	3,888	394
<b>Total Employee Benefit Expenses</b>	<b>66,074</b>	<b>76,489</b>	<b>66,074</b>	<b>76,489</b>
<b>Depreciation Expense</b>	<b>9,924</b>	<b>10,629</b>	<b>10,581</b>	<b>11,452</b>
<b>Amortisation Expense</b>	<b>244</b>	<b>534</b>	<b>244</b>	<b>534</b>
<b>Other Expenses</b>				
Audit New Zealand Fees for Financial Statement Audits	197	205	197	205
Other Auditor Fees for Audit of Ara Foundation and OEDT Financial Statements	-	-	16	15
Donations Made	9	9	9	9
Impairment of Receivables (Note 4)	(19)	(7)	(19)	(7)
Research and Development Expenditure	318	327	318	327
Minimum Lease Payments under Operating Leases	1,653	1,805	1,653	1,805
Other Operating Expenses	21,858	26,000	20,876	24,920
<b>Total Other Expenses</b>	<b>24,016</b>	<b>28,339</b>	<b>23,050</b>	<b>27,725</b>
There are no unfulfilled conditions or other contingencies attached to government grants recognised.				
<b>Loss on Investment Property Valuations</b>	-	-	-	-
<b>Loss on Interest Rate Swaps</b>	-	-	-	-
<b>Transformation Expenses</b>	<b>1,495</b>	<b>1,538</b>	<b>1,495</b>	<b>1,538</b>
<b>Total Expenses</b>	<b>102,883</b>	<b>118,902</b>	<b>102,942</b>	<b>119,113</b>

## Notes to the Financial Statements

### 3 Cash and Cash Equivalents

#### Accounting Policy

Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less. The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Although cash and cash equivalents are subject to the expected credit loss requirements of PBE IPSAS 41 Financial Instruments, no loss allowance has been recognised because the estimated loss allowance for credit losses is trivial.

	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000
Cash at Bank and in Hand	25,276	11,462	26,934	12,460
Short Term Deposits	-	-	-	-
<b>Total Cash and Cash Equivalents</b>	<b>25,276</b>	<b>11,462</b>	<b>26,934</b>	<b>12,460</b>

Included in cash and cash equivalents are unspent funds with restrictions that relate to the delivery of educational services and research by Ara. Other than trust funds, it is not practicable for Ara to provide further detailed information about the restrictions.

Apart from the restricted reserves there is no cash and cash equivalents that can only be used for a specified purpose.

#### Reconciliation of net surplus/(deficit) to net cash flows from operating activities

	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000
<b>Net (Deficit)/Surplus</b>	8,645	2,992	8,117	4,728
<b>Add/(Subtract) Non-Cash Items:</b>				
Depreciation and Amortisation Expense	10,168	11,163	10,825	11,986
Recognition of Movement in Long Term Service Leave	(3)	1	(3)	1
Share of Associate's Deficit/(Surplus)	-	405	-	405
Gains/(Losses) on the Revaluation of Investments	-	-	893	(861)
Finance Lease Charge	1,130	1,373	1,130	1,373
<b>Add/(Subtract) items classified as investing or financing activities:</b>				
(Gains)/Losses on Disposal of Property, Plant and Equipment	(108)	(76)	(108)	(76)
Revaluation of Investment Properties	-	-	-	(620)
<b>Add/(Subtract) movements in working capital items:</b>				
Accounts Receivable	(3,520)	(4,409)	(3,906)	(4,409)
Inventories	(137)	(319)	(137)	(319)
Prepayments	1,197	(611)	1,197	(612)
Accounts Payable	(1,418)	395	(1,404)	421
Income in Advance	1,067	(1,759)	1,465	(1,759)
Employee Benefits	3,891	393	3,891	393
<b>Net Cash Inflow/(Outflow)/Inflow from Operating Activities</b>	<b>20,912</b>	<b>9,548</b>	<b>21,960</b>	<b>10,651</b>

## Notes to the Financial Statements

### 4 Trade and Other Receivables

#### Accounting Policy

Student fees and other receivables recognised initially at fair value (the amount due) and subsequently measured at amortised cost using effective interest method, less provision for impairment.

At the end of each reporting period, an assessment is made of whether there is objective evidence that student fees and other receivables are impaired.

There is an objective evidence of impairment if one or more events (a 'loss event(s)') occurs after the initial recognition of the receivable and that loss event (or events) has an impact on the estimated future cash flows of the receivable that can be reliably estimated. Short-term receivables are then impaired and impairment losses incurred.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the receivable's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in surplus or deficit.

The expected credit loss rates are based on the payment profile over prior periods at measurement date and the corresponding historical credit losses experienced for that period. The historical loss rates are adjusted for current and forward-looking macroeconomic factors that might affect the expected recoverability of receivables. Given the short period of credit risk exposure, the effects of macroeconomic factors are not considered significant.

There have been no changes since 1 January 2021 in the estimation techniques or significant assumptions in measuring the loss allowance.

Short-term receivables are written off when there is no reasonable expectation of recovery.

	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000
<b>Student Fee Receivables</b>				
Student Fee Receivables	729	861	729	861
Less Allowances for Credit Losses	(234)	(248)	(234)	(248)
<b>Net Student Fee Receivables</b>	<b>495</b>	<b>613</b>	<b>495</b>	<b>613</b>
<b>Other Receivables</b>				
Trade Receivables	1,578	5,060	1,578	5,060
Related Party Receivables	59	86	59	86
Bank Interest Receivables	410	138	560	306
Less Allowance for Credit Losses	(4)	(10)	(4)	(10)
<b>Net Other Receivables</b>	<b>2,042</b>	<b>5,274</b>	<b>2,193</b>	<b>5,442</b>
PBE non-exchange revenue adjustment				
Government Funding	8,787	1,520	8,787	1,520
<b>Total Receivables</b>	<b>11,324</b>	<b>7,407</b>	<b>11,475</b>	<b>7,575</b>
<b>Classification</b>				
Receivables classified as exchange transactions	1,309	828	1,460	996
Receivables classified non-exchange transactions	10,015	6,579	10,015	6,579
<b>Total Receivables</b>	<b>11,324</b>	<b>7,407</b>	<b>11,475</b>	<b>7,575</b>

## Notes to the Financial Statements

## 4 Trade and Other Receivables (continued)

	2022 Parent					2022 Group				
	Not past due	Past due 1-30 days	Past due 30-60 days	Past due 61-90 days	Past due over 90 days	Not past due	Past due 1-30 days	Past due 30-60 days	Past due 61-90 days	Past due over 90 days
<b>Student Fees Receivables</b>										
Expected Credit Loss (%)	0%	5.7%	5.7%	17.0%	47.0%	0%	5.7%	5.7%	17.0%	47.0%
Gross Carrying Amount ('000)	42	41	101	100	446	42	41	101	100	446
<b>Total Lifetime Expected Credit Loss (\$'000)</b>	-	2.3	5.7	17.0	209	-	2	6	17	209
<b>Other Receivables - Trade &amp; Related Party</b>										
Expected Credit Loss (%)	0%	0%	5.7%	5.7%	17.0%	0%	0%	5.7%	5.7%	17.0%
Gross Carrying Amount ('000)	715	122	44	16	5	715	122	44	16	5
<b>Total Lifetime Expected Credit Loss (\$'000)</b>	-	-	3	1	1	-	-	3	1	1
<b>Total Lifetime Expected Credit Loss</b>	-	2	8	18	210	-	2	8	18	210
	2021 Parent					2021 Group				
	Not past due	Past due 1-30 days	Past due 30-60 days	Past due 61-90 days	Past due over 90 days	Not past due	Past due 1-30 days	Past due 30-60 days	Past due 61-90 days	Past due over 90 days
<b>Student Fees Receivables</b>										
Expected Credit Loss (%)	0.0%	0.0%	5.4%	16.3%	34.0%	0.0%	0.0%	5.4%	16.3%	34.0%
Gross Carrying Amount ('000)	96	2	19	21	722	96	2	19	21	722
<b>Total Lifetime Expected Credit Loss (\$'000)</b>	-	0.1	1.1	3.5	246	-	0.1	1.1	3.5	246
<b>Other Receivables - Trade &amp; Related Party</b>										
Expected Credit Loss (%)	0.0%	0.0%	5.4%	5.4%	16.3%	0.0%	0.0%	5.4%	5.4%	16.3%
Gross Carrying Amount ('000)	5,082	10	10	1	42	5,082	10	10	1	42
<b>Total Lifetime Expected Credit Loss (\$'000)</b>	-	-	1	0	7	-	-	1	0	7
<b>Total Lifetime Expected Credit Loss</b>	-	-	2	4	253	-	-	2	4	253
	Parent		Group							
	Actual 10 months ended 31 Oct 2022 \$'000	Budget 12 months ended 31 Dec 2021 \$'000	Actual 10 months ended 31 Oct 2022 \$'000	Budget 12 months ended 31 Dec 2021 \$'000						
<b>Movements in the provision for impairment of receivables</b>										
Allowance for credit losses as at 1 January 2021		258		265						
Additional provisions made during the year		106		69						
Provision adjustments during the year		-		-						
Receivables written off during the year		(125)		(77)						
<b>Closing Balance</b>		<b>239</b>		<b>258</b>						

## Notes to the Financial Statements

### 5 Inventories

#### Accounting Policy

Inventories are valued at the lower of cost and net realisable value. The cost of inventory is based on a first-in, first-out (FIFO) basis and includes expenditure incurred in acquiring the inventories and in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of activities less the estimated costs necessary to make the sale.

Where inventories are acquired through non-exchange transactions they are measured at fair value at the date of acquisition.

Any write-down from cost to net realisable value or for the loss of service potential is recognised in the surplus or deficit in the period of the write-down.

	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000
Held for Resale	16	16	16	16
Materials and Consumables	1,142	1,005	1,142	1,005
<b>Total Inventories</b>	<b>1,158</b>	<b>1,021</b>	<b>1,158</b>	<b>1,021</b>

The write-down of inventories held for sale amounted to \$Nil.

## Notes to the Financial Statements

### 6 Other Financial Assets

#### Accounting Policy

All financial assets and financial liabilities are initially recognised at fair value. Ara and the Group determines the classification of its financial assets and liabilities at initial recognition and re-evaluates this designation at every reporting date.

#### Financial assets

After initial recognition at fair value, they are then classified as, and subsequently measured under, the following categories:

- amortised costs;
- fair value through other comprehensive revenue and expense (FVTOCRE); and
- fair value through surplus or deficit (FVTSD).

Transaction costs are included in the value of the financial asset at initial recognition unless it has been designated as FVTSD, in which case it is recognised in surplus or deficit.

Financial assets classification is based on Ara and the Group's contractual cash flow characteristics and its management model for managing these.

#### Amortised Costs

A financial asset is subsequently measured at amortised cost if it gives rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding and is held within a management model whose objective is to collect the contractual cash flows of the assets.

Financial assets classified at amortised cost are subsequently measured at amortised cost using the effective interest method, less any expected credit losses (ECL). Where applicable, interest accrued is added to the investment balance.

Ara and the Group's cash and cash equivalents, term deposits and trade and other receivables are recognised within this category. Further details for Trade and other receivables can be found in Note 4.

#### Impairment of financial assets held at amortised cost

Ara and the Group recognises loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortised cost. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Ara and the Group expects to receive).

Lifetime ECLs are ECLs that result from all possible default events over the expected life of a financial instrument. 12 month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Loss allowances on cash and cash equivalents and term deposits are measured at 12 month ECLs if credit risk has not increased significantly since initial recognition. Should credit risk of these instruments increase significantly, loss allowances are measured at an amount equal to lifetime ECLs. No loss allowance for expected credit losses has been recognised because the estimated 12-month expected loss allowance for credit losses is trivial.

Loss allowances for receivables are always measured at an amount equal to lifetime ECLs. Ara and the Group applies the simplified approach, as permitted by PBE IPSAS 41. For the simplified approach, Ara and the Group establishes a provision matrix that is based on historical credit loss experience, adjusted for current and forward-looking information on macroeconomic factors affecting the ability of the customer to settle the amount receivable.

Ara and the Group considers a financial asset to be in default when:

- The financial asset (mainly Student Fees and Other Receivables) is more than 120 days past due, and/or
- The debtor is unlikely to pay its obligations in to Ara and the Group in full

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

#### Write-off

The unrecoverable portion of a financial asset is written off when Ara and the Group has no reasonable expectations of recovering all or some of a financial asset. For student fees, Ara and the Group has a policy of writing off the gross carrying amount when the receivable is two years past due based on historical experience of recoveries of similar assets. For trade receivables, Ara and the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery.

Ara and the Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Ara and the Group's procedures for recovery of amounts due.

#### Fair value through surplus and deficit (FVTSD)

Financial assets within this category are subsequently measured at fair value with fair value gains and losses recognised in surplus and deficit. Interest revenue and dividends recognised from these financial assets are separately presented within revenue.

Ara and the Group's managed funds is a portfolio of financial assets that are actively traded with the intention of making profits. Therefore has been classified as fair value through surplus or deficit.

## Notes to the Financial Statements

### 6 Other Financial Assets (continued)

	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000
<b>Financial Assets - at Amortised costs (Current Portion)</b>				
Bank Deposits Maturing within 12 months	59,300	58,800	63,700	63,184
<b>Total Current Portion</b>	<b>59,300</b>	<b>58,800</b>	<b>63,700</b>	<b>63,184</b>
<b>Fair Value through Profit and Loss</b>				
Managed Funds - Ara Foundation	-	-	5,847	7,040
<b>Total Non-current Portion</b>	<b>-</b>	<b>-</b>	<b>5,847</b>	<b>7,040</b>

#### Effective Interest Rates

Bank Deposits with Maturities of 3-12 months	1.65%	0.73%	1.54%	0.92%
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There were no impairment provisions for other financial assets.

Residual Earthquake Insurance proceeds are invested as part of the overall term deposit portfolio. For the 10 months ended 31 October 2022, the insurance proceeds held for future repairs to damaged building stock totalled \$27.01m (2021 \$27.3m).

#### Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings (if available) or to historical information about counterparty default rates.

	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000
<b>Counterparties with Credit Ratings</b>				
<b>Cash and Cash Equivalents:</b>				
AA- Cash at Bank and in Hand	25,276	11,462	26,934	12,460
<b>Total Cash and Cash Equivalents</b>	<b>25,276</b>	<b>11,462</b>	<b>26,934</b>	<b>12,460</b>
<b>Term deposits:</b>				
A	30,100	14,500	30,100	14,500
AA-	29,200	44,300	33,600	48,684
<b>Total Term Deposits</b>	<b>59,300</b>	<b>58,800</b>	<b>63,700</b>	<b>63,184</b>
<b>Counterparties without Credit Ratings</b>				
<b>Other investments:</b>				
Existing Counterparty with no Defaults in the Past	-	-	5,847	7,040
<b>Total Other Investments</b>	<b>-</b>	<b>-</b>	<b>5,847</b>	<b>7,040</b>

## Notes to the Financial Statements

### 7 Investment Properties

#### Accounting Policy

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation. Property held to meet service delivery objectives is classified as property, plant and equipment.

Investment properties are initially measured at cost, plus related costs of acquisition.

Where an investment property is acquired at no cost or nominal cost, its cost is deemed to be its fair value as at the date of acquisition.

After initial recognition, investment properties are measured at fair value as determined by independent registered valuers. The fair valuation uses market based evidence. For further details of this type of valuation, refer to the appropriate section of Note 8 discussing market based valuation. Investment properties are valued periodically.

Any gains or losses arising from changes in fair value are recognised in the surplus or deficit in the reporting period in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. The net gain or loss on disposal is calculated as the difference between the carrying amount of the investment property at the time of the disposal and the proceeds on disposal and is included in the surplus or deficit in the reporting period in which the disposal is settled.

	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Budget 12 months ended 31 Dec 2021 \$000
Balance 1 January	-	-	4,415	3,795
Sale of Investment Property	-	-	(800)	-
Fair Value Gain/(Loss)	-	-	-	620
<b>Closing Balance</b>	-	-	<b>3,615</b>	<b>4,415</b>

The valuation of investment property for OEDT as at 31 December 2021 was performed by an independent registered valuer, Telfer Young, on 31 December 2021. Telfer Young are experienced valuers with extensive market knowledge in the types and location of investment property owned by the Group.

## Notes to the Financial Statements

### 8 Property, Plant and Equipment

#### Accounting Policy

Property, plant and equipment consists of land, buildings, buildings under finance lease, leasehold improvements, computer equipment, computer equipment under finance lease, plant, furniture, vehicles, library collection and art collection.

The measurement basis used for determining the gross carrying amount for each class of assets is as follows:

- Land and buildings are measured at fair value less subsequent accumulated depreciation and impairment losses.
- All other asset classes are measured at cost less accumulated depreciation and impairment losses.

#### Additions

The cost of an item of property, plant, and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to Ara and the Group and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

#### Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are disposed, the amounts included in the asset revaluation reserves in respect of those assets are transferred to retained earnings.

Under the Education and Training Act 2020, the Institute is required to notify Te Pūkenga, who then obtains consent from the Secretary for Education, to dispose of land and buildings.

#### Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Group and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

#### Depreciation

All items of property, plant and equipment, other than land and the art collection, are depreciated using the straight-line method, at rates that will write off the cost of assets less their residual values, over their estimated remaining useful lives. Depreciation rates used are as follows:

##### Ara

- Buildings - 1% - 4%
- Buildings under finance lease - 3.33%
- Computer equipment - 20%
- Plant - 7.7% - 50%
- Furniture - 7.7%-50%
- Vehicles - 25%
- Library collection - 10%
- Computer equipment under finance lease - 33.3%

Land and the art collection are not depreciated because they have indefinite or sufficiently long useful lives that any depreciation is considered negligible.

##### The Group

- Buildings - 1.1% - 4.8%
- Buildings under finance lease - 3.33%
- Computer equipment - 10% - 33.3%
- Plant - 7.7% - 50%
- Furniture - 7.7%-50%
- Vehicles - 20%-25%
- Library collection - 10%
- Computer equipment under finance lease - 33.3%

Land and the art collection are not depreciated because they have indefinite or sufficiently long useful lives that any depreciation is considered negligible.

## Notes to the Financial Statements

### 8 Property, Plant and Equipment (continued)

#### Impairment of property, plant and equipment held at cost

Property, plant and equipment held at cost that have a finite useful life are reviewed for impairment at each balance date and 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.

If an asset's carrying amount exceeds its recoverable amount, the asset is considered to be impaired and the carrying amount is written-down to the recoverable amount. For revalued assets, any impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

For assets not carried at a revalued amount, any impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss on a revalued asset is credited to other comprehensive revenue and expense and increases the asset revaluation reserve for that class of asset. However, to the extent that an impairment loss for that class of asset was previously recognised in surplus or deficit, a reversal of an impairment loss is also recognised in surplus or deficit.

For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in surplus or deficit.

Ara has undertaken an impairment assessment of its land and buildings and has recognised an impairment of \$28.7m.

#### Revaluations

Land and buildings are revalued with sufficient regularity to ensure their carrying amount does not differ materially from fair value and at least every three years on the basis described below. All other assets are carried at depreciated historical cost. Additions between revaluations are recorded at cost.

The carrying values of revalued assets are assessed periodically to ensure they do not differ materially from fair value. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued. Revaluations for property, plant and equipment are accounted for on a class of asset basis.

The revaluation results are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the surplus or deficit. Any subsequent increase on revaluation that offsets a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in the asset revaluation reserve for that class of asset.

#### Land

Land is valued at fair value using market based evidence based on the highest and best use of the land with reference to comparable land values. Restrictions on Ara and the Group's ability to sell land would normally not impair the value of the land because Ara and the Group has operational use of the land and will substantially receive the full benefits of outright ownership.

#### Buildings

Non-specialised buildings (for example, residential buildings and office buildings) are valued at fair value using market based evidence. Fair values determined by market based evidence is the estimated amount the property would sell for on the date of valuation, between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction, acting knowledgeably, prudently and without compulsion. The market value methodology takes into account recent sales of comparable properties. Thus, this valuation method is only utilised when there are appropriate comparable property sales to utilise for the valuation. Market based evidence valuation is determined using a number of assumptions. Assumptions used in the 31 December 2021 valuation include:

- Market rents are applied to reflect market value while considering the highest and best use alternatives. An increase (decrease) in the capitalisation rate would decrease (increase) the fair value of non-specialised buildings.

Where market based evidence is inappropriate due to its specialised nature, then buildings are valued on an optimised depreciated replacement cost (DRC) basis. Specialised buildings are buildings specifically designed for educational purposes. They are valued using DRC because no reliable market data is available for such buildings. Depreciated replacement cost valuation is determined using a number of assumptions. Assumptions used in the 31 December 2021 valuation include:

- The replacement costs of the specific assets are adjusted where appropriate for optimisation due to over-design or surplus capacity.
- Replacement costs are derived from construction contracts of like assets, reference to publications such as QV cost builder, recent costings obtained from construction details and the Property Institute of New Zealand's cost information.
- The remaining useful life of assets is estimated after considering factors such as the condition of the asset, future maintenance and replacement plans, and experience with similar buildings.
- Straight line depreciation has been applied in determining the DRC value of the asset.

#### Revaluation

- All Parent land and buildings were revalued as at 31 December 2021 in accordance with PBE IPSAS 17. The land and buildings valuation was completed by independent valuers: Ashley Point (BLPM, APINZ), Cameron Ferguson (BCom (VPM), MPINZ) and Maria McHugh (BCom (VPM), MPINZ). Both Cameron and Maria are Registered Valuers of Quotable Value (QV).
- Land and buildings held under the Ōtautahi Education Development Trust were revalued as at 31 December 2020 in accordance with PBE IPSAS 17. The valuation was completed by independent valuer Mark Dunbar (BCom (VPM), ANZIV, SPINZ, AREINZ) of Telfer Young.
- The Library resources have been valued by B Roberts of DTZ New Zealand Limited, independent registered valuers, at depreciated replacement cost as at 31 December 2005. This is deemed to be cost. Additions since 31 December 2005 are recorded at cost less accumulated depreciation and any accumulated impairment in value.

## **Notes to the Financial Statements**

### **8 Property, Plant and Equipment (continued)**

#### **Fair Value of Christchurch Campus Buildings**

The buildings at the Christchurch Campus have been valued as if they are undamaged. To reach the fair value of the buildings incorporating earthquake damage, the remaining cost to repair these buildings is deducted from their undamaged value.

The cost to repair estimates have been developed from scopes of work prepared by Pace Project Management. These scopes have been considered and reviewed by consulting engineers and quantity surveyors as part of the insurance settlement process. The estimates have been reviewed by Deloitte, with adjustments made to standardise costs that include project management and preliminary and general costs.

Costs included in the estimates that are actuarial in nature, including escalation, have been removed in determining the fair value. Work completed for earthquake repairs has been deducted from the total expected repair cost, to determine the remaining cost to repair.

#### **Property, Plant and Equipment Critical judgements in applying accounting policies**

##### **Crown owned land and buildings**

Property in the legal name of the Crown that is occupied by Ara and the Group is recognised as an asset in the Statement of Financial Position. Ara and the Group consider that it has assumed all the normal risks and rewards of ownership of the properties despite legal ownership not being transferred and accordingly it would be misleading to exclude these assets from Ara and the Group's financial statements.

## Notes to the Financial Statements

### 8 Property, Plant and Equipment (continued)

2022 Parent	Cost/ Revaluation 1 Jan 2022 \$000	Accumulated Depreciation and Impairment 1 Jan 2022 \$000	Carrying Amount 1 Jan 2022 \$000	Current Year Additions \$000	Reclassification	Current Year Disposals \$000	Current Year Impairment \$000	Current Year Depreciation \$000	Revaluation Changes \$000	Revaluation 31 Oct 2022 \$000	Cost/ Revaluation 31 Oct 2022 \$000	Accumulated Depreciation and Impairment 31 Oct 2022 \$000	Carrying Amount 31 Oct 2022 \$000
Institution Land and Buildings	307,006	(10)	306,996	2,165		-	(28,726)	(6,042)	-	-	309,171	(34,778)	274,393
Buildings under Finance Lease	33,809	-	33,809	1		-	-	(610)	-	-	33,810	(610)	33,200
Computer Equipment	12,005	(7,939)	4,066	1,086		8	-	(1,246)	-	-	13,082	(9,168)	3,914
Computer Equipment under Finance Lease	1,692	-	1,692	691		-	-	(646)	-	-	1,736	-	1,736
Plant	12,939	(9,366)	3,573	881		-	-	(660)	-	-	13,820	(10,026)	3,794
Furniture	6,106	(3,056)	3,050	348		-	-	(457)	-	-	6,454	(3,513)	2,941
Vehicles	2,132	(1,909)	223	66		-	-	(95)	-	-	2,102	(1,908)	194
Library Collection	2,688	(1,721)	967	139		-	-	(167)	-	-	2,827	(1,888)	939
Art Collection	1,144	-	1,144	5		-	-	-	-	-	1,149	-	1,149
<b>Total Parent</b>	<b>379,521</b>	<b>(24,001)</b>	<b>355,520</b>	<b>5,382</b>	<b>-</b>	<b>8</b>	<b>(28,726)</b>	<b>(9,923)</b>	<b>-</b>	<b>-</b>	<b>384,151</b>	<b>(61,891)</b>	<b>322,260</b>
<b>2022 Group</b>													
Group Land and Buildings	341,796	(5,965)	335,831	3,169		-	(28,726)	(6,647)	-	-	344,965	(41,337)	303,628
Buildings under Finance Lease	33,809	-	33,809	1		-	-	(610)	-	-	33,810	(610)	33,200
Computer Equipment	15,575	(11,507)	4,068	1,086		8	-	(1,246)	-	-	16,652	(12,737)	3,915
Computer Equipment under Finance Lease	1,692	-	1,692	691		-	-	(646)	-	-	1,736	-	1,736
Plant	18,511	(14,513)	3,998	881		-	-	(708)	-	-	19,392	(15,221)	4,171
Furniture	6,106	(3,056)	3,050	348		-	-	(457)	-	-	6,454	(3,513)	2,941
Vehicles	2,466	(2,242)	224	66		-	-	(95)	-	-	2,436	(2,241)	195
Library Collection	2,688	(1,721)	967	139		-	-	(167)	-	-	2,827	(1,888)	939
Art Collection	1,144	-	1,144	5		-	-	-	-	-	1,149	-	1,149
<b>Total Group</b>	<b>423,787</b>	<b>(39,004)</b>	<b>384,783</b>	<b>6,385</b>	<b>-</b>	<b>8</b>	<b>(28,726)</b>	<b>(10,574)</b>	<b>-</b>	<b>-</b>	<b>429,421</b>	<b>(77,547)</b>	<b>351,874</b>

#### Current Impairment:

\$28,726,000 impairment has been recognised for the period end 31 October 2022. For buildings located at our Christchurch, Woolston and Southern Campuses. Due to the reduced optimisation of some of these buildings, as well as the current seismic ratings. The basis of value adopted is a value in use.



## Notes to the Financial Statements

### 8 Property, Plant and Equipment (continued)

#### Capital Work in Progress

##### Accounting Policy

Capital work in progress is calculated on the basis of expenditure incurred and certified gross progress claim certificates up to balance date. Work in progress is not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

Expenditures recognised in the carrying amounts of Property, Plant and Equipment in the course of construction were:

	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000
Institution Land and Buildings	899	343	899	343

##### Restriction of Title

Under the Education and Training Act 2020, the Institute is required to obtain consent from the Ministry of Education to dispose of land and buildings. For plant and equipment, there is an asset disposal limit formula, which provides a limit up to which a TEI may dispose of plant and equipment without seeking the approval from the Ministry of Education. Detailed information on the asset disposal rules can be found on the Tertiary Education Commission website.

##### Insurance of Assets

Ara participates in a collective procurement arrangement with Institutes of Technology and Polytechnics (ITPs) for its comprehensive insurance programme. All buildings and equipment are covered for material damage based on replacement value.

The insurance programme has a \$200 million annual limit for Earthquake/Natural Disaster claims made by the participating ITPs.

Given that the combined ITP insurance Earthquake/Natural Disaster cap is \$200 million, in the event of a large one off event may result in Ara being under insured.

Ara maintains a minimum balance of \$5 million in cash reserves in line with Board position to fund the full value of the insurance excess in the event of a significant insurance claim.

##### Assets as Security

There are no assets pledged as security for liabilities (2021: Nil).

#### Capital Commitments

	Parent		Group	
	Actual 10 months ended 31 Oct 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000	Actual 10 months ended 31 Oct 2022 \$000	Actual 12 months ended 31 Dec 2021 \$000
<b>Capital Commitments Approved and Contracted</b>				
Land and Buildings	706	583	706	583

Capital commitments represent capital expenditure contracted for at balance date but not yet incurred.

## Notes to the Financial Statements

### 9 Intangible Assets

#### Accounting Policy

##### Software acquisition and development

Computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

##### Internally developed courses

Course development costs are expensed when incurred unless the course development costs are directly attributable to the design of identifiable courses and programmes controlled by the group in which case they are recognised as intangible assets where all of the following criteria are met:

(a) The course material is identifiable and the use and redistribution of course material is controlled by the group through legal or other means.

(b) It is probable that the courses will generate future economic benefits or service potential attributable to the course and the cost can be reliably measured.

This is the case when:

(i) it is technically feasible to complete the development so that the course or programme will be available for use and/or sale;

(ii) management intends to complete the development of the course or programme and use or sell it;

(iii) there is an ability to use or sell the course or programme;

(iv) it can be demonstrated how the course or programme will generate probable future economic benefits or service potential;

(v) there are adequate technical, financial and other resources available to complete development of the course or programme and to use or sell the course or programme; and

(vi) the expenditure attributable to the course or programme development can be reliably measured.

##### Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial period is expensed in the surplus or deficit.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the surplus or deficit when the asset is derecognised.

The amortisation rates for computer software range from 16.7%–33.3%.

##### Impairment of intangible assets

Intangible assets subsequently measured at cost that have an indefinite useful life, or are not yet available for use, are not subject to amortisation and are tested periodically for impairment.

For further details on impairment, refer to the policy for impairment of property, plant and equipment in Note 8. The same approach applies to the impairment of intangible assets.

##### Research and course development costs

Research and course development costs are recognised as an expense in the year in which they are incurred.

## Notes to the Financial Statements

### 9 Intangible Assets (continued)

	Gross Carrying Amount 1 Jan 2022 \$000	Accumulated Amortisation 1 Jan 2022 \$000	Net Carrying Amount 1 Jan 2022 \$000	Current Year Additions \$000	Current Year Disposals \$000	Reclassification \$000	Current Year Impairment \$000	Current Year Amortisation \$000	Gross Carrying Amount 31 Oct 2022 \$000	Accumulated Amortisation 31 Oct 2022 \$000	Net Carrying Amount 31 Oct 2022 \$000
Parent and Group – Other	953	(953)	-	-	-	-	-	-	953	(953)	-
Parent and Group – Software	4,215	(3,549)	665	-	(1)	-	(245)	(245)	4,214	(3,794)	420
<b>Total Group</b>	<b>5,168</b>	<b>(4,502)</b>	<b>665</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(245)</b>	<b>(245)</b>	<b>5,167</b>	<b>(4,747)</b>	<b>420</b>
	Gross Carrying Amount 1 Jan 2021 \$000	Accumulated Amortisation 1 Jan 2021 \$000	Net Carrying Amount 1 Jan 2021 \$000	Current Year Additions \$000	Current Year Disposals \$000	Reclassification \$000	Current Year Impairment \$000	Current Year Amortisation \$000	Gross Carrying Amount 31 Dec 2021 \$000	Accumulated Amortisation 31 Dec 2021 \$000	Net Carrying Amount 31 Dec 2021 \$000
Parent and Group – Other	953	(793)	160	-	-	-	-	(160)	953	(953)	0
Parent and Group – Software	4,209	(3,175)	1,033	6	-	-	-	(374)	4,215	(3,549)	665
<b>Total Group</b>	<b>5,161</b>	<b>(3,968)</b>	<b>1,193</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(534)</b>	<b>5,168</b>	<b>(4,502)</b>	<b>665</b>

### Work in Progress

Expenditures recognised in the carrying amounts of Intangibles in the course of creation were:

	Parent		Group	
	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000
Software	-	1	-	1

**Notes to the Financial Statements****10 Trade and Other Payables****Accounting Policy**

Trade payables are recorded at the amount payable.

	Parent		Group	
	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000
Trade Payables	1,628	2,543	1,837	2,738
Other Payables	2,931	3,580	2,931	3,580
Related Party Payables	152	6	152	6
<b>Total Payables</b>	<b>4,711</b>	<b>6,129</b>	<b>4,920</b>	<b>6,324</b>

Trade and other payables are non-interest bearing and are normally settled by the 20th of the month following invoice, therefore the carrying value of trade and other payables approximates their fair value.

**Payables under Exchange Transactions**

Trade Payables	1,778	2,549	1,778	2,549
Other Payables	393	804	393	804
<b>Total Payables under Exchange Transactions</b>	<b>2,171</b>	<b>3,353</b>	<b>2,171</b>	<b>3,353</b>

**Payables under Non-exchange Transactions**

Taxes payable (GST and rates)	1,575	1,636	1,596	1,645
Other Payables	965	1,140	1,154	1,326
<b>Total Payables under Non-exchange Transactions</b>	<b>2,540</b>	<b>2,776</b>	<b>2,750</b>	<b>2,971</b>
<b>Total Payables</b>	<b>4,711</b>	<b>6,129</b>	<b>4,921</b>	<b>6,324</b>

## Notes to the Financial Statements

### 11 Loans and Finance Leases

#### Accounting Policy

Borrowings on normal commercial terms are initially recognised at the amount borrowed plus transaction costs.

After initial recognition, all borrowings are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Borrowings are classified as current liabilities unless Ara or the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

#### Finance Leases

A finance lease transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the start of the lease term, finance leases are recognised as assets and liabilities at the lower of the fair value of the leased item or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant period rate of interest on the remaining balance of the liability for each period.

The amount recognised as an asset is depreciated over its useful life. If there is no reasonable certainty as to whether Ara and the Group will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

#### Lease critical judgements in applying accounting policies

##### Manawa Lease

Ara and Te Whata Ora - Waitaha (previously known as Canterbury District Health Board (CDHB)), collectively the Tenants, have entered into a lease with HREF Health Precinct Limited (HREF), the landlord for the building known now as Manawa (276 Antigua Street). This lease has commenced on 16 July 2018. The lease is a long term agreement where each tenant is responsible for 50% of the lease obligations. Ara and the Group have carefully considered the accounting treatment of the lease. After much deliberation, it has been determined that Ara and the Group have substantially all of the risks and rewards of ownership and thus, have classified the lease as a finance lease. Ara and the Group have recognised their portion (50%) of the lease.

#### Maturity Analysis

	Parent		Group	
	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000
<b>Lease Liabilities</b>				
Less than One Year	886	860	886	860
Later than One Year but not more than Five Years	2,175	2,614	2,175	2,614
Later than Five Years	22,888	22,662	22,888	22,662
<b>Total Lease Liabilities</b>	<b>25,950</b>	<b>26,136</b>	<b>25,950</b>	<b>26,136</b>
Weighted Average Interest Rate	5.53%	5.56%	5.53%	5.56%

#### Description of Material Leasing Arrangements

Ara has entered into finance leases for various IT assets as well as for the building discussed in the Manawa lease section above. The net carrying amount of the leased items is shown in Note 8. The finance leases can be renewed at the option of Ara. Ara has the option to purchase the asset at the end of the lease term for the various IT assets. Ara does not have the option to purchase the building for the Manawa lease at the end of the lease term. There are no restrictions placed on Ara by any of the finance leasing arrangements.

## Notes to the Financial Statements

### 11 Loans and Finance Leases (continued)

#### Contractual Maturity Analysis of Financial Liabilities

The table below analyses financial liabilities into relative maturity groupings based on the remaining period at balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at balance date. The amounts disclosed are the contractual undiscounted cash flows.

	Carrying Amount \$000	Contractual Cash Flows \$000	Less than 6 months \$000	6 to 12 months \$000	1 to 2 years \$000	2 to 3 years \$000	More than 3 years \$000
<b>Parent - 31 October 2022</b>							
Finance Leases	25,950	49,360	1,111	1,118	2,132	1,977	43,022
Secured Loans	-	-	-	-	-	-	-
<b>Total</b>	<b>25,950</b>	<b>49,360</b>	<b>1,111</b>	<b>1,118</b>	<b>2,132</b>	<b>1,977</b>	<b>43,022</b>
<b>Group - 31 October 2022</b>							
Finance Leases	25,950	49,360	1,111	1,118	2,132	1,977	43,022
Secured Loans	10,591	13,207	415	412	813	799	10,768
<b>Total</b>	<b>36,541</b>	<b>62,567</b>	<b>1,526</b>	<b>1,530</b>	<b>2,945</b>	<b>2,776</b>	<b>53,790</b>

#### Group Property Finance Lease Reconciliation 2022

The property lease is disclosed above at the contractual undiscounted cash flows. It is reconciled to the total minimum lease payments at balance date below.

	Contractual Cash Flows \$000	Less than 6 months \$000	6 to 12 months \$000	1 to 2 years \$000	2 to 3 years \$000	More than 3 years \$000	
<b>Total minimum lease payments payable</b>	47,625	764	771	1,558	1,581	42,951	
Future Finance Charges	(23,411)	(673)	(671)	(1,332)	(1,319)	(19,416)	
<b>Present value of minimum lease payments</b>	<b>24,214</b>	<b>91</b>	<b>100</b>	<b>226</b>	<b>262</b>	<b>23,535</b>	
<b>Present value of minimum lease payments</b>							
Finance leases	24,215	90	101	226	263	23,535	
<b>Total present value of minimum lease payments</b>	<b>24,215</b>	<b>90</b>	<b>101</b>	<b>226</b>	<b>263</b>	<b>23,535</b>	
	Carrying Amount \$000	Contractual Cash Flows \$000	Less than 6 months \$000	6 to 12 months \$000	1 to 2 years \$000	2 to 3 years \$000	More than 3 years \$000
<b>Parent - 31 December 2021</b>							
Finance Leases	26,136	50,297	1,128	1,088	2,183	2,063	43,835
Secured Loans	-	-	-	-	-	-	-
<b>Total</b>	<b>26,136</b>	<b>50,297</b>	<b>1,128</b>	<b>1,088</b>	<b>2,183</b>	<b>2,063</b>	<b>43,835</b>
<b>Group - 31 December 2021</b>							
Finance Leases	26,136	50,297	1,128	1,088	2,183	2,063	43,835
Secured Loans	11,058	13,883	421	417	824	809	11,412
<b>Total</b>	<b>37,194</b>	<b>64,180</b>	<b>1,549</b>	<b>1,505</b>	<b>3,007</b>	<b>2,872</b>	<b>55,247</b>

#### Group Property Finance Lease Reconciliation - 31 December 2021

The property lease is disclosed above at the contractual undiscounted cash flows. It is reconciled to the total minimum lease payments at balance date below.

	Contractual Cash Flows \$000	Less than 6 months \$000	6 to 12 months \$000	1 to 2 years \$000	2 to 3 years \$000	More than 3 years \$000
<b>Total minimum lease payments payable</b>	48,605	851	814	1,640	1,665	43,635
Future Finance Charges	(24,160)	(680)	(675)	(1,339)	(1,321)	(20,145)
<b>Present value of minimum lease payments</b>	<b>24,445</b>	<b>171</b>	<b>139</b>	<b>301</b>	<b>344</b>	<b>23,490</b>
<b>Present value of minimum lease payments</b>						
Finance leases	24,445	171	139	301	344	23,490
<b>Total present value of minimum lease payments</b>	<b>24,445</b>	<b>171</b>	<b>139</b>	<b>301</b>	<b>344</b>	<b>23,490</b>

## Notes to the Financial Statements

### 12 Employee Benefit Liabilities and Other Provisions

#### Employee Entitlements

Provision is made in respect of Ara's liability for accrued pay, annual leave, long service leave, retirement gratuities and sick leave.

Annual leave has been calculated on an actual entitlement basis for current rates of pay.

Sick leave has been calculated based on the expected utilisation of unused entitlement.

Long service leave is calculated based on the present value of estimated future cash flows determined on an actuarial basis. The discount rate is the market yield on relevant New Zealand Government Stock at the Balance Sheet date.

The present value of the long service leave depends on factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability. Expected future payments are determined using forward discount rates derived from the yield curve of NZ Government Bonds. The discount rates used match, as closely as possible, the estimated future cash flows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the surplus or deficit of the Statement of Comprehensive Revenue and Expenses as incurred.

	Parent		Group	
	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000
<b>Employee Entitlements</b>				
Accrued Pay	3,300	1,026	3,300	1,026
Annual Leave	4,243	3,676	4,243	3,676
Long Service Leave	319	302	319	302
Sick Leave	263	259	263	259
<b>Closing balance</b>	<b>8,125</b>	<b>4,237</b>	<b>8,125</b>	<b>4,237</b>
Current Portion	7,899	4,008	7,899	4,008
Non-Current Portion	226	229	226	229
	<b>8,125</b>	<b>4,237</b>	<b>8,125</b>	<b>4,237</b>

## Notes to the Financial Statements

### 13 Revenue Received in Advance

	Parent		Group	
	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000
Government Grants	931	-	931	-
Fees Income	7,154	6,328	7,154	6,328
Other Revenue in Advance	188	480	188	480
<b>Total Revenue in Advance</b>	<b>8,273</b>	<b>6,808</b>	<b>8,273</b>	<b>6,808</b>
Current Portion	8,273	6,808	8,273	6,808
Non-Current Portion	-	-	-	-
<b>Total</b>	<b>8,273</b>	<b>6,808</b>	<b>8,273</b>	<b>6,808</b>

## Notes to the Financial Statements

### 14 Operating Leases

#### Accounting Policy

An operating lease is a lease that does not transfer substantially all the risk and rewards incidental to ownership of an asset to the lessee. Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

#### Non-cancellable Operating Lease Commitments Property Leases

	Parent		Group	
	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000
Not later than One Year	1,340	1,675	88	76
Later than One Year and not later than Five Years	4,730	4,730	-	-
Later than Five Years	10,401	11,386	-	-
<b>Total Operating Leases</b>	<b>16,470</b>	<b>17,791</b>	<b>88</b>	<b>76</b>

The total of minimum future sublease payments expected to be received under non-cancellable subleases at balance date is \$nil.

#### Equipment Leases

Not later than One Year	541	540	541	540
Later than One Year and not later than Five Years	487	930	487	930
<b>Total Equipment Leases</b>	<b>1,028</b>	<b>1,470</b>	<b>1,028</b>	<b>1,470</b>

#### Description of Material Leasing Arrangements

##### Property Leases

The property leases can be renewed at the option of Ara. Ara does not have the option to purchase the property asset at the end of the lease term. There are no restrictions placed on Ara by any of the property leasing arrangements.

##### Equipment Leases

The equipment leases can be renewed at the option of Ara. Ara does have the option to purchase the equipment asset at the end of the lease term. There are no restrictions placed on Ara by any of the equipment leasing arrangements.

## **Notes to the Financial Statements**

### **15 Contingent Assets and Liabilities**

#### **Parent**

As at 31 October 2022, Ara had no contingent assets.

#### *Holiday Act Compliance*

Many public and private sector entities, including Ara Institute of Canterbury Limited (Ara), are continuing to investigate potential historic underpayment of holiday entitlements.

For employers such as Ara that have workforces that include differential occupational groups with complex entitlements, non-standard hours, allowances and/or overtime, the process of assessing compliance with the Act and determining the potential underpayment is time consuming and complicated.

To address this issue, management appointed a payroll specialist, to undertake a review of Ara's processes and records to determine the scale of the potential issue. After their initial assessment, we had booked a liability of \$1.4m (31 December 2021: \$nil). There may be more costs to be recognised from further reviews and is continued to be disclosed as a contingent liability.

#### **Group**

As at 31 October 2022, both the OEDT and the Ara Foundation had no contingent liabilities.

## Notes to the Financial Statements

### 16 Related Party Transactions

Ara is the Parent of the Group and controls two entities, being Ōtautahi Education Development Trust and Ara Foundation, and had an investment in an associate, TANZ eCampus Limited. TANZ e-Campus became a business division of the Open Polytechnic of New Zealand on 30 November 2021. The 2021 balances have been adjusted to reflect this change.

#### Significant transactions with government-related entities

The government influences the roles of Ara as well as being a major source of revenue.

Ara has recognised income from the Tertiary Education Commission totalling \$68 million (December 2021: \$73 million) to provide education and research services for the 10 months ended 31 October 2022.

Ara also leases at a nil rental amount, land and buildings legally owned by the Crown. Further information on the accounting for Crown-owned land and buildings is disclosed in Note 1.6 under the "Critical accounting judgements, estimates and assumptions" section.

#### Collectively, but not individually, significant transactions with government-related entities

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, PAYE and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers. Ara is exempt from paying income tax and FBT.

Ara purchases goods and services from entities related to the Crown and it also provides services to entities related to the Crown. The purchase and provision of goods and services to government-related entities for the 10 months ended 31 October 2022 are small when compared to total expenditure by Ara.

The purchase of goods and services included the purchase of electricity from Meridian, air travel from Air New Zealand and postal services from New Zealand Post. The provision of services to government-related entities is mainly related to the provision of educational courses.

#### Inter-Group Transactions

##### Ara Foundation

Ara Foundation is accounted for as a subsidiary of Ara.

The Foundation runs an annual grants programme for staff, students and projects associated with Ara, as well as other initiatives which promote education and enterprise in the region.

Ara appoints four of the nine trustees of the Ara Foundation.

Ara Foundation sold investment property to OEDT on the 31 March 2022, for \$800,000.

These transactions are not on an arm's length basis as grant applications can only be received from Ara staff and students.

During 10 months ended 31 October 2022, Ara's revenue included the following transactions with the Ara Foundation:

	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000
<b>Grants</b>	68	61

At 31 October 2022, Ara owed the Foundation \$148,374 for earthquake repair insurance proceeds. The Foundation owed Ara \$nil.

At 31 December 2021, Ara owed the Foundation \$148,374 for earthquake repair insurance proceeds. The Foundation owed Ara \$nil.

##### Ōtautahi Education Development Trust

Ōtautahi Education Development Trust is accounted for as a subsidiary of Ara. For accounting purposes only the OEDT is a controlled entity under PBE IPSAS 20. Ara appoints three of the seven trustees of the Ōtautahi Education Development Trust.

During 2022, Ara's revenue included the following transactions with the Trust:

	10 months ended 31 Oct 2022 \$000	12 months ended 31 Dec 2021 \$000
Income	24	24
During the 10 months ended 31 October 2022, Ara's expenditure included the following transactions with the Trust:		
Lease of Student Accommodation Block	917	1,100
Lease of B Block Car Park	19	23
Lease of Paxus House	329	395
Lease of land of Jazz School Building	69	82

At 31 October 2022, OEDT owed Ara \$Nil. Ara did not owe OEDT any monies.

At 31 December 2021, OEDT owed Ara \$Nil. Ara did not owe OEDT any monies.

## Notes to the Financial Statements

### 16 Related Party Transactions (continued)

#### TANZ eCampus Ltd

As at 1 December 2021, TANZ eCampus Limited became a business division of the Open Polytechnic of New Zealand Limited. Ara ceased to have the portion of shareholding in TANZ eCampus Limited on 30 November 2021 and have recognised this.

	<b>10 months ended 31 Oct 2022 \$000</b>	<b>12 months ended 31 Dec 2021 \$000</b>
Parent and Group – Equity accounted carrying amount	-	-
Summarised financial information of associate presented on a gross basis:		
Assets	-	-
Liabilities	-	-
Revenues	-	-
(Deficit)/Surplus	-	(2,432)
Group's Interest	0%	0%
Group's share of (Deficit)/Surplus	-	(405)

At 31 December 2021, TANZ eCampus Limited did not owe Ara any monies, Ara owed Tanz eCampus Limited \$Nil.

#### Te Whatu Ora - Waitaha (previously Canterbury District Health Board)

In 2018, Ara entered into a joint lease with the Te Whatu Ora - Waitaha, Ara contributes 50% of the Health precinct lease obligation. Ara recognises its share of assets, liabilities, revenue and expenses of the joint operation.

During the 10 months ended 31 October 2022, Ara's revenue included the following transactions with the CDHB:

	<b>10 months ended 31 Oct 2022 \$000</b>	<b>12 months ended 31 Dec 2021 \$000</b>
Manawa Lease & Facility Costs	243	364
During 2021, Ara's expenditure included the following transactions with the CDHB:		
Manawa lease and facility costs	1,585	1,904

At 31 October 2022, Ara owed the CDHB \$17,081. The CDHB owed Ara \$49,637.

At 31 December 2021, Ara owed the CDHB \$3,290. The CDHB owed Ara \$3,150.

## Notes to the Financial Statements

### 16 Related Party Transactions (continued)

#### Key Management Related Party Transactions

The Ara Board and Senior Management Team may be directors or officers of other organisations with whom Ara may transact.

During the period, the following people were members of organisations that have entered into transactions with Ara as part of its normal operations.

	Purchases Actual	Sales Actual	Accounts Payable Actual	Accounts Receivable Actual
	\$000	\$000	\$000	\$000
<b>10 months ended 31 October 2022</b>				
<b>Board Members</b>				
Canterbury Communications Trust	-	26	-	-
ChristchurchNZ Limited	-	30	-	8
Nurse Maude Association	9	-	3	-
Optimum Services Limited	28	-	4	-
Otago Polytechnic Limited	2	1	-	1
Primary ITO	181	0.1	98	-
Social Workers Registration Board	5	1	8	-
Southern Institute of Technology	168	15	-	-
Te Pūkenga New Zealand Institute of Skills and Technology	-	326	-	-
The Open Polytechnic of New Zealand	-	23	-	-
Worldskills New Zealand	15	-	-	-
	Purchases Actual	Sales Actual	Accounts Payable Actual	Accounts Receivable Actual
	\$000	\$000	\$000	\$000
<b>31 December 2021</b>				
<b>Board Members</b>				
Canterbury Communications Trust	-	31	-	-
ChristchurchNZ Limited	6	-	-	-
Nurse Maude Association	16	-	-	-
Optimum Services Limited	32	-	2	-
Otago Polytechnic Limited	2	-	-	-
Primary ITO	130	11	-	1
Southern Institute of Technology Limited	169	-	1	-
Te Pūkenga New Zealand Institute of Skills and Technology	1	307	-	-
Tertiary Accord of New Zealand	-	8	-	-
The Open Polytechnic of New Zealand	-	47	-	13
Worldskills New Zealand	230	-	-	-

## Notes to the Financial Statements

### 16 Related Party Transactions (continued)

#### Other Related Parties

Ara was a member of the Tertiary Accord of New Zealand (TANZ), a separate entity launched in early 2000 as an alliance between six of New Zealand's leading tertiary education institutes, to promote best practice in applied education. As previously mentioned, TANZ was no longer a related party of Ara as at 30 November 2021 when it became a business division of the Open Polytechnic of New Zealand.

During 2021, TANZ invoiced \$Nil Ara core fees and \$Nil eCampus project fees.

There were no other related party transactions.

#### Key Management Personnel Compensation

	FTE		Parent	
	10 months ended 31 Oct 2022 \$000	12 months ended 31 Oct 2021 \$000	10 months ended 31 Oct 2022 \$000	12 months ended 31 Oct 2021 \$000
<b>Board Members</b>				
Full-time equivalent members	8	8		
Board Member Fees			156	185
<b>Executive Management Team, including the Chief Executive</b>				
Full-time equivalent members	6	6		
Salaries and Other Short-term Employee Benefits			1,296	1,510
<b>Total Executive Management Team Compensation</b>			<b>1,296</b>	<b>1,510</b>
<b>Total key management personnel compensation</b>	<b>14</b>	<b>14</b>	<b>1,452</b>	<b>1,695</b>

Key management personnel includes all Board Members, the Chief Executive and Division Directors.

#### Remuneration

Board fees paid during the period were:

	Group	
	10 months ended 31 Oct 2022 \$000	12 months ended 31 Oct 2021 \$000
T Arseneau (Chairperson)	33	40
M Taite (Deputy Chairperson)	21	25
J Cartwright	17	20
N Lamont	17	20
M Geddes	17	20
A Leslie	17	20
M Bain	17	20
B Thompson	17	20
<b>Total Board and Councillors' Remuneration</b>	<b>156</b>	<b>185</b>

No board member received compensation or other benefits in relation to cessation.

## Notes to the Financial Statements

### 16 Related Party Transactions (continued)

#### Directors' Interests

Directors have disclosed the following general interests for the period 31 October 2021 in accordance with Section 140 of the Companies Act 1993.

Director	Entity	Relationship
T Arseneau (Chairperson)	ChristchurchNZ	Chair and Director
	Christchurch Symphony Orchestra	Chair and Trustee (ceased 13/03/2021)
	J Ballantyne and Company Limited	Director
	Elder Family Trust	Trustee
	The Open Polytechnic of New Zealand Limited	Director
	Bras D'or Investments Limited	Shareholder
	Therese Arseneau Consulting Limited	Director and Shareholder
J Cartwright	Brackenridge Services Limited	Chair and Director
	Nurse Maude Association	Chair/Deputy Chair - committees
	Canterbury Clinical Network	Independent Advisor
	Cartwright-Newton Family Trust	Trustee
	Ara Foundation	Trustee
	M J Limited	Director and Shareholder
	Jane C Limited	Director
N Lamont	Quality New Zealand Limited	Chair, Director and Shareholder
	Conquest Training Limited	Director and Shareholder
	Alliance Services Limited	Chair and Director
	Arinui Limited	Chair and Director
	JFC Limited	Director
	Ōtautahi Education Development Trust	Trustee
	Exterior Empowerment Limited (shell company)	Director and Shareholder
	New Zealand International Economic Advisory Service Limited (shell company)	Director and Shareholder
	Kidson Trust Advisory	Board member
	Kidson Trust Holdings Limited	Director
	Kernohan Engineering Limited	Director
	Dublin Street Charitable Trust	CEO
Director	Entity	Relationship
M Taite (Deputy Chairperson)	Tuahiwi Education Limited	Director and Shareholder
	Tuahiwi School Board of Trustees	Member
	Taite Family Trust	Trustee
	Inspire in Education Limited	Director
M Geddes	Te Pūkenga New Zealand Institute of Skills and Technology	Board Member
	Southern Institute of Technology Limited	Director
	Otago Polytechnic Limited	Director
	Southern Lakes English College Limited	Director
	Te Pukenga Workbased Learning (WBL) Limited	Director
A Leslie	Primary ITO	Employee
	Authentic Education Limited (non-trading)	Director and Shareholder
	Greenhill Farm Trust	Trustee

## Notes to the Financial Statements

### 16 Related Party Transactions (continued)

M Bain	TSB Bank	Deputy Chair
	Northland Polytechnic Limited	Deputy Chair
	Central Region's Technical Advisory Services Limited	Chair
	Kerikeri Retirement Village Trust	Chair
	Southern Institute of Technology Limited	Director
	Optimum Services Limited	Director and Owner
	Oryx Technology Limited	Director and Owner
	M. I. Bain & Associates Limited (not active)	Director and Shareholder
ESA Limited	Director	
B Thomson	Metalcraft Engineering Company Limited	Principal and Director
	Avid Group Limited	Director and Shareholder
	Cassem Holdings Limited	Principial and Director
	Ōtautahi Education Development Trust	Trustee
	B&S Thompson Family Trust	Trustee
	NZMEA	President and Director
	Mancan Foundation Limited	Chairperson and Director
	Te Pukenga Workbased Learning (WBL) Limited	Director
	Workforce Development Council	Member of Industry Stakeholder Group
Canterbury Manufacture's Trust	Chairperson and Trustee	

## Notes to the Financial Statements

### 17 Financial Instrument Rules

Ara has a series of policies to manage the risks associated with financial instruments. Ara is risk averse and seeks to minimise exposure from its treasury activities. Ara has an established Board approved Financial Management Policy.

#### Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. As the Parent only engages in non-speculative investment it is not exposed to undue price risk. The Group is exposed to equity securities price risk on its investments. This price risk arises due to market movements in listed securities. This price risk is managed by diversification of the investment portfolio.

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Ara is not exposed to currency risk as it does not hold financial instruments denominated in foreign currencies.

#### Interest rate risk

The interest rates on Ara's investments are disclosed in note 6 and on Ara's lease liabilities in note 11. Ara has undertaken a sensitivity analysis of its exposure to interest rate risk on both investments and borrowings. If weighted average interest rates on bank deposits throughout the 10 months to 31 October 2022 had fluctuated by plus or minus 2% the effect would have been to increase/decrease the net surplus by \$1,380,854 as a result of higher/lower interest income on bank deposits.

#### Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowing issued at fixed rates exposes Ara to fair value interest rate risk. Ara has a Debt Management policy designed to ensure debt levels are sustainable and servicing costs are minimised.

#### Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose Ara to cash flow interest rate risk. Ara has a Debt Management policy designed to ensure debt levels are sustainable and servicing costs are minimised.

#### Credit risk

Credit risk is the risk that a third party will default on its obligation to Ara causing Ara to incur a loss. In the normal course of business, Ara is exposed to credit risk from cash and term deposits with banks and receivables. Where appropriate Ara undertakes credit checks on potential debtors before granting credit terms. Ara has no significant concentrations of credit risk in relation to debtors and other receivables. The Parent invests funds only in deposits with registered banks and its Financial Management Policy limits the amount of credit exposure to any one institution to a maximum 30% or \$30 million of total investment. The Group's exposure to credit risk on its investments is managed by diversification of the investment portfolio. The maximum credit exposure is best represented by the carrying amount in the statement of financial position.

#### Liquidity risk

Liquidity risk is the risk that Ara will encounter difficulty raising liquid funds to meet commitments as they fall due. Ara's Financial Management policy allows short term borrowing to be used to manage liquidity/working capital. Such borrowing takes cognisance of cash flow forecasting and any contingencies which may arise and does not exceed the maximum approved by the Minister of Education.

#### Concentration of risk

Apart from exposure to the institutions holding the Group's investments and borrowings, the Group is not exposed to any significant concentration of risk.

## Notes to the Financial Statements

### 18 Financial Instrument Categories

Ara considers that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values. The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- For investments in other companies where quoted market prices are not available and valuation techniques are not appropriate, Ara has determined fair value using cost less impairment.
- The carrying amounts of financial assets and liabilities in each of the financial instrument categories are as follows:

	Parent		Group	
	10 months ended 31 Dec 2022 \$000	12 Months ended 31 Dec 2021 \$000	10 months ended 31 Dec 2022 \$000	12 Months ended 31 Dec 2021 \$000
<b>Financial assets mandatorily measured at fair value through surplus or deficit</b>				
Managed Investment Portfolio	-	-	5,847	7,040
<b>Total</b>	<b>-</b>	<b>-</b>	<b>5,847</b>	<b>7,040</b>
<b>Financial assets measured at Amortised Cost</b>				
Cash and cash equivalents	25,276	11,462	26,934	12,460
Student Fees and Other Receivables	11,324	7,407	11,475	7,575
Bank Deposits Maturing within 12 months	59,300	58,800	63,700	63,184
<b>Total Financial assets as Loans and Receivables</b>	<b>95,900</b>	<b>77,669</b>	<b>102,109</b>	<b>83,219</b>
<b>Financial liabilities measured at Amortised Cost</b>				
Payables	4,711	6,129	4,920	6,324
Secured loans	-	-	10,591	11,058
Finance Leases	25,950	26,136	25,950	26,136
<b>Total Financial Liabilities at Amortised Cost</b>	<b>30,661</b>	<b>32,265</b>	<b>41,461</b>	<b>43,518</b>

For those instruments recognised at fair value in the Statement of Financial Position, fair values are determined according to the following hierarchy:

- 1 Quoted market price (Level 1) - Financial instruments with quoted prices for identical instruments in active markets.
- 2 Valuation technique using observable inputs (Level 2) - Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in active markets and financial instruments valued using models where all significant inputs are observable.
- 3 Valuation techniques with significant non-observable inputs (Level 3) - Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the Statement of Financial Position:

	Valuation Technique			
	Total \$000	Quoted Price \$000	Observable Inputs Price \$000	Significant Non-Observable Inputs Price \$000
<b>31 October 2022 - Group Financial Assets</b>				
Managed Investment Portfolio	5,847	5,847	-	-
<b>31 December 2021 - Group Financial Assets</b>				
Managed Investment Portfolio	7,040	7,040	-	-

There were no transfers between the different levels of the fair value hierarchy.

## Notes to the Financial Statements

### 19 Capital Management

Ara's capital is its equity which comprise general funds, restricted reserves and revaluation reserves. Equity is represented by net assets. Ara manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. Ara's equity is largely managed as a by-product of managing income, expenses, assets, and liabilities.

The objective of managing Ara's equity is to ensure Ara effectively achieves its goals and objectives for which it has been established, whilst remaining a going concern.

### 20 Reconciliation of movements in liabilities arising from financing activities

	Secured Loans \$000	Finance Leases \$000	Interest Rate Swaps \$000
<b>Balance at 1 January 2022 - Group</b>	11,618	26,136	22
Net Cash Flows	(467)	(2,007)	-
Fair Value	-	-	-
New Leases	691	691	-
Other Changes	-	1,130	-
<b>Balance at 31 October 2022 - Group</b>	<b>10,591</b>	<b>25,950</b>	<b>22</b>

	Secured Loans \$000	Finance Leases \$000	Interest Rate Swaps \$000
<b>Balance at 1 January 2022 - Parent</b>	-	26,136	-
Net Cash Flows	-	(2,007)	-
Fair Value	-	-	-
New Leases	-	691	-
Other Changes	-	1,130	-
<b>Balance at 31 October 2022 - Parent</b>	<b>-</b>	<b>25,950</b>	<b>-</b>

	Secured Loans \$000	Finance Leases \$000	Interest Rate Swaps \$000
<b>Balance at 1 January 2021 - Group</b>	11,618	25,569	399
Net Cash Flows	(560)	(2,403)	-
Fair Value	-	-	(377)
New Leases	691	1,597	-
Other Changes	-	1,373	-
<b>Balance at 31 December 2021 - Group</b>	<b>11,058</b>	<b>26,136</b>	<b>22</b>

	Secured Loans \$000	Finance Leases \$000	Interest Rate Swaps \$000
<b>Balance at 1 January 2021 - Parent</b>	-	25,569	-
Net Cash Flows	-	(2,403)	-
Fair Value	-	-	-
New Leases	-	1,597	-
Other Changes	-	1,373	-
<b>Balance at 31 December 2021 - Parent</b>	<b>-</b>	<b>26,136</b>	<b>-</b>

## Notes to the Financial Statements

### 21 Variances to Budget

Budget figures in the financial statements are for the 12 month period 1 January 2022 to 31 December 2022. Actual figures are for the 10 month period 1 January 2022 to 31 October 2022. As a result it is not possible to comment on variances to budget for the period.

### 22 The effects of COVID-19 on the Institute

The country went in lockdown at Alert Level 4 on 17 August 2021. Canterbury later moved down alert levels, eventually reaching Alert Level 2 on 7 September 2021. Canterbury remained in Alert level 2 until 2 December 2021 when the new Covid Protection Framework (colloquially known as the 'traffic light' system) was put in place. Canterbury started at the 'orange' setting and remained at that level to the end of the accounting period.

During the lockdown period, Ara closed all delivery sites. Most staff moved to a 'work from home' model and teaching was changed to on-line delivery. Ara later reverted back on an on-site model as alert levels changed.

The effect on our operations is reflected in these financial statements based on the information available to the date these financial statements are signed. At this time, it is difficult to determine the full on-going effect of COVID-19 and therefore some material uncertainties remain. There could also be other matters that affect Ara going forward.

The main impact on the Institute's financial statements due to COVID-19 is explained below:

#### Other Revenue

COVID lockdowns impacted campus-based revenues such as car parking, room hireage, and student accommodation were impacted. There was also some residual effect on such incomes post-lockdown due the generally lower levels of economic activity.

#### Operating Expenses

Ara estimates an additional \$0.6m worth of costs due to the ongoing alert levels, primarily in additional cleaning and security costs.

While having no effect on these financial statements, Ara has also considered the future effect of COVID-19 on the following areas:

#### Impairment of tangible and intangible assets

Ara does not expect any impairment to the value of its fixed or intangible assets arising from this event. Ara's assets are utilised to meet its educational objectives, and the ability of those assets to meet those objectives is not regarded as having been reduced.

#### Other

Consideration has also been given to:

Trade and Other Receivables: Ara assesses its Receivables on an ongoing basis to determine any possible impairment, and a provision for impairment is allowed for in the current balance. As a result of this event, Ara does not expect that Receivables as at the end of the accounting period are impaired beyond the provision already made.

Investments: All Parent entity investments are in Bank Deposits held with NZ Trading banks. One subsidiary holds a managed fund, which at balance date was valued at \$6.336 million consisting of 60% of growth assets and 40% of defensive assets (note 6). The subsidiary has adopted a conservative approach to preserving the capital base of the portfolio. The subsidiary will continue to invest in accordance with its Statement of Investment Policy and Objectives.

### 23 Subsequent Events

There were no significant events after balance date. The effects of COVID-19 have been discussed in note 22.

## Other Information

### Employee Remuneration as at 31 October 2022

For the 10 months ended 31 October 2022, the number of employees or former employees of Ara Institute of Canterbury Ltd and its subsidiaries who received total remuneration in excess of \$100,000 are:

	<b>Number of employees</b>
320,001-330,000	1
210,001-220,000	1
200,001-210,000	1
180,001-190,000	1
170,001-180,000	2
140,001-150,000	5
130,001-140,000	3
120,001-130,000	8
110,001-120,000	11
100,001-110,000	15

Remuneration includes salary, retirement contributions and other sundry benefits received in the person's capacity as an employee.

During the period ended 31 October 2022, 9 employees received compensation and other benefits in relation to cessation totalling \$183,343.

## **Independent Auditor's Report**

### **To the readers of Ara Institute of Canterbury Limited and group's financial statements for the period 1 January 2022 to 31 October 2022**

The Auditor-General is the auditor of Ara Institute of Canterbury Limited (the Company) and group. The Auditor-General has appointed me, John Mackey, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Company and group on his behalf.

#### **Opinion**

We have audited the financial statements of the Company and group on pages 2 to 43, which have been prepared on a disestablishment basis, that comprise the statement of financial position as at 31 October 2022, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the period ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Company and group on pages 2 to 43, which have been prepared on a disestablishment basis:

- present fairly, in all material respects:
  - the financial position as at 31 October 2022; and
  - the financial performance and cash flows for the period then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

Our audit was completed on 16 May 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below and we draw your attention to the financial statements being prepared on a disestablishment basis. In addition, we outline the responsibilities of the Te Pūkenga Council (the Council) and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

#### **Emphasis of matter – The financial statements have been prepared on a disestablishment basis**

Without modifying our opinion, we draw attention to Basis of preparation note 1.2 on page 7, which outlines that Te Pūkenga disestablished Ara Institute of Canterbury Limited on 31 October 2022. As a result, the financial statements have been prepared on a disestablishment basis. No changes have been made to the recognition and measurement basis, or presentation of assets and liabilities in these financial statements because the operations of the Company have been transferred to Te Pūkenga on the disestablishment date.

### **Basis for our opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

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

The preparation of the final financial statement for the Company and group is the responsibility of the Council.

The Council is responsible on behalf of the Company and group for preparing the disestablishment financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

Up until 31 October 2022 the Board of Directors of the Company and group were responsible for such internal control as it determined was necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. From 1 November 2022, the Te Pukenga Council (the Council) took over these responsibilities to enable the completion of the financial statements.

In preparing the financial statements, the Council is responsible on behalf of the Company and group for assessing the Company and group's ability to continue as a going concern. If the Council concludes that a going concern basis of accounting is inappropriate, the Council is responsible for preparing financial statements on a disestablishment basis and making appropriate disclosures.

The Council's responsibilities arise from the Education and Training Act 2020.

### **Responsibilities of the auditor 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

For the budget information reported in the financial statements, our procedures were limited to checking that the information agreed to the Company and group's budget approved by the Board's directors.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.
- We conclude on the appropriateness of the use of disestablishment basis by the Council.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

### **Other information**

The Council is responsible for the other information. The other information comprises the information included on page 44 but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we 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 our work, 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.

### **Independence**

We are independent of the Company and group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with or interests in the Company or any of its subsidiaries.



John Mackey  
Audit New Zealand  
On behalf of the Auditor-General  
Christchurch, New Zealand



Ara is proud to be a Smokefree institute

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05204 | May 2023