Ara

Institute of Canterbury

Ara rau, taumata rau

FINAL REPORT

For 3 months ended 31 March 2020

Table of Contents

Statement of Responsibility	1
Statement of Comprehensive Revenue and Expenses	2
Statement of Financial Position	3
Statement of Cash Flows	4
Statement of Changes in Equity	5
Statement of Childcare Operating Income and Expenditure	6
Notes to the Financial Statements	7
Auditor's Report	40

Publication Format

The 2020 Ara Final 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:
www.ara.ac.nz/about-us/publications/corporate-documents-and-annuals-reports

Statement of Responsibility

Ara Institute of Canterbury hereby certifies that:

1 It has been responsible for the preparation of these financial statements 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 fairly reflect the financial position and operations of this institution for the period ended 31 March 2020.

The financial statements were authorised for issue by the Ara Institute of Canterbury Council on 31 July 2020.

Dr Thérèse Arseneau
Chair of Council

Tony Gray
Chief Executive

Darren Mitchell
Deputy Chief Executive – Chief Operating Officer

Statement of Comprehensive Revenue and Expenses

for the Period Ended 31 March 2020

	Notes	Parent			Group		
		Actual 3 months ended 31 Mar 2020 $000	Budget 12 months ended 31 Dec 2020 $000	Actual 12 months ended 31 Dec 2019 $000	Actual 3 months ended 31 Mar 2020 $000	Budget 12 months ended 31 Dec 2020 $000	Actual 12 months ended 31 Dec 2019 $000
Revenue							
Government Grants	**2**	70,841	61,116	60,349	70,841	61,116	60,349
Student Tuition Fees	**2**	13,373	46,898	45,003	13,373	46,898	45,003
Other Revenue	**2**	1,436	8,154	8,467	1,488	8,439	8,655
Finance Revenue	**2**	481	1,625	2,265	3	1,780	3,330
Gain on Investment Property Revaluations	**2**	-	-	-	10	100	220
Total Revenue		**86,131**	**117,793**	**116,084**	**85,715**	**118,333**	**117,557**
Operating Expenses							
Employee Benefit Expenses	**2**	16,743	71,477	70,500	16,743	71,477	70,500
Depreciation Expense	**2, 8**	2,918	11,540	11,172	3,100	12,242	11,902
Amortisation Expense	**2, 9**	154	610	611	154	610	611
Finance Costs	**2**	349	1,390	1,404	473	1,899	1,940
Other Expenses	**2**	7,357	32,810	29,901	6,996	31,453	28,413
Transformation Expenses	**2**	321	2,349	2,324	321	2,349	2,324
Loss on Investment Property Revaluations	**2**	-	-	-	40	-	-
Loss on Interest Rate Swaps	**2**	-	-	-	181	-	107
Total Operating Expenses		**27,842**	**120,176**	**115,912**	**28,008**	**120,030**	**115,797**
Share of associate (deficit)/surplus	**16**	(47)	-	(58)	(47)	-	(58)
Net Surplus/(Deficit)		**58,242**	**(2,383)**	**114**	**57,660**	**(1,697)**	**1,702**
Other Comprehensive Revenue and Expenses							
Gains on Property Revaluations	**8**	-	-	-	-	-	-
Total Other Comprehensive Revenue and Expenses		**-**	**-**	**-**	**-**	**-**	**-**
Total Comprehensive Revenue and Expenses		**58,242**	**(2,383)**	**114**	**57,660**	**(1,697)**	**1,702**

Net Operating Surplus analysed for non-recurring items

	Parent			Group		
	Actual 2020 $000	Budget 2020 $000	Actual 2019 $000	Actual 2020 $000	Budget 2020 $000	Actual 2019 $000
Net operating surplus	**58,563**	**(34)**	**2,438**	**57,981**	**652**	**4,026**
Transformation Expenses*	(321)	(2,349)	(2,324)	(321)	(2,349)	(2,324)
Net Surplus/(Deficit)	**58,242**	**(2,383)**	**114**	**57,660**	**(1,697)**	**1,702**

Items that are non-recurring in nature (not part of normal operations) are indicated with an asterisk.

The accompanying notes form part of these financial statements.

Statement of Financial Position
as at 31 March 2020

		Parent			Group		
	Notes	Actual 3 months ended 31 Mar 2020 $000	Budget 12 months ended 31 Dec 2020 $000	Actual 12 months ended 31 Dec 2019 $000	Actual 3 months ended 31 Mar 2020 $000	Budget 12 months ended 31 Dec 2020 $000	Actual 12 months ended 31 Dec 2019 $000
ASSETS							
Current Assets							
Cash and Cash Equivalents	**3, 18**	10,629	5,132	12,438	12,498	10,092	14,377
Trade and Other Receivables	**4, 18**	50,624	2,670	3,247	50,779	2,720	3,423
Inventories	**5**	737	1,321	1,027	737	1,321	1,027
Prepayments		2,155	1,794	2,291	2,155	1,794	2,291
Other Financial Assets	**6, 18**	78,000	53,000	60,700	78,137	53,000	60,837
Total Current Assets		**142,145**	**63,917**	**79,703**	**144,306**	**68,927**	**81,955**
Non-Current Assets							
Land and Buildings	**8**	294,775	295,232	295,639	319,972	322,662	320,996
Plant and Equipment	**8**	14,814	16,203	15,415	15,380	16,204	15,939
Investment accounted for using the equity method	**16**	1,104	1,209	1,151	1,104	1,209	1,151
Other Financial Assets	**6**	-	-	-	8,144	4,999	8,659
Investment Properties	**7**	-	-	-	3,620	3,100	3,650
Intangible Assets	**9**	2,246	1,952	2,348	2,246	1,952	2,348
Total Non-Current Assets		**312,939**	**314,596**	**314,553**	**350,466**	**350,126**	**352,743**
TOTAL ASSETS		**455,084**	**378,513**	**394,256**	**494,772**	**419,053**	**434,698**
LIABILITIES							
Current Liabilities							
Trade and Other Payables	**10, 18**	4,331	5,000	6,831	4,377	5,127	7,091
Finance Leases Current	**11**	743	1,239	763	743	1,239	763
Loans and Borrowings	**11**	-	-	-	560	-	560
Employee Benefit Liabilities	**12**	3,463	2,462	2,576	3,463	2,462	2,576
Revenue Received in Advance	**13**	21,852	9,149	17,518	21,852	9,149	17,518
Total Current Liabilities		**30,389**	**17,850**	**27,688**	**30,995**	**17,977**	**28,508**
Non-Current Liabilities							
Finance Leases	**11**	25,151	25,402	25,266	25,151	25,402	25,266
Loans and Borrowings	**11**	-	-	-	11,478	11,600	11,617
Employee Benefit Liabilities	**12**	238	238	238	238	238	238
Interest Rate Swaps		-	-	-	459	-	278
Total Non-Current Liabilities		**25,389**	**25,640**	**25,504**	**37,326**	**37,240**	**37,399**
TOTAL LIABILITIES		**55,778**	**43,490**	**53,192**	**68,321**	**55,217**	**65,907**
NET ASSETS		**399,306**	**335,023**	**341,064**	**426,451**	**363,836**	**368,791**
EQUITY							
Accumulated Comprehensive Revenue and Expense		294,619	230,372	236,408	311,874	248,587	254,245
Asset Revaluation Reserve		103,782	103,782	103,782	113,672	114,380	113,672
Trusts and Bequests Reserves		905	869	874	905	869	874
TOTAL EQUITY		**399,306**	**335,023**	**341,064**	**426,451**	**363,836**	**368,791**

The accompanying notes form part of these financial statements

Statement of Cash Flows
for the Period Ended 31 March 2020

	Notes	Parent			Group		
		Actual 3 months ended 31 Mar 2020 $000	Budget 12 months ended 31 Dec 2020 $000	Actual 12 months ended 31 Dec 2019 $000	Actual 3 months ended 31 Mar 2020 $000	Budget 12 months ended 31 Dec 2020 $000	Actual 12 months ended 31 Dec 2019 $000
Cash Flows from Operating Activities							
Receipts of Government Grants		16,199	61,116	62,533	16,199	61,116	62,533
Receipts of Student Tuition Fees		24,138	45,094	54,186	24,138	45,094	54,186
Receipts of Other Income		2,273	8,154	6,384	2,354	8,465	6,576
Interest Received		478	1,625	2,168	520	1,780	2,262
Payments to Employees		(15,856)	(71,947)	(70,348)	(15,856)	(71,947)	(70,348)
Payments to Suppliers		(9,456)	(29,583)	(31,202)	(9,178)	(28,259)	(29,628)
Payments relating to transformation costs		(321)	(2,832)	(2,324)	(321)	(2,832)	(2,324)
Interest Paid		-	-	-	(125)	(500)	(535)
Net Cash Flows from Operating Activities	3	**17,455**	**11,627**	**21,397**	**17,731**	**12,917**	**22,722**
Cash Flows from Investing Activities							
Proceeds from Sale of Property, Plant and Equipment		-	-	53	-	-	53
Proceeds from Sale and Maturity of Investments		28,900	-	173,948	28,900	-	173,948
Investment in term deposits		-	-	-	-	-	(137)
Purchase of Intangible Assets		(52)	(252)	(125)	(52)	(252)	(125)
Purchase of Property, Plant and Equipment		(1,367)	(11,138)	(9,539)	(1,583)	(11,238)	(9,794)
Purchase of Investments		(46,200)	3,510	(184,048)	(46,190)	3,510	(185,405)
Net Cash Flows from Investing Activities		**(18,719)**	**(7,880)**	**(19,711)**	**(18,925)**	**(7,980)**	**(21,460)**
Cash Flows from Financing Activities							
Equity Scholarship		25	-	26	25	-	26
Repayments of Loans & Borrowings		-	-	-	(140)	(560)	(467)
Repayment of Finance Lease Liabilities		(570)	(2,374)	(2,217)	(570)	(2,374)	(2,217)
Net Cash Flows from Financing Activities		**(545)**	**(2,374)**	**(2,191)**	**(685)**	**(2,934)**	**(2,658)**
Net (Decrease)/Increase in Cash and Cash Equivalents		**(1,809)**	**1,373**	**(505)**	**(1,879)**	**2,003**	**(1,396)**
Cash and Cash Equivalents at the beginning of the year		12,438	3,759	(12,943)	14,377	8,089	15,773
Cash and Cash Equivalents at the end of the period	3	**10,629**	**5,132**	**12,438**	**12,498**	**10,092**	**14,377**

The accompanying notes form part of these financial statements

Statement of Changes in Equity
for the Period Ended 31 March 2020

	Notes	Parent			Group		
		Actual 3 months ended 31 Mar 2020 $000	Budget 12 months ended 31 Dec 2020 $000	Actual 12 months ended 31 Dec 2019 $000	Actual 3 months ended 31 Mar 2020 $000	Budget 12 months ended 31 Dec 2020 $000	Actual 12 months ended 31 Dec 2019 $000
Balance at 1 January		341,064	337,406	340,950	368,791	356,033	367,089
Total Comprehensive Revenue and Expenses		58,242	(2,383)	114	57,660	(1,696)	1,702
Revaluation Adjustment		-	-	-	-	9,499	-
Closing Balance		**399,306**	**335,023**	**341,064**	**426,451**	**363,836**	**368,791**
By Class							
Accumulated comprehensive revenue and expense							
Balance at 1 January		236,408	232,755	236,325	254,245	250,283	252,574
Net Surplus/(Deficit) for the period		58,242	(2,383)	114	57,660	(1,696)	1,702
Appropriation of Net Surplus to Restricted Reserves		(31)	-	(31)	(31)	-	(31)
Closing Balance		**294,619**	**230,372**	**236,408**	**311,874**	**248,587**	**254,245**
Trusts and Bequests Reserves							
Balance at 1 January		874	869	843	874	869	843
General bequest funds		25	-	26	25	-	26
Appropriation of Net Surplus		6	-	24	6	-	24
Application of Trusts and Bequests		-	-	(19)	-	-	(19)
Closing Balance		**905**	**869**	**874**	**905**	**869**	**874**
Restricted reserves consist of scholarships, bequests and trust funds held by the Institute on behalf of others.							
Asset Revaluation Reserve							
Balance at 1 January		103,782	103,782	103,782	113,672	114,380	113,672
Fair Value Revaluation of Land and Buildings		-	-	-	-	-	-
Closing Balance		**103,782**	**103,782**	**103,782**	**113,672**	**114,380**	**113,672**

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	40,104	40,104	40,104	47,674	40,104	47,674
Buildings	63,678	63,678	63,678	65,999	74,276	65,999
	103,782	**103,782**	**103,782**	**113,672**	**114,380**	**113,672**

The accompanying notes form part of these financial statements

Statement of Childcare Operating Income and Expenditure

for the Period Ended 31 March 2020 (Parent and Group)

	Actual 3 months ended 31 Mar 2020 $	Budget 12 months ended 31 Dec 2020 $	Actual 12 months ended 31 Dec 2019 $
Revenue			
Operating Grants	173,721	460,000	438,081
Fees	42,012	221,892	199,025
Total	**215,733**	**681,892**	**637,106**
Expenditure			
Salaries and Related Costs	160,525	653,304	640,031
Consumables	652	4,383	4,671
Administration	2,125	11,333	12,662
Occupancy Costs	14,500	58,000	58,000
Depreciation	301	803	1,203
Total	**178,103**	**727,823**	**716,567**
Net (Deficit)/Surplus	**37,630**	**(45,931)**	**(79,461)**

Total Child Funded Hours	**2020**	**2019**
Children Aged Under Two	2,641	10,266
Children Aged Two and Over	2,636	9,686
20 Hours ECE	6,289	22,991
Plus 10 Subsidy	1,219	5,264
Total	**12,785**	**48,207**

Notes to the Financial Statements

1 General Information

1.1 Reporting Entity

Ara Institute of Canterbury (Ara or the Institute) is a Crown Entity established under the Education Act 1989 as a tertiary education institution (TEI). It provides full-time and part-time tertiary education in New Zealand. Ara is established and domiciled in New Zealand. The relevant legislation governing Ara's operations includes the Crown Entities Act 2004 and the Education Act 1989.

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 period ended 31 March 2020. The financial statements were authorised for issue by the Board on 28 July 2020.

1.2 Basis of Preparation

The financial statements of the Group have been prepared in accordance with the requirements of the Crown Entities Act 2004 and the Education Act 1989, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP). The measurement base applied is historical cost except where otherwise identified.

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, the New Zealand Institute of Skills and Technology (NZIST) and converting all existing institutes of technology and polytechnics (ITPs) into crown entity companies, which will take over the operational activities of existing ITPs.

The Act disestablishes Ara Institute of Canterbury and transfers its assets and liabilities to a new company, Ara Institute of Canterbury Ltd on 1 April 2020. As a result Ara Institute of Canterbury has prepared its financial statements on a disestablishment basis.

However, because vocational education will continue to be provided through Ara Institute of Canterbury Ltd no change needs to be made to the measurement or classification of assets and liabilities. Decisions about the future of these assets and liabilities will be the responsibility of the new entity.

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 Council prior to the beginning of the financial period. The Group budget figures consists of a combination of the budget of Ara and the individual budgets of the Institute's subsidiary and associate entities. 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. The budget figures are for the full 2020 financial year and are not entirely comparable with the 31 March 2020 actuals.

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.

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

The consolidated financial statements comprise the financial statements of Ara (the Parent), its subsidiaries, its associate and its joint operation. The financial statements of subsidiaries and the associate are prepared for the same reporting period as the Parent using consistent accounting policies.

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 period ended 31 March 2020. Its 16.7% equity share of its associate TANZ eCampus Limited has been equity accounted. Its joint operation with CDHB is accounted for as noted under 'Joint Operation' above.

1.5 New Standards

Standards issued and not yet effective and not early adopted

PBE IPSAS 41 Financial Instruments

In March 2019, the XRB issued PBE IPSAS 41 Financial Instruments. The new standard replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement and PBE IFRS 9 Financial Instruments and is effective for annual periods beginning on or after 1 January 2022. Ara has not yet assessed the impact of this new standard.

Amendment to PBE IPSAS 2 Statement of Cash Flows

An amendment to PBE IPSAS 2 Statement of Cash Flows requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for annual periods beginning on or after 1 January 2021. Ara has not yet assessed the impact of this new standard.

Service Performance Reporting

In November 2017, the XRB issued PBE FRS 48 Service Performance Reporting which replaces the service performance reporting requirements of PBE IPSAS 1. PBE FRS 48 is currently effective for annual periods beginning on or after 1 January 2021. The NZ Accounting Standards Board has recently issued an exposure draft that proposes to defer the adoption date of PBE FRS 48 by one year to reporting periods beginning on or after 1 January 2022. Ara has not yet assessed the impact of this new standard.

Standards adopted

Early adoption of PBE IFRS 9 Financial Instruments

In accordance with the transitional provisions of PBE IFRS 9, Ara has elected not to restate the information for previous years to comply with PBE IFRS 9.

Accounting policies have been updated to comply with PBE IFRS 9. The main update is:

- Note 4 Trade and Other Receivables: This policy has been updated to reflect that an estimate for doubtful debts is made by applying an expected credit loss model.

On the date of initial application of PBE IFRS 9, being 1 January 2019, the classification of financial instruments under PBE IPSAS 29 and PBE IFRS 9 changed as follows:

	Original PBE IPSAS 29 category	*New PBE IFRS 9 category*
Cash and cash equivalents	Loans and receivables	Amortised cost
Term deposits	Loans and receivables	Amortised cost
Receivables	Loans and receivables	Amortised cost
Managed funds - Ara Foundation	Fair value through surplus/deficit	Fair value through surplus/deficit

There have been no changes to carrying amounts as at 1 January 2019 (i.e. date of initial application) compared to those calculated under PBE IPSAS 29 as 31 December 2018.

Adoption of PBE IPSAS 34-38

Ara has adopted the new group standards, PBE IPSAS 34 to 38, in preparing these financial statements. In adopting these new standards, Ara has updated its accounting policies for its investments in subsidiaries, associate and joint operation. The Health Precinct lease arrangement has been reclassified from a joint venture to joint operation on adoption of PBE IPSAS 37. There is no financial effect on the carrying amounts as at 1 January 2019 from the adoption of the new standards.

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.

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 year 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 is the Institute's main source of operational funding from the Tertiary Education Commission (TEC). The Institute considers SAC funding to be non-exchange revenue.

31 March 2020

In response to the COVID-19 pandemic, TEC has confirmed that it will not seek repayment of 2020 investment plan funding, which includes SAC funding, due to any under-delivery in the 2020 year. Therefore, the Institute has recognised a receivable and revenue for the period ended 31 March 2020 for the remaining 2020 funding to be received after the balance date.

31 December 2019

The Institute 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.

Government Fees Free

The Institute considers Government Fees Free funding to be non-exchange revenue and recognises it as revenue when the course withdrawal date has been passed by an eligible student.

31 March 2020

In response to the COVID-19 pandemic, TEC has confirmed that it will not seek repayment of any unused 2020 fees free funding. Therefore, the Institute has recognised a receivable and revenue for the period ended 31 March 2020 for the remaining 2020 funding to be received after the balance date.

31 December 2019

The Institute recognises revenue when the course withdrawal date for an eligible student has passed.

Performance-Based Research Fund (PBRF)

PBRF funding is considered to be non-exchange in nature. PBRF funding is specifically identified by the TEC as being for a funding period as required by section 159YA of the Education Act 1989. Ara recognises its confirmed allocation of PBRF funding at the commencement of the specified funding period which is the same as Ara's financial year. PBRF revenue is measured based on Ara's funding entitlement 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.

Revenue

	Parent		Group	
	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Government Grants				
Normal Operational Grants	70,760	60,059	70,760	60,059
Special Supplementary Grants	81	290	81	290
Total Government Grants	**70,841**	**60,349**	**70,841**	**60,349**
Student Tuition Fees	**13,373**	**45,003**	**13,373**	**45,003**
Other Revenue				
Gains on Disposal of Property, Plant and Equipment	-	53	-	53
Revenue from Other Operating Activities	1,436	8,414	1,488	8,602
Total Other Revenue	**1,436**	**8,467**	**1,488**	**8,655**
Finance Revenue				
Interest Earned on Investments (including Bank Deposits)	481	2,265	3	3,330
Total Finance Revenue	**481**	**2,265**	**3**	**3,330**
Gain on Property Investment Revaluations	-	-	**10**	**220**
Total Revenue	**86,131**	**116,084**	**85,715**	**117,557**

Revenue under exchange and non exchange transactions

	Parent 3 months ended 31 Mar 2020 $000	Parent 12 months ended 31 Dec 2019 $000	Group 3 months ended 31 Mar 2020 $000	Group 12 months ended 31 Dec 2019 $000
Revenue under exchange transactions				
International Student Fees	3,396	16,636	3,396	16,636
Other Revenue	1,265	6,862	1,317	7,050
Finance Revenue	481	2,265	3	3,330
Gain on Property Investment Revaluations	-	-	10	220
Total Exchange Revenue	**5,142**	**25,763**	**4,726**	**27,236**
Other exchange revenue is mainly made up of: teaching delivery to external parties, student accommodation rent, facilities hire and restaurant revenue.				
Revenue under non exchange transactions				
Government Grants	70,841	60,349	70,841	60,349
Domestic Student Fees	9,650	26,941	9,650	26,941
Student Services Levy	327	1,426	327	1,426
Other Revenue	171	1,605	171	1,605
Total Non Exchange Revenue	**80,989**	**90,321**	**80,989**	**90,321**
Other Non Exchange revenue is mainly Industry Training Organisations (ITOs) revenue.				
Total Revenue	**86,131**	**116,084**	**85,715**	**117,557**

Expenses

	Parent 3 months ended 31 Mar 2020 $000	Parent 12 months ended 31 Dec 2019 $000	Group 3 months ended 31 Mar 2020 $000	Group 12 months ended 31 Dec 2019 $000
Finance Charge*	349	1,404	349	1,404
Interest on Bank Loans	-	-	124	536
Total Finance Costs	**349**	**1,404**	**473**	**1,940**

*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.

Employee Benefit Expenses

	Parent 3 months ended 31 Mar 2020 $000	Parent 12 months ended 31 Dec 2019 $000	Group 3 months ended 31 Mar 2020 $000	Group 12 months ended 31 Dec 2019 $000
Wages and Salaries	15,856	70,348	15,856	70,348
Increase in Employee Benefit Liabilities	887	152	887	152
Total Employee Benefit Expenses	**16,743**	**70,500**	**16,743**	**70,500**

Notes to the Financial Statements

2 Revenue and Expenses (continued)

	Parent		Group	
	3 months ended 31 Mar 2020 $000	**12 months ended 31 Dec 2019 $000**	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**
Depreciation Expense	**2,918**	**11,172**	**3,100**	**11,902**
Amortisation Expense	**154**	**611**	**154**	**611**
Other Expenses				
Audit New Zealand Fees for Financial Statement Audits	163	192	163	192
Other Auditor Fees for Audit of Ara Foundation and OEDT Financial Statements	-	-	-	20
Donations Made	1	14	1	14
Impairment of Receivables (Note 4)	119	(19)	119	(19)
Research and Development Expenditure	69	259	69	259
Minimum Lease Payments under Operating Leases	472	2,073	472	2,073
Other Operating Expenses	6,533	27,382	6,172	25,874
Total Other Expenses	**7,357**	**29,901**	**6,996**	**28,413**

There are no unfulfilled conditions or other contingencies attached to government grants recognised.

Loss on Investment Property Valuations	**-**	**-**	**40**	**-**
Loss on Interest Rate Swaps	**-**	**-**	**181**	**107**
Transformation Expenses	**321**	**2,324**	**321**	**2,324**
Total Expenses	**27,842**	**115,912**	**28,008**	**115,797**

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.

	Parent		Group	
	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Cash at Bank and in Hand	10,629	12,438	12,498	14,377
Total Cash and Cash Equivalents	**10,629**	**12,438**	**12,498**	**14,377**

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.

While cash and cash equivalents at 31 March 2020 are subject to the expected credit loss requirements of PBE IFRS 9, no loss allowance has been recognised because the estimated allowance for credit losses is minor.

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

	Parent		Group	
	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Net Deficit/Surplus	58,242	114	57,660	1,702
Add/(Subtract) Non-Cash Items:				
Depreciation and Amortisation Expense	3,072	11,783	3,254	12,513
Share of Associate's Deficit/(Surplus)	47	58	47	58
Gains/(Losses) on the Revaluation of Investments	-	-	685	(849)
Finance Lease Charge	349	1,404	349	1,404
Add/(Subtract) items classified as investing or financing activities:				
(Gains)/Losses on Disposal of Property, Plant and Equipment	-	(53)	-	(53)
Revaluation of Investment Properties	-	-	30	(220)
Equity Scholarship	(25)	(26)	(25)	(26)
Add/(Subtract) movements in working capital items:				
Accounts Receivable	(47,377)	586	(47,356)	621
Inventories	290	294	290	294
Prepayments	136	(497)	136	(497)
Accounts Payable	(2,500)	(1,072)	(2,560)	(1,031)
Income in Advance	4,334	8,654	4,334	8,654
Employee Benefits	887	152	887	152
Net Cash Inflow from Operating Activities	**17,455**	**21,397**	**17,731**	**22,722**

Notes to the Financial Statements

4 Trade and Other Receivables

Accounting Policy

Student fees and other receivables are classified as financial assets measured at amortised cost and carried at the amount due less any allowance for expected credit losses.

Ara applies the simplified expected credit loss model of recognising lifetime expected credit losses for receivables.

In measuring expected credit losses, short-term receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due. Short-term receivables are written off when there is no reasonable expectation of recovery.

The expected credit loss rates for receivables at 31 March 2020 are based on the payment profile of revenue in credit over prior years at the measurement date and the corresponding historical credit losses experienced. Estimation of expected credit loss rates incorporates consideration of the proportion of debt referred to debt collection agencies and subsequent non-recovery. The historical loss rates are adjusted for current and forward-looking macroeconomic factors that might affect the recoverability of receivables. Given the short period of credit risk exposure, the impact of macroeconomic factors is not considered significant.

	Parent		Group	
	3 months ended 31 Mar 2020 $000	**12 months ended 31 Dec 2019 $000**	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**
Current				
Trade Receivables	50,566	2,908	50,722	3,084
Bank Interest Receivable	394	391	394	391
Related Party Receivables	42	207	42	207
Less: Allowance for credit losses	(378)	(259)	(378)	(259)
Total Current Receivables	**50,624**	**3,247**	**50,779**	**3,423**
The carrying value of trade and other receivables approximates their fair value.				
Total Receivables comprise:				
Receivables from exchange transactions	923	1,472	1,078	1,648
Receivables from non–exchange transactions	49,701	1,775	49,701	1,775
Total Receivables	**50,624**	**3,247**	**50,779**	**3,423**

	Parent		Group	
	3 months ended 31 Mar 2020 $000	**12 months ended 31 Dec 2019 $000**	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**
Maturity Analysis				
Current	48,287	2,674	48,442	2,850
Overdue but not Impaired 61 to 90 days	1,229	73	1,229	73
Overdue but not Impaired > 90 days	1,108	500	1,108	500
	50,624	**3,247**	**50,779**	**3,423**

Due to the large number of receivables, the assessment for collectability is based on an analysis of past collection history and write-offs. Ara holds no collateral as security or other credit enhancements over receivables that are either past due or impaired.

Movement in the provision for impairment of receivables is as follows:

	Parent		Group	
	3 months ended 31 Mar 2020 $000	**12 months ended 31 Dec 2019 $000**	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**
Allowance for credit losses as at 1 January 2019 calculated under PBE IPSAS 29	259	279	259	279
PBE IFRS 9 expected credit loss adjustment - through opening accumulated surplus/deficit	-	-	-	-
Opening allowance for credit losses as at 1 January	259	279	259	279
Receivables Written Off During Period	(33)	(116)	(33)	(116)
Revision in loss allowance made during the period	**152**	**96**	**152**	**96**
Closing Balance	**378**	**259**	**378**	**259**

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	
	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Held for Resale	15	15	15	15
Materials and Consumables	722	1,012	722	1,012
Total Inventories	**737**	**1,027**	**737**	**1,027**

The write–down of inventories held for sale amounted to $Nil (2019 $Nil).

Notes to the Financial Statements

6 Other Financial Assets and Liabilities

Accounting Policy

Financial assets are initially recognised at fair value plus transaction costs unless they are measured at fair value through surplus or deficit, in which case the transaction costs are recognised in the surplus or deficit.

Term deposits

Term deposits are initially measured at the amount invested. Where applicable, interest is subsequently accrued and added to the investment balance.

Therefore, term deposits are measured at amortised cost.

While term deposits at 31 March 2020 are subject to the expected credit loss requirements of PBE IFRS 9, no loss allowance has been recognised because the estimated allowance for credit losses is minor.

Previous accounting policy:

At year end, term deposits are assessed for indicators of impairment. If they are impaired, the amount not expected to be collected is recognised in the surplus or deficit.

Managed fund

The managed fund is a portfolio of financial assets that are actively traded with the intention of making profits.

Therefore, the managed fund is measured at fair value through surplus/deficit.

After initial recognition, the managed fund is measured at fair value, with gains and losses recognised in the surplus or deficit.

Fair value is determined by direct reference to published prices in active markets. Further details can be found in Note 18.

	Parent		Group	
	3 months ended 31 Mar 2020 $000	**12 months ended 31 Dec 2019 $000**	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**
Current Portion				
Bank Deposits Maturing within 12 months	78,000	60,700	78,137	60,837
Total Current Portion	**78,000**	**60,700**	**78,137**	**60,837**
Non-current Portion				
Bank deposits - OEDT	-	-	2,900	2,400
Fair Value through Profit and Loss				
Managed Funds – Ara Foundation	-	-	5,244	5,759
Total Non-current Portion	**-**	**-**	**8,144**	**8,659**
Effective Interest Rates				
Bank Deposits with Maturities of 3-12 months	2.48%	2.82%	2.48%	2.82%

There were no impairment provisions for other financial assets.

Residual Earthquake Insurance proceeds are invested as part of the overall term deposit portfolio. At balance date the insurance proceeds held for future repairs to damaged building stock totalled $28m.

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.

Notes to the Financial Statements

6 Other Financial Assets and Liabilities (continued)

	Parent		Group	
	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Counterparties with Credit Ratings				
Cash and Cash Equivalents:				
AA– Cash at Bank and in Hand	10,630	12,438	12,498	14,377
Total Cash and Cash Equivalents	**10,630**	**12,438**	**12,498**	**14,377**
Term deposits:				
A	25,500	12,200	25,500	12,200
AA–	52,500	48,500	55,537	51,537
Total Term Deposits	**78,000**	**60,700**	**81,037**	**63,737**
Counterparties without Credit Ratings				
Other investments:				
Existing Counterparty with no Defaults in the Past	–	–	5,244	5,759
Total Other Investments	**-**	**-**	**5,244**	**5,759**

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**	
	3 months ended 31 Mar 2020 $000	**12 months ended 31 Dec 2019 $000**	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**
Balance 1 January	-	-	3,650	3,000
Ara Foundation Investment Property Reclassification	-	-	-	430
Fair Value Gain/(Loss)	-	-	(30)	220
Closing Balance	-	-	**3,620**	**3,650**

The valuation of investment property for OEDT as at 31 March 2020 was performed by an independent registered valuer, Telfer Young, on 11 May 2020. Telfer Young are experienced valuers with extensive market knowledge in the types and location of investment property owned by the Group.

The valuation of investment property for Ara Foundation as at 31 March 2020 was performed by an independent registered valuer, Colliers International Valuation (Chch) Limited, on 29 April 2020. Colliers International Valuation (Chch) Limited are experienced valuers with extensive market knowledge in the types and location of investment property owned by the Group.

Investment property for Ara Foundation was previously recognised in Group Land and Buildings as the investment property was rented by Ara. Ara no longer rent the investment property and in 2019 there was a reclassification from Group Land and Buildings to Investment Properties. Refer to Note 8 for details on reclassification.

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.

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 lines. Depreciation rates used are as follows:

Ara

- Buildings – 1.1% -3.3%
- Buildings under finance lease – 3.33%
- Computer equipment – 10% - 33.3%
- Plant – 5% - 20%
- Furniture – 10%
- Vehicles – 20%
- 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 under finance lease – 10% - 33.3%
- Plant – 5% - 21.6%
- Furniture – 10%
- Vehicles – 20%
- 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.

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. 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.

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 annually 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 2018 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 2018 valuation include:

- The replacement costs of the specific assets are adjusted where appropriate for optimisation due to over-design or surplus capacity. There has been no optimisation adjustments for the most recent valuations.
- Replacement costs are derived from construction contracts of like assets, reference to publications such as QV costbuilder, 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

i) All Parent land and buildings were revalued as at 31 December 2018 in accordance with PBE IPSAS 17. The land and buildings valuation was completed by independent valuers: Daryl Taggart (BCom (VPM), MPINZ, ANZIV) and Hamish Collins (BCom (VPM), MPINZ) both, Registered Valuers of Quotable Value (QV).

ii) Land and buildings held under the Ara Foundation were revalued as at 31 December 2018 in accordance with PBE IPSAS 17. The valuation was completed by independent valuer Brent McGrath (Bcom (VPM) of Colliers International.

iii) Land and buildings held under the Ōtautahi Education Development Trust were revalued as at 31 December 2017 in accordance with PBE IPSAS 17. The valuation was completed by independent valuer Mark Dunbar (BCom (VPM), ANZIV, SPINZ, AREINZ) of Telfer Young.

iv) 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.

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 Financial Statements

8 Property, Plant and Equipment (continued)

2020 Parent	Cost/ Revaluation 1 January 2020 $000	Accumulated Depreciation and Impairment 1 January 2020 $000	Carrying Amount 1 January 2020 $000	Current Year Additions $000	Reclassification	Current Year Disposals $000	Current Year Depreciation $000	Revaluation Changes $000	Cost/ Revaluation 31 March 2020 $000	Accumulated Depreciation and Impairment 31 March 2020 $000	Carrying Amount 31 March 2020 $000
Institution Land and Buildings	260,211	(3,615)	256,596	952	10	-	(1,510)	-	261,173	(5,125)	256,048
Crown Land and Buildings	17,297	(2,709)	14,588	-	(10)	-	(92)	-	17,287	(2,801)	14,486
Buildings under Finance Lease	25,736	(1,281)	24,455	-	-	-	(214)	-	25,736	(1,495)	24,241
Computer Equipment	16,855	(13,157)	3,698	43	-	-	(441)	-	11,524	(8,224)	3,300
Computer Equipment under Finance Lease	992	-	992	86	-	-	(157)	-	921	-	921
Plant	14,125	(9,983)	4,142	189	-	-	(259)	-	14,314	(10,242)	4,072
Furniture	11,672	(8,285)	3,387	78	-	-	(131)	-	5,550	(2,216)	3,334
Vehicles	2,182	(1,557)	625	-	-	-	(56)	-	2,182	(1,613)	569
Library Collection	6,539	(5,064)	1,475	105	-	-	(58)	-	5,218	(3,696)	1,522
Art Collection	1,096	-	1,096	-	-	-	-	-	1,096	-	1,096
Total Parent	**356,705**	**(45,651)**	**311,054**	**1,453**	**-**	**-**	**(2,918)**	**-**	**345,001**	**(35,412)**	**309,589**

2020 Group	Cost/ Revaluation 1 January 2020 $000	Accumulated Depreciation and Impairment 1 January 2020 $000	Carrying Amount 1 January 2020 $000	Current Year Additions $000	Reclassification	Current Year Disposals $000	Current Year Depreciation $000	Revaluation Changes $000	Cost/ Revaluation 31 March 2020 $000	Accumulated Depreciation and Impairment 31 March 2020 $000	Carrying Amount 31 March 2020 $000
Group Land and Buildings	290,056	(8,103)	281,953	953	10	-	(1,671)	-	291,019	(9,774)	281,245
Crown Land and Buildings	17,297	(2,709)	14,588	-	(10)	-	(92)	-	17,287	(2,801)	14,486
Buildings under Finance Lease	25,736	(1,281)	24,455	-	-	-	(214)	-	25,736	(1,495)	24,241
Computer Equipment	20,425	(16,722)	3,703	43	-	-	(441)	-	15,094	(11,789)	3,305
Computer Equipment under Finance Lease	992	-	992	86	-	-	(157)	-	921	-	921
Plant	19,705	(15,045)	4,660	252	-	-	(280)	-	19,957	(15,325)	4,632
Furniture	11,672	(8,285)	3,387	78	-	-	(131)	-	5,550	(2,216)	3,334
Vehicles	2,516	(1,890)	626	-	-	-	(56)	-	2,516	(1,946)	570
Library Collection	6,539	(5,064)	1,475	105	-	-	(58)	-	5,218	(3,696)	1,522
Art Collection	1,096	-	1,096	-	-	-	-	-	1,096	-	1,096
Total Group	**396,034**	**(59,099)**	**336,935**	**1,517**	**-**	**-**	**(3,100)**	**-**	**384,394**	**(49,042)**	**335,352**

There was a reclassification of Crown Land and Buildings during 2019 as a result of two gazette notices that were issued. Legal ownership on the Crown Land and Buildings specified in the gazette notices was transferred to Ara and the Group.

Notes to Financial Statements

8 Property, Plant and Equipment (continued)

2019 Parent	Cost/ Revaluation 1 January 2019 $000	Accumulated Depreciation and Impairment 1 January 2019 $000	Carrying Amount 1 January 2019 $000	Current Year Additions $000	Reclassification	Current Year Disposals $000	Current Year Depreciation $000	Revaluation Changes $000	Cost/ Revaluation 31 December 2019 $000	Accumulated Depreciation and Impairment 31 December 2019 $000	Carrying Amount 31 December 2019 $000
Institution Land and Buildings	156,384	(103)	156,281	4,979	98,848	-	(3,512)	-	260,211	(3,615)	256,596
Crown Land and Buildings	115,517	-	115,517	628	(98,848)	-	(2,709)	-	17,297	(2,709)	14,588
Buildings under Finance Lease	25,736	(423)	25,313	-	-	-	(858)	-	25,736	(1,281)	24,455
Computer Equipment	15,502	(11,546)	3,956	1,494	-	(141)	(1,611)	-	16,855	(13,157)	3,698
Computer Equipment under Finance Lease	1,102	-	1,102	467	-	-	(577)	-	992	-	992
Plant	12,530	(9,148)	3,382	1,665	-	(32)	(873)	-	14,125	(9,983)	4,142
Furniture	11,119	(7,789)	3,330	553	-	-	(496)	-	11,672	(8,285)	3,387
Vehicles	1,942	(1,318)	624	245	-	-	(244)	-	2,182	(1,557)	625
Library Collection	6,391	(4,772)	1,619	148	-	-	(292)	-	6,539	(5,064)	1,475
Art Collection	1,096	-	1,096		-	-	-	-	1,096	-	1,096
Total Parent	**347,319**	**(35,099)**	**312,220**	**10,179**	**-**	**(173)**	**(11,172)**	**-**	**356,705**	**(45,651)**	**311,054**

2019 Group	Cost/ Revaluation 1 January 2019 $000	Accumulated Depreciation and Impairment 1 January 2019 $000	Carrying Amount 1 January 2019 $000	Current Year Additions $000	Reclassification	Current Year Disposals $000	Current Year Depreciation $000	Revaluation Changes $000	Cost/ Revaluation 31 December 2019 $000	Accumulated Depreciation and Impairment 31 December 2019 $000	Carrying Amount 31 December 2019 $000
Group Land and Buildings	186,659	(3,920)	182,739	4,979	98,418	-	(4,183)	-	290,056	(8,103)	281,953
Crown Land and Buildings	115,517	-	115,517	628	(98,848)	-	(2,709)	-	17,297	(2,709)	14,588
Buildings under Finance Lease	25,736	(423)	25,313	-	-	-	(858)	-	25,736	(1,281)	24,455
Computer Equipment	19,072	(15,111)	3,961	1,494	-	(141)	(1,611)	-	20,425	(16,722)	3,703
Computer Equipment under Finance Lease	1,102	-	1,102	467	-	-	(577)	-	992	-	992
Plant	17,702	(14,151)	3,551	2,073	-	(32)	(932)	-	19,705	(15,045)	4,660
Furniture	11,119	(7,789)	3,330	553	-	-	(496)	-	11,672	(8,285)	3,387
Vehicles	2,276	(1,651)	625	245	-	-	(244)	-	2,516	(1,890)	626
Library Collection	6,391	(4,772)	1,619	148	-	-	(292)	-	6,539	(5,064)	1,475
Art Collection	1,096	-	1,096	-	-	-	-	-	1,096	-	1,096
Total Group	**386,670**	**(47,817)**	**338,853**	**10,587**	**(430)**	**(173)**	**(11,902)**	**-**	**396,034**	**(59,099)**	**336,935**

There was a reclassification of Crown Land and Buildings during 2019 as a result of two gazette notices that were issued. Legal ownership on the Crown Land and Buildings specified in the gazette notices was transferred to Ara and the Group. Investment property for Ara Foundation was previously recognised in Group Land and Buildings as the investment property was rented by Ara. Ara no longer rent the investment property and in 2019 there was a reclassification from Group Land and Buildings to Investment Properties. Refer to Note 7 for details on Investment Property.

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	
	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Institution Land and Buildings	349	49	349	49

Restriction of Title

Under the Education Act 1989, 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 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.

The excess on claims for the Canterbury region is calculated as a 2.5% of site value, with a minimum of $75,000 and a maximum of $5m per event.

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 Council 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 (2019: Nil).

Capital Commitments

	Parent		Group	
	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000	3 months ended 31 Mar 2020 $0000	12 months ended 31 Dec 2019 $000
Capital Commitments Approved and Contracted				
Land and Buildings	90	452	90	505

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

Notes to 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.

Radio Frequency acquisition and development

Radio frequency is capitalised on the basis of the costs incurred to acquire.

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 year 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 licenses range from 10-33.3%. The amortisation rates for radio frequency is currently 5%.

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 annually 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 Financial Statements

9 Intangible Assets (continued)

2020	Gross Carrying Amount 1 January 2020 $000	Accumulated Amortisation 1 January 2020 $000	Net Carrying Amount 1 January 2020 $000	Current Year Additions $000	Current Year Disposals $000	Current Year Amortisation $000	Gross Carrying Amount 31 March 2020 $000	Accumulated Amortisation 31 March 2020 $000	Net Carrying Amount 31 March 2020 $000
Parent and Group – Radio Frequency	953	(377)	576	-	-	(53)	953	(430)	523
Parent and Group – Software	4,107	(2,335)	1,772	52	-	(101)	4,159	(2,436)	1,723
Total Group	**5,060**	**(2,712)**	2,348	**52**	**-**	**(154)**	**5,112**	**(2,866)**	**2,246**

2019	Gross Carrying Amount 1 January 2019 $000	Accumulated Amortisation 1 January 2019 $000	Net Carrying Amount 1 January 2019 $000	Current Year Additions $000	Current Year Disposals $000	Current Year Amortisation $000	Gross Carrying Amount 31 December 2019 $000	Accumulated Amortisation 31 December 2019 $000	Net Carrying Amount 31 December 2019 $000
Parent and Group – Radio Frequency	950	(168)	782	3	-	(209)	953	(377)	576
Parent and Group – Software	3,985	(1,933)	2,052	122	-	(402)	4,107	(2,335)	1,772
Total Group	**4,935**	**(2,101)**	**2,834**	**125**	**-**	**(611)**	**5,060**	**(2,712)**	**2,348**

All intangible assets are externally acquired.

In 2020, there was no impairment or disposal of intangible assets.

In 2019, there was no impairment or disposal of intangible assets.

Work in Progress

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

	Parent		Group	
	3 months ended 31 Mar 2020	12 months ended 31 Mar 2019	3 months ended 31 Mar 2020	12 months ended 31 Mar 2019
Software	3,907	3,907	3,907	3,907

Notes to Financial Statements
10 Trade and Other Payables

Accounting Policy
Trade payables are recorded at the amount payable.

	Parent		Group	
	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Trade Payables	1,843	3,694	1,889	3,954
Other Payables	2,438	2,989	2,438	2,989
Related Party Payables	50	148	50	148
Total Payables	**4,331**	**6,831**	**4,377**	**7,091**

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	1,893	3,842	1,893	3,842
Other Payables	550	842	550	842
Total Payables under Exchange Transactions	**2,443**	**4,684**	**2,443**	**4,684**
Payables under Non-exchange Transactions				
Taxes payable (GST and rates)	1,607	1,804	1,613	1,809
Other Payables	281	343	321	598
Total Payables under Non-exchange Transactions	**1,888**	**2,147**	**1,934**	**2,407**
Total Payables	**4,331**	**6,831**	**4,377**	**7,091**

Notes to 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 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	
Lease Liabilities	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**
Less than One Year	743	763	743	763
Later than One Year but not more than Five Years	1,755	1,776	1,755	1,776
Later than Five Years	23,396	23,490	23,396	23,490
Total Lease Liabilities	**25,894**	**26,029**	**25,894**	**26,029**
Weighted Average Interest Rate	5.53%	5.53%	5.53%	5.53%

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.

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
Parent 2020							
Finance Leases	25,894	52,469	1,083	1,046	1,937	1,775	46,628
Secured Loans	-	-	-	-	-	-	-
Total	**25,894**	**52,469**	**1,083**	**1,046**	**1,937**	**1,775**	**46,628**
Group 2020							
Finance Leases	25,894	52,469	1,083	1,046	1,937	1,775	46,628
Secured Loans	12,038	16,319	477	473	931	913	13,525
Total	**37,932**	**68,788**	**1,560**	**1,519**	**2,868**	**2,688**	**60,153**

Group Property Finance Lease Reconciliation 2020

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
Total minimum lease payments payable	51,546	832	839	1,696	1,646	46,533
Future Finance Charges	(26,575)	(695)	(691)	(1,369)	(1,351)	(22,469)
Present value of minimum lease payments	**24,971**	**137**	**148**	**327**	**295**	**24,064**
Present value of minimum lease payments						
Finance leases	24,971	137	148	327	295	24,064
Total present value of minimum lease payments	**24,971**	**137**	**148**	**327**	**295**	**24,064**

	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
Parent 2019							
Finance Leases	26,029	52,953	1,087	1,067	1,971	1,780	47,048
Secured Loans	-	-	-	-	-	-	-
Total	**26,029**	**52,953**	**1,087**	**1,067**	**1,971**	**1,780**	**47,048**
Group 2019							
Finance Leases	26,029	52,953	1,087	1,067	1,971	1,780	47,048
Secured Loans	12,177	16,557	477	477	936	917	13,750
Total	**38,206**	**69,510**	**1,564**	**1,544**	**2,907**	**2,697**	**60,798**

Group Property Finance Lease Reconciliation 2019

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
Total minimum lease payments payable	51,959	826	839	1,689	1,665	46,940
Future Finance Charges	(26,923)	(697)	(693)	(1,373)	(1,355)	(22,805)
Present value of minimum lease payments	**25,036**	**129**	**146**	**316**	**310**	**24,135**
Present value of minimum lease payments						
Finance leases	25,313	151	126	275	316	24,445
Total present value of minimum lease payments	**25,313**	**151**	**126**	**275**	**316**	**24,445**

Notes to 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	
Employee Entitlements	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**
Annual Leave	3,144	2,259	3,144	2,259
Long Service Leave	297	297	297	297
Sick Leave	260	258	260	258
As at 31 December	**3,701**	**2,814**	**3,701**	**2,814**
Current Portion	3,463	2,576	3,463	2,576
Non-Current Portion	238	238	238	238
	3,701	**2,814**	**3,701**	**2,814**

Notes to Financial Statements

13 Revenue Received in Advance

	Parent		Group	
	3 months ended 31 Mar 2020 $000	**12 months ended 31 Dec 2019 $000**	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**
Government Grants	-	2,249	-	2,249
Fees Income	21,852	15,248	21,852	15,248
Other Revenue in Advance	-	21	-	21
Total revenue in advance	**21,852**	**17,518**	**21,852**	**17,518**
Current Portion	21,852	17,518	21,852	17,518
Total	**21,852**	**17,518**	**21,852**	**17,518**

Notes to 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	
	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Not later than One Year	1,650	1,773	137	194
Later than One Year and not later than Five Years	4,807	4,867	78	102
Later than Five Years	13,459	13,754	-	-
Total Operating Leases	**19,916**	**20,394**	**215**	**296**

The total of minimum future sublease payments expected to be received under non-cancellable subleases at balance date is $nil (2019: $31,236).

Equipment Leases				
Not later than One Year	1,482	1,482	1,482	1,482
Later than One Year and not later than Five Years	2,206	2,578	2,206	2,578
Later than Five Years	-	-	-	-
Total Equipment Leases	**3,688**	**4,060**	**3,688**	**4,060**

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 Financial Statements

15 Contingent Assets and Liabilities

Parent

As at 31 March 2020, Ara had no contingent assets.

Holiday Act Compliance

Many public and private sector entities, including Ara Institute of Canterbury (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 have appointed a payroll specialist, to undertake a full review of Ara's system, processes and records to determine the scale of the potential issue. There is uncertainty over any actual costs which may arrive from this audit, so any future liability cannot be reasonably estimated.

Ara has not made an estimate and instead disclosed a contingent liability note in its financial statements.

As at 31 December 2019, Ara had no contingent assets.

As at 31 December 2019, Ara had disclosed the same contingent liability note as above for the 31 March 2020 in its financial statements.

Group

As at 31 March 2020, OEDT had no contingent liabilities.

As at 31 December 2019, OEDT had no contingent liabilities.

Notes to 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 has an investment in an associate, TANZ eCampus Limited.

Ara is deemed to have significant influence in the investment in TANZ e-Campus as the Ara Chief Executive is a board member and as such is deemed to have power to participate in the financial and operating policy decisions.

Significant transactions with government-related entities

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

Ara has received funding and grants from the Tertiary Education Commission totalling $71 million (2019: $60 million) to provide education and research services for the 2020 financial year.

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 period ended 31 March 2020 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.

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

During 2020, Ara's revenue included the following transactions with the Ara Foundation:

	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Grants	16	39

During 2020, Ara's expenditure included the following transactions with the Ara Foundation:

	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Lease of ML Block	-	-

At 31 March 2020, Ara owed the Foundation $148,374 for earthquake repair insurance proceeds. The Foundation owed Ara $16,265.

At 31 December 2019, Ara owed the Foundation $148,374 for earthquake repair insurance proceeds. The Foundation did not owe Ara any monies.

Notes to Financial Statements

16 Related Party Transactions (continued)

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 2020, Ara's revenue included the following transactions with the Trust:

	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Income	6	330

During 2020, Ara's expenditure included the following transactions with the Trust:

	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Lease of Student Accommodation Block	275	1,100
Lease of B Block Car Park	6	23
Lease of Paxus House	99	395
Lease of ground for Jazz School Building	21	82

At 31 March 2020, OEDT owed Ara $Nil. Ara did not owe OEDT any monies.

At 31 December 2019, OEDT owed Ara $153,139. Ara did not owe OEDT any monies.

TANZ eCampus Ltd

During 2017, TANZ eCampus Limited was established to acquire the intangible asset associated with eCampus and to operate the eCampus business. The members of TANZ each have a 16.7% shareholding in the Company.

	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Parent and Group - Equity accounted carrying amount	1,104	1,151
Summarised financial information of associate presented on a gross basis		
Assets	7,394	7,565
Liabilities	772	660
Revenues	1,538	6,422
Surplus / (deficit)	(283)	(267)
Group's Interest	16.7%	16.7%

At 31 March 2020, TANZ eCampus Limited did not owe Ara any monies, Ara owed Tanz eCampus Limited $Nil.

At 31 December 2019, TANZ eCampus Limited did not owe Ara any monies, Ara owed Tanz eCampus Limited $92,258.

Canterbury District Health Board

In 2018, Ara entered into a joint lease with the CDHB. Ara holds its 50% interest in the Health Precinct lease by way of a joint operation. Ara recognises its share of assets, liabilities, revenue and expenses of the joint operation.
During 2020, Ara's revenue included the following transactions with the CDHB:

	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Manawa Lease & Facility Costs	79	452

During 2020, Ara's expenditure included the following transactions with the CDHB:

	3 months ended 31 March 2020 $000	12 months ended 31 Dec 2019 $000
Manawa lease and facility costs	500	2,384

At 31 March 2020, Ara owed the CDHB $49,795. The CDHB owed Ara $25,915.

At 31 December 2019, Ara owed the CDHB $46,000. The CDHB owed Ara $53,666.

Notes to Financial Statements

16 Related Party Transactions (continued)

Key Management Related Party Transactions

The Ara Council and Senior Management Team may be directors or officers of other organisations with whom Ara may transact. Such transactions are all carried out independently on an arm's length basis.

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

3 months ended 31 Mar 2020	Purchases Actual $000	Sales Actual $000	Accounts Payable Actual $000	Accounts Receivable Actual $000
Council Members				
ChristchurchNZ	28	-	-	-
Alpine Energy	-	1	-	-

12 months ended 31 Dec 2019	Purchases Actual $000	Sales Actual $000	Accounts Payable Actual $000	Accounts Receivable Actual $000
Council Members				
Christchurch Symphony Orchestra	-	2	-	-
Nurse Maude	18	-	-	-
ChristchurchNZ	110	-	9	-
Rangiora High School	-	1	-	-
University of Canterbury	6	211	-	1

Other Related Parties

Ara is 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.

During 2020, TANZ invoiced $Nil Ara core fees (2019: $Nil) and $Nil eCampus project fees (2019: $1,317).

During 2019, Ara invoiced $Nil fees (2019: $Nil) for various services.

At 31 March 2020, neither Ara nor TANZ had monies owing to the other. At 31 December 2019, neither Ara nor TANZ had monies owing to the other.

There were no other related party transactions.

Key Management Personnel Compensation

	FTE		Parent	
	3 months ended 31 Mar 2020	**12 months ended 31 Dec 2019**	**3 months ended 31 Mar 2020 $000**	**12 months ended 31 Dec 2019 $000**
Council Members				
Council Member Fees			40	175
Executive Management Team, including the Chief Executive				
Full time equivalent members	6	7		
Salaries and Other Short-term Employee Benefits			412	1,565
Termination Benefits			-	-
Total Executive Management Team Compensation			**412**	**1,565**
Total key management personnel compensation	**6**	**7**	**452**	**1,740**

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

Remuneration

Councillor fees paid during the year were:

	Group	
	3 months ended 31 Mar 2020 $000	**12 months ended 31 Dec 2019 $000**
T Arseneau (Chairperson)	9	40
J Annear (Deputy Chairperson)	6	25
J Cartwright	5	20
S Collins	-	10
E Hopkins	5	20
J Hunter	5	20
J Boys	5	20
M Taite	5	20
Total Councillors' Remuneration	**40**	**175**

No Councillors received compensation or other benefits in relation to cessation (2019: $Nil).

Notes to 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 Council 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 2020 had fluctuated by plus or minus 2% the effect would have been to increase/decrease the net surplus by $420,347 (2019: $1,601,774) 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 30% 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 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	
	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000	3 months ended 31 Mar 2020 $000	12 months ended 31 Dec 2019 $000
Financial assets mandatorily measured at fair value through surplus or deficit				
Managed Investment Portfolio	-	-	5,390	5,893
Total	**-**	**-**	**5,390**	**5,893**
Financial assets measured as amortised cost				
Cash & cash equivalents	10,629	12,438	12,498	14,377
Receivables	50,624	3,247	50,779	3,423
Bank Deposits Maturing within 12 months	78,000	60,700	78,137	60,837
Total Financial assets at amortised cost	**139,253**	**76,385**	**141,414**	**78,637**
Financial liabilities measured at amortised cost				
Payables	4,331	6,831	4,377	7,091
Secured loans	-	-	560	560
Finance Leases	25,894	26,029	25,894	26,029
Total Financial Liabilities at Amortised Cost	**30,225**	**32,860**	**30,831**	**33,680**

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	Quoted Market	Observable Inputs Price	Significant Non-Observable Inputs Price
	$000	$000	$000	$000
31 March 2020 -Group Financial Assets				
Managed Investment Portfolio	5,390	5,893	-	-
31 December 2019 -Group Financial Assets				
Managed Investment Portfolio	5,893	5,893	-	-

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

Notes to 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 Variances to Budget

Budget figures in the financial statements are for the 12 month period 1 January 2020 to 31 December 2020. Actual figures are for the period 1 January 2020 to 31 March 2020. As a result it is not possible to comment on variances to budget for the period.

21 The Effects of COVID-19 on the Institute

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. The country was in lockdown at Alert Level 4 for the period 26 March to 27 April and remained in lockdown at Alert Level 3, thereafter until 13 May.

During this period, Ara closed all delivery sites and brought forward the mid-semester break to align with the new timing of the school holidays in New Zealand. Most staff moved to a 'work from home' model and teaching was changed to on-line delivery after the mid semester break.

After 13 May, Alert Level 2 came into effect and Ara decided on a staged approach to returning colleagues and learners to campus. Most staff and students continued to work and study at home if they were not required to be on site for on-campus learning. Alert Level 1 was announced on 8 June which allowed Ara to transition back to full access at all sites.

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:

Government funding

The TEC has confirmed that 2020 funding for Investment Plans and Fees Free will continue. The TEC has informed ITPs that it will not recover 2020 funding because of either non-achievement of Education Performance Indicators or under-achievement of Education Performance Indicators or under-delivery during the 2020 year. This provides Ara with certainty that it can continue to deliver to students despite disruption caused by COVID-19. A consequence of this is Ara has recorded a receivable and revenue for the period ended 31 March 2020 of $51m for the remaining 2020 funding to be received after the balance date.

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

Student Tuition Fees

Student fees revenue has the potential to be impacted due to the risk that Semester 2 enrolments do not occur to the level expected. Ara typically enrols 20% of its students for Semester 2. Ara is endeavouring to mitigate this risk as much as possible by implementing distance and online delivery methods for teaching and learning. Currently, domestic enrolment applications are strong and as Ara's enrolments tend to be higher during periods of high unemployment, there also is the potential for greater than anticipated domestic students. Due to border controls, some downward impact on international student revenue is expected. The impact on overall Student Tuition Fees income is uncertain, however is not expected to impact Ara's ability to undertake it's educational objectives.

Accommodation revenue

Ara offers a minimal student accommodation service that is generally oversubscribed. Refunds arising from students leaving their accommodation is expected not to be material on the total accommodation revenue earned.

Operating Expenses

Ara did not experience a materially significant increased cost of working during Alert Levels 4 and 3 and areas of cost driven by the on-site presence of staff and students were lower during the lockdown period.

Valuation of Investment Properties

The fair valuation of investment property for OEDT as at 31 March 2020 was performed by an independent registered valuer, Telfer Young, on 11 May 2020. Telfer Young are experienced valuers with extensive market knowledge in the types and location of investment property owned by the Group. It is noted on the valuation report that because of COVID-19, there is a greater degree of uncertainty attached to the valuation due to the severe market disruption and lack of market evidence available to consolidate what level of measurable impact it may have. Ara does not expect significant loss on the fair value of the OEDT's investment property due to strong tenant covenant, land value only (no depreciating improvements) and high-profile central location.

The fair valuation of investment property for Ara Foundation as at 31 March 2020 was performed by an independent registered valuer, Colliers International Valuation (Chch) Limited, on 29 April 2020. Colliers International Valuation (Chch) Limited are experienced valuers with extensive market knowledge in the types and location of investment property owned by the Group. As a result of COVID-19, it is noted that the valuation includes a degree of valuation uncertainty due to the unprecedented set of circumstances on which to base a judgement. An estimated level of value impact in light of COVID-19 has been applied by the valuer.

Valuation of Land and Buildings

Land and Buildings were last revalued as at 31 December 2018 based on a market valuation for Land, with Buildings on an optimised depreciated replacement cost basis. An analysis of the indicative percentage movement of Land and Buildings for the period 1 January 2019 to 31 December 2019 was undertaken for Ara's 2019 Annual Report, and a further analysis of movement in the period 1 January 2020 to 31 March 2020 was also completed. Both were prepared by an independent registered valuer, Quotable Value Limited, and completed on 18 February 2020 and 22 May 2020 respectively. They completed their assessment by looking at national indices for Ara buildings and the general movements in land and property values.

The indicative weighted average movement for the period 1 January 2019 to 31 December 2019 was +0.86% to +4.95%.

For 1 January 2020 to 31 March 2020 this was -0.83% to +0.72% with advice from the valuer that in the light of COVID-19, the lower end of the range should be regarded as more appropriate. The valuer established Land value movements for the period using the most recent sales data available at the time of preparation (22 May 2020). At that time, the valuer was unable to establish any negative effect caused by COVID-19. More sales data has become available since the valuer prepared the market movement analysis which also indicates no negative impact caused by COVID-19 during the market movement period. New Zealand entered Level 3 lockdown on the 23 March 2020 and up until this date the economy and property market were largely operating normally. Given the period of the market movement analysis is for the period 1 January 2020 to 31 March 2020 the effect of COVID-19 is not considered significant, if any. The Building component of the portfolio was valued using the depreciated replacement cost which considers the increase in build costs as well as depreciation of the Buildings over this period. The valuer has confirmed COVID-19 will have had no effect on Buildings during the period.

Given that the lower level of both movements amounts to effectively no movement in values, Ara regards the current value of Land and Buildings as having no material difference from their fair value.

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 it's 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: The majority of monies receivable at balance date are owed by the Crown and are not regarded as impaired.

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 $5.244 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. Since 1 January 2020 to 27 March 2020 the portfolio, after fees, has had a negative return of 8.16%. This is over a time where equity markets have fallen around 30%. Despite the decline in market values over this period the portfolio has had a positive return of 6.07% after fees for the 12 month period to 27 March 2020. The subsidiary has considered whether the COVID-19 pandemic will require changes to the nature and types of investments held in the future. The subsidiary does not deem any changes to the types of investments held necessary. The subsidiary will continue to invest in accordance with its Statement of Investment Policy and Objectives.

22 Subsequent Events

There were no significant events after balance date. The effects of COVID-19 have been discussed in note 21.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Ara Institute of Canterbury and group's financial statements for the period 1 January 2020 to 31 March 2020

The Auditor-General is the auditor of Ara Institute of Canterbury (the Polytechnic) 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 Polytechnic and group on his behalf.

Opinion

We have audited the financial statements of the Polytechnic and group on pages 2 to 39, which have been prepared on a disestablishment basis, that comprise the statement of financial position as at 31 March 2020, the statement of comprehensive revenue and expenses, 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 Polytechnic and group on pages 2 to 39, which have been prepared on a disestablishment basis:

- present fairly, in all material respects:
  - the financial position as at 31 March 2020; 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 the Public Benefit Entity Reporting Standards.

Our audit was completed on 31 July 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the Board of Ara Institute of Canterbury (the Board) and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Emphasis of Matters

Without modifying our opinion, we draw your attention to the following disclosures.

The financial statements have been appropriately prepared on a disestablishment basis

Note 1.2 on page 7, which outlines that the financial statements have been prepared on a disestablishment basis. We consider the disestablishment basis to be appropriate because the

Polytechnic ceased as an entity and its assets and liabilities were transferred to Ara Institute of Canterbury Limited on 1 April 2020 as a result of the reform of the institutes of technology and polytechnics sector.

COVID-19

Note 21 on page 38 to the financial statements, which explains the impact of the COVID-19 pandemic on the Polytechnic. This includes an explanation on the impact on the Institute's operations, revenues, and carrying values of certain assets.

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 Board for the financial statements

The preparation of the final financial statements for the Polytechnic and group is the responsibility of the Board of Ara Institute of Canterbury.

The Board is responsible on behalf of the Polytechnic 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 March 2020 the Council of the Polytechnic and group was 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 April 2020, the Board took over these responsibilities to enable the completion of the financial statements.

The Board's responsibilities arise from the transition provisions in the Education (Vocational Education and Training Reform) Amendment 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.

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 Polytechnic and group's approved budgets.

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 Polytechnic 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 Board.
- We conclude on the appropriateness of the use of the disestablishment basis of accounting by the Board.
- 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 Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on page 1, 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 Polytechnic 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 (Revised): 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 Polytechnic or any of its subsidiaries.

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

Institute of Canterbury

Ara rau, taumata rau

Ara is proud to be a smokefree institute

PO Box 540, Christchurch 8140, New Zealand
Telephone 0800 24 24 76 | Facsimile +64 3 366 6544

www.ara.ac.nz

04453