AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Model Financial Statements
Tutuki Tertiary Institute
2016

Model financial statements for
a tertiary education institution
prepared under the Tier 1 and Tier 2
Public Benefit Entity Accounting Standards

December 2016

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Audit New Zealand
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FOREWORD

I am pleased to introduce our 2016 update to the model financial statements for tertiary education institutions (TEIs), using the public benefit entity (PBE) accounting standards for Tier 1 and Tier 2 entities.

Audit New Zealand's model financial statements highlight our latest thinking on meeting financial reporting and legislative requirements, and providing essential information to users of financial statements.

Focus

Improving the presentation and disclosure of financial statements

The 2016 update to the model financial statements focuses on improving the presentation and disclosure of the financial statements. Recently, a number of private and public sector organisations have made significant changes to the presentation of their financial statements to improve communication to readers. In this model, we have applied some of this evolving good practice, such as merging accounting policies into the relevant notes and improving disclosures of judgements, estimates, and uncertainties. Further information about these improvements is provided on page 5. The main changes to the model are explained on pages 6-7.

I encourage TEIs to consider how they can improve their financial statements, with a view to clear communication to the readers. Our auditors will be happy to discuss this with you, including the important judgements that entities need to make about materiality of note disclosures.

Legislative amendments

The reporting obligations of TEIs and their subsidiaries, including multi-parent subsidiaries, have been clarified recently through amendments to the Crown Entities Act 2004 and Education Act 1989. These amendments were effective from 28 October 2016. The financial statements included in this model reflect the updated legislation as it applies to TEIs. Subsidiaries and multi-parent subsidiaries of TEIs will need to carefully consider these legislative changes to determine how their reporting obligations have been affected. Further information on these legislative changes is provided on page 6.

The financial statements are only part of what TEIs are required to include in their annual report. The other legislative requirements for TEI annual reporting are set out in section 220 of the Education Act 1989 and Schedule 4 of the Crown Entities Act 2004.

These model financial statements can be downloaded from our website **www.auditnz.govt.nz**.

Future updates

We will continue to update these model financial statements to reflect evolving good practice in presenting financial statements that meet the needs of users as well as any revised requirements from changes in accounting standards.

We welcome any feedback on the application of this model to TEIs or any other comments that may help with future updates of the model financial statements. If you have any feedback or comments, please pass these to your Audit New Zealand Manager or Director.

Acknowledgements

I would like to thank the Audit New Zealand staff who have contributed to these model financial statements.

Stephen Walker
Executive Director

December 2016

ABOUT THE MODEL FINANCIAL STATEMENTS

Objective

The objectives of this model are:

- to guide tertiary education institutions (TEIs) in preparing financial statements that comply with the Tier 1 or Tier 2 PBE accounting standards; and
- to provide an insight into evolving good practice in preparing financial statements, by providing an alternative presentation of notes and accounting policies to that in our previous models.

These model financial statements have been prepared using a fictitious TEI, the Tutuki Tertiary Institute. The Tutuki Tertiary Institute has three subsidiaries, an associate, and a jointly controlled entity.

Improving disclosures and presentation of financial statements

Standard-setting bodies, financial market regulators, and other accounting interest groups internationally and in New Zealand have recently undertaken projects and initiatives to consider how financial reporting can be improved and better meet the needs of users. For example, the International Accounting Standards Board's "Disclosure Initiative" project.

These model financial statements have been updated to reflect some of the examples in practice we have seen to improve financial reporting. This includes improving the readability of the financial statements by moving significant accounting policies to the notes to which they relate. Some accounting policy language has also been simplified. Estimates and judgement disclosures have also been enhanced to provide more useful information on those areas of the financial statements that require judgement by preparers. For example, more information has been provided in relation to the fair value of land and buildings.

There are other ways a TEI might improve financial reporting. For example, there are different approaches to the ordering of the financial statement notes. The notes in these model financial statements generally follow the ordering of the primary statements. However, a TEI might order notes based on providing the most important notes first, or group notes together into themes, such as operations, resources, and financing.

We are also seeing increasing use of contents pages and sub-headings for notes as well as some use of graphics, keys, and colour to differentiate different parts of the note disclosures. In this model, we have:

- included a contents page at the start of the notes to the financial statements to help the user locate notes that they are interested in;
- used colour to highlight the accounting policies (a blue background) and critical accounting estimates and judgements (a red background) from the other information contained in the notes; and
- included subheadings within the notes to clearly indicate to the user what information is being disclosed within a note.

Application of materiality to note disclosures

The purpose of these model financial statements is to provide a comprehensive range of accounting policies and disclosures to help guide TEIs in preparing financial statements that comply with the PBE accounting standards. Because of this, the model contains many note disclosures. Many TEIs will not need to include all of these notes in their financial statements.

When preparing financial statements, professional judgement needs to be applied in determining what note disclosures are material to users of financial statements. The PBE Conceptual Framework provides the following guidance on materiality:

> *Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's general purpose financial reports prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.*

In some cases, assessing materiality of note disclosures is an on-balance judgement that requires discussion between the preparer and auditor. In making this judgement, key factors are the concepts of user needs and accountability, but it is also important that material information is not obscured by including too much information that is not important.

Legislative amendments

Previously, there was some legal uncertainty about the reporting requirements for TEIs and their Crown entity subsidiaries – in particular, whether a TEI is required to prepare parent and/or group financial statements and whether Crown entity subsidiaries were required to prepare financial statements under the Crown Entities Act 2004. The Education Legislation Act 2016 made amendments to the Education Act 1989 and the Crown Entities Act 2004 that now clarify these uncertainties. These amendments became effective from 28 October 2016. The amendments clarify that, if a TEI has one or more subsidiaries, it prepares parent and group financial statements and that budget figures under section 154(3)(c) of the Crown Entities Act 2004 are also required to be provided for both the parent and group. The amendments also clarify that TEI Crown entity subsidiaries, including multi-parent subsidiaries, will generally not be required to prepare financial statements under the Crown Entities Act 2004. However, some subsidiaries may have reporting obligations that arise from other legislation (such as the Charities Act 2005) or other documents (such as founding documents). Subsidiaries of TEIs, including multi-parent subsidiaries, need to carefully consider whether they continue to have reporting and audit obligations following these legislative amendments.

Tier 2 concessions

The model financial statements identify by green highlight disclosure concessions available under the reduced disclosure regime. We encourage TEIs to take advantage of the available concessions. Additional disclosure concessions may be available to a TEI in preparing its financial statements that are not identified by the model, as the model does not include all possible disclosures of the PBE accounting standards.

Main updates to the model

The table below explains the main updates to the model since it was previously published in 2015.

Page number	**Note number**	**Description of change**
General	–	Accounting policies that relate specifically to a note have been relocated from the statement of accounting policies to the note to which they relate. Accounting policies within the notes are shaded blue to differentiate the policy from other information within the note. Accounting policies that do not relate specifically to a note (e.g. foreign exchange transactions) remain in the statement of accounting policies (Note 1). Minor changes have been made to policies to improve their readability.
General	–	"Critical accounting estimates and assumptions" and "Critical judgements in applying accounting policies" have been relocated from the statement of accounting policies to the note to which they relate. These disclosures have been shaded red and are clearly labelled to differentiate the disclosures from the accounting policies and other information within the note. Some of these disclosures have also been enhanced to provide more useful information on those areas of the financial statements that require judgement by preparers.
General	–	The previous model included disclosures required by PBE FRS 46: *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*, including a separate note outlining adjustments arising on transition to the new PBE accounting standards. These disclosures have been removed as they are not required to be presented in subsequent financial statements.
11	–	Statement of financial position – A new line item "Investment in subsidiaries" has been added under non-current assets. Investment in subsidiaries was previously included as part of "Other financial assets". This change has been made so that all disclosures relating to interests in subsidiaries, associates, and joint ventures can be incorporated into one note (Note 12). For more information, refer to the explanation of the changes to Note 12 on the next page.
17	Note 1	Statement of accounting policies – "Standards issued and not yet effective and not early adopted" has been updated to state that there are no standards issued and not yet effective that are relevant to the Institute and group. This is because the most recent amendments were effective for reporting periods beginning on or after 1 January 2016, so have been incorporated into the 31 December 2016 financial statements.

Page number	Note number	Description of change
23	Note 4	Personnel costs – The disclosures required by Cabinet Office Circular CO (12) 06, paragraph 133, relating to Council member remuneration have been relocated from a separate note to the personnel costs note.
24	Note 6	Other expenses – We have chosen to locate future minimum lease payments for non-cancellable operating leases as lessee and lessor in this note. It was previously included in a separate commitments note. The accounting policy for operating leases is also included in this note.
32	Note 12	Investments in subsidiaries, associates, and joint ventures – This is a new note which incorporates the disclosures required for subsidiaries, associates, and joint ventures: • Information on subsidiaries required by PBE IPSAS 6 *Consolidated and Separate Financial Statements (Public Sector)* has been included in this note. We have added a disclosure about the nature and extent of restrictions on the ability of a controlled entity to transfer funds to the Institute in the form of cash dividends, or similar distributions, or to repay loans or advances. As an example of good practice, we have also included a description of the principal activities of each subsidiary. • Disclosures about investments in associates and investments in joint ventures were previously in separate notes. We have included these disclosures in a single note with subsidiary disclosures to present together the interests the Institute holds in other entities.
 35 40	Note 13	Property, plant, and equipment – The note has been amended as follows: • Estimating the fair value of land, buildings, and infrastructure – We have enhanced this disclosure as it is a key source of estimation uncertainty. This includes quantifying certain valuation assumptions to provide more useful information to the reader. In addition, a table comparing the carrying value of buildings revalued using depreciated replacement cost and market-based evidence has been included. This is not a GAAP requirement. We have included it as good practice because it provides useful contextual information on the valuation basis of property, plant, and equipment. • Capital commitments – Capital commitments for the acquisition of property, plant, and equipment is now located in this note. It was previously included in a separate commitments note.
 51 53	Note 22	Equity – The note has been amended as follows: • We have renamed "restricted reserves" to "trusts and bequests reserve" and updated the description of the reserve. • The capital management disclosure is now located in this note. It was previously in a separate note.

Content

Included in the model are:

- a statement of responsibility;
- a statement of comprehensive revenue and expense;
- a statement of financial position;
- a statement of changes in equity;
- a statement of cash flows; and
- notes to the financial statements that include a statement of accounting policies and other explanatory information.

Not all of the accounting policies and notes will be applicable to each TEI. Although it is not practical for this model to cover all of the possible financial reporting issues that could arise in a TEI, we have included a wide range of accounting policies and notes, including all those that are commonly used in the TEI sector.

The model illustrates a possible financial statement format for TEIs. For example, the statement of comprehensive revenue and expense has been prepared by classifying expenses based on the nature of the expenditure. Alternatively, expenses could be classified based on their function. This is just one example where there may be more than one way of disclosing the information required.

While the model provides guidance on disclosure matters, it does not deal with the underlying accounting treatment. TEIs will need to make choices about the accounting policies and presentation options appropriate for their circumstances.

The model does not address all the possible recognition, measurement, presentation, and disclosure requirements of the PBE accounting standards. TEIs should not use the model as a substitute for referring to individual accounting standards applicable to their specific circumstances.

We have included references to specific standards and legislation in the left margin of the model and a subject index on page 64 for easy searching.

Other reporting requirements

We have not included a statement of service performance (SSP) in these model financial statements. TEIs are required by the Education Act 1989 to include in their annual report an SSP that reports on their performance as compared with the proposed outcomes described in their Investment Plan agreed with the Tertiary Education Commission. The Crown Entities Act 2004 requires the Auditor-General to audit the SSP.

We have also not included information on the reporting on compulsory student services fees. TEIs are required by a Ministerial Direction under the Education Act 1989 to report certain information in the annual report on compulsory student services fees. More information about this reporting requirement, including an example of good practice in complying with the reporting requirements, is available on the Tertiary Education Commission's website.

Standards not covered by the model

The model does not consider the recognition, measurement, or disclosure requirements of the following standards:

- PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*;
- PBE IPSAS 11 *Construction Contracts*;
- PBE IPSAS 22 *Disclosure of Information about the General Government Sector*;
- PBE IPSAS 27 *Agriculture*;
- PBE IPSAS 32 *Service Concession Arrangements: Grantor*;
- PBE IAS 12 *Income Taxes*;
- PBE IAS 34 *Interim Financial Reporting*;
- PBE IFRS 3 *Business Combinations*;
- PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; and
- PBE FRS 45 *Service Concession Arrangements: Operator*.

Standards and amendments issued after 30 November 2016 are not included in the model financial statements.

Abbreviations used in the model

ACC	Accident Compensation Corporation
CEA	Crown Entities Act 2004
EA	Education Act 1989
GAAP	Generally accepted accounting practice
IRD	Inland Revenue Department
PBE	Public benefit entity
RDR	Reduced disclosure regime

EA s220(2AA)(a)

TUTUKI TERTIARY INSTITUTE
STATEMENT OF RESPONSIBILITY

CEA s155

We are responsible for the preparation of the Tutuki Tertiary Institute and group's financial statements and statement of service performance, and for the judgements made in them.

We are responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In our opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the Tutuki Tertiary Institute and group for the year ended 31 December 2016.

Signed by:[1]

Chairperson[2]	**Chief Executive**
28 April 2017	28 April 2017

[1] Section 220(2AA)(a) of the Education Act 1989 requires the statement of responsibility to be dated and signed by the chairperson of the council and the chief executive of the institution. If there is no chairperson, the statement of responsibility is signed by the chief executive of the institution and the chief financial officer.
[2] The appropriate position titles for the chairperson and chief executive should be included in the statement of responsibility. For example, Chancellor, Vice-Chancellor, or Tumuaki.

PBE IPSAS 1.21(b)

TUTUKI TERTIARY INSTITUTE
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2016[3,4,5]

Reference		Notes	Institute Actual 2016 $000	Institute Budget[6] 2016 $000	Institute Actual[7] 2015 $000	Group Actual 2016 $000	Group Budget 2016 $000	Group Actual 2015 $000
PBE IPSAS 1.128								
	Revenue[8]							
	Government grants	3	97,546	97,547	93,504	100,340	97,993	96,351
	Tuition fees	3	65,525	66,309	64,886	66,188	66,773	65,542
	Research revenue		11,255	10,544	12,088	20,080	22,614	19,531
PBE IPSAS 1.98.3	Other revenue	3	8,766	8,293	8,778	13,621	11,863	13,824
PBE IPSAS 1.99.1(a)	*Total revenue*	2	183,092	182,693	179,256	200,229	199,243	195,248
PBE IPSAS 1.109	**Expenses**							
	Personnel costs	4	103,240	102,574	97,711	109,675	108,895	102,656
	Depreciation and amortisation expense	13,14	19,188	19,516	16,553	19,231	19,566	16,589
PBE IPSAS 1.99.1(b)	Finance costs	5	1,585	1,300	105	1,585	1,300	105
	Other expenses	6	55,648	55,389	55,391	63,251	65,068	63,003
PBE IPSAS 1.98.3	*Total expenses*	2	179,661	178,779	169,760	193,742	194,829	182,353
PBE IPSAS 1.99.1(c)	Share of associate's surplus		0	0	0	71	0	44
PBE IPSAS 1.99.1(f)	**Surplus/(deficit)**		**3,431**	**3,914**	**9,496**	**6,558**	**4,414**	**12,939**
	Other comprehensive revenue and expense							
Good practice[9]	*Item that could be reclassified to surplus/(deficit)*							
PBE IPSAS 1.103.1	Financial assets fair value movement	22	102	0	50	102	0	50
Good practice	*Item that will not be reclassified to surplus/(deficit)*							
PBE IPSAS 1.103.1	Gain on property revaluations	22	0	0	16,663	0	0	16,663
PBE IPSAS 1.98.1(b)	*Total other comprehensive revenue and expense*		102	0	16,713	102	0	16,713
PBE IPSAS 1.98.1(c)	**Total comprehensive revenue and expense**		**3,533**	**3,914**	**26,209**	**6,660**	**4,414**	**29,652**

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 26.[10]

The accompanying notes form part of these financial statements

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[3] Alternatively, a statement displaying components of surplus/deficit (a statement of financial performance) directly followed by a second statement beginning with surplus/deficit and displaying components of other comprehensive revenue and expense (a statement of other comprehensive revenue and expense) can be presented.

[4] The statement of comprehensive revenue and expense has been prepared using the nature of expense classification. Alternatively, entities may choose to present expenses based on the function of expense. PBE IPSAS 1.115 requires Tier 1 entities that classify expenses by function to disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.

[5] Where there are discontinued operations, PBE IFRS 5.33(a) requires separate disclosure of the total post-tax gain or loss from discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

[6] Section 154(3)(c) of the CEA requires the financial statements to "include the forecast financial statements prepared at the start of the financial year, for comparison with the actual financial statements". Sections 220(2) and (2AA)(b) of the Education Act 1989 require forecast financial information to be presented for both the parent and group financial statements.

[7] PBE IPSAS 1.53 requires comparative information to be disclosed in respect of the previous year for all amounts reported in the financial statements. Comparative information shall also be included for narrative information when it is relevant to an understanding of the current year's financial statements.

[8] PBE IPSAS 23.106(a) requires, either in the statement of comprehensive revenue and expense or the notes, that entities disclose the amount of revenue from non-exchange transactions by major classes, showing separately: i) taxes, showing separately major classes of taxes; and ii) transfers, showing separately major classes of transfer revenue. As the separate labelling of revenue as exchange or non-exchange in most cases would not be considered material, we have decided to not label revenue as exchange or non-exchange in the model financial statements. We have, however, separately disclosed the major classes of revenue streams in Note 3.

[9] For-profit entities are required to group items presented in other comprehensive revenue and expense on the basis of whether they are potentially reclassifiable to surplus or deficit in the future (reclassification adjustments). Although PBEs are not required to make this disclosure, we consider the disclosure good practice.

[10] PBE IPSAS 1.148.1 requires an entity that has published general purpose prospective financial information for the period of the financial statements to present a comparison of the prospective financial information with the actual financial results being reported. Explanations for major variances shall be given.

PBE IPSAS 1.21(a)

TUTUKI TERTIARY INSTITUTE
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016[11]

		Notes	Institute			Group		
PBE IPSAS 1.90,128			Actual 2016 $000	Budget 2016 $000	Actual 2015 $000	Actual 2016 $000	Budget 2016 $000	Actual 2015 $000
	Assets							
PBE IPSAS 1.70,76	**Current assets**							
PBE IPSAS 1.88(i)	Cash and cash equivalents	7	5,922	4,411	19,966	22,983	22,435	31,754
PBE IPSAS 1.88(g),(h)	Receivables	8	5,371	6,088	5,217	7,422	7,402	7,094
PBE IPSAS 1.88(d)	Derivative financial instruments	9	203	0	17	203	0	17
PBE IPSAS 1.88(d)	Other financial assets	10	8,675	4,000	4,705	16,995	9,941	13,624
PBE IPSAS 1.88(f)	Inventories	11	233	195	383	233	195	383
PBE IPSAS 1.89	Prepayments		3,993	3,900	3,224	4,110	3,901	3,222
PBE IPSAS 1.89	*Total current assets*		24,397	18,594	33,512	51,946	43,874	56,094
PBE IPSAS 1.70,76	**Non-current assets**							
PBE IPSAS 1.88(d)	Investment in subsidiaries	12	227	313	313	-	-	-
PBE IPSAS 1.88(e)	Investment in associate	12	352	503	352	852	526	526
PBE IPSAS 1.88(d)	Investment in jointly controlled entity	12	163	163	163	-	-	-
PBE IPSAS 1.88(d)	Other financial assets	10	2,641	2,326	1,397	1,906	1,300	1,311
PBE IPSAS 1.88(a)	Property, plant, and equipment	13	399,485	396,669	362,512	399,578	396,952	362,527
PBE IPSAS 1.88(c)	Intangible assets	14	4,291	3,840	4,755	5,444	3,840	5,678
PBE IPSAS 1.88(b)	Investment property	15	819	845	882	819	845	882
PBE IPSAS 1.89	*Total non-current assets*		407,978	404,659	370,374	408,599	403,463	370,924
PBE IPSAS 1.89	**Total assets**		**432,375**	**423,253**	**403,886**	**460,545**	**447,337**	**427,018**
	Liabilities							
PBE IPSAS 1.70,80	**Current liabilities**							
PBE IPSAS 1.88(j),(k)	Payables	16	15,191	16,900	12,870	16,665	18,157	13,724
PBE IPSAS 1.89	Deferred revenue	17	4,187	4,550	6,165	11,715	13,935	12,380
PBE IPSAS 1.88(m)	Derivative financial instruments	9	29	0	32	29	0	32
PBE IPSAS 1.88(m)	Borrowings	18	2,050	2,048	98	2,050	2,048	98
PBE IPSAS 1.89	Employee entitlements	19	10,093	8,125	10,250	10,154	8,178	10,332
PBE IPSAS 1.88(l)	Provisions	20	1,575	1,300	955	1,575	1,300	955
PBE IPSAS 1.89	*Total current liabilities*		33,125	32,923	30,370	42,188	43,618	37,521
PBE IPSAS 1.70,80	**Non-current liabilities**							
PBE IPSAS 1.88(m)	Derivative financial instruments	9	76	0	0	76	0	0
PBE IPSAS 1.88(m)	Borrowings	18	14,739	14,308	492	14,739	14,308	492
PBE IPSAS 1.89	Employee entitlements	19	8,510	9,100	7,820	8,520	9,100	7,831
PBE IPSAS 1.88(l)	Provisions	20	1,320	1,300	932	1,320	1,300	932
PBE IPSAS 1.89	*Total non-current liabilities*		24,645	24,708	9,244	24,655	24,708	9,255
PBE IPSAS 1.89	**Total liabilities**		**57,770**	**57,631**	**39,614**	**66,843**	**68,326**	**46,776**
PBE IPSAS 1.89	**Net assets**		**374,605**	**365,622**	**364,272**	**393,702**	**379,011**	**380,242**

[11] PBE IPSAS 1.88 requires in the statement of financial position that separate line items be presented for recoverables from non-exchange transactions, receivables from exchange transactions, taxes and transfers payable, and payables under exchange transactions. We consider that it will be rare that this is a material disclosure. Therefore, we have chosen to focus on providing a meaningful breakdown of receivables and payables in the notes. The illustrative financial statements in PBE IPSAS 1 do not separately disclose receivables and payables under exchange or non-exchange headings.

PBE IPSAS 1.21(a)

TUTUKI TERTIARY INSTITUTE
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (CONTINUED)

PBE IPSAS 1.90,128

		Notes	Institute			Group		
			Actual 2016 $000	Budget 2016 $000	Actual 2015 $000	Actual 2016 $000	Budget 2016 $000	Actual 2015 $000
PBE IPSAS 1.95	**Equity**							
PBE IPSAS 1.95(a),(b)	General funds[12]	22	160,377	152,899	149,981	179,474	166,288	165,951
PBE IPSAS 1.95(c)	Property revaluation reserves	22	211,306	209,737	211,306	211,306	209,737	211,306
PBE IPSAS 1.95(c)	Fair value through other comprehensive revenue and expense reserve	22	218	117	116	218	117	116
PBE IPSAS 1.95(c)	Trusts and bequests reserve	22	2,704	2,869	2,869	2,704	2,869	2,869
PBE IPSAS 1.88(o)	**Total equity**		**374,605**	**365,622**	**364,272**	**393,702**	**379,011**	**380,242**

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 26.

The accompanying notes form part of these financial statements.

[12] Contributed capital and accumulated surplus/deficit are required to be presented separately when a TEI has the available information.

PBE IPSAS 1.21(c)

TUTUKI TERTIARY INSTITUTE
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

PBE IPSAS 1.128

Standard		Note	Institute			Group		
			Actual 2016 $000	Budget 2016 $000	Actual 2015 $000	Actual 2016 $000	Budget 2016 $000	Actual 2015 $000
	Balance at 1 January		364,272	357,708	334,313	380,242	370,597	346,840
PBE IPSAS 1.118(a)	Total comprehensive revenue and expense		3,533	3,914	26,209	6,660	4,414	29,652
PBE IPSAS 1.119(a)	*Other equity movements*							
PBE IPSAS 1.119(a)	Capital contributions from the Crown		2,800	0	0	2,800	0	0
PBE IPSAS 1.119(a)	Suspensory loans from the Crown		4,000	4,000	3,750	4,000	4,000	3,750
	Balance at 31 December	22	**374,605**	**365,622**	**364,272**	**393,702**	**379,011**	**380,242**

PBE IPSAS 1.148.1

Explanations of major variances against budget are provided in Note 26.

The accompanying notes form part of these financial statements.

PBE IPSAS 1.21(d)

TUTUKI TERTIARY INSTITUTE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

PBE IPSAS 1.128

		Institute			Group		
		Actual 2016 $000	**Budget 2016 $000**	**Actual 2015 $000**	**Actual 2016 $000**	**Budget 2016 $000**	**Actual 2015 $000**
PBE IPSAS 2.18,22,27	**Cash flows from operating activities**						
	Receipts from Government grants	97,546	97,547	93,504	100,340	97,993	96,351
	Receipts from tuition fees	65,871	66,309	65,023	66,533	66,773	65,908
	Receipts from research revenue	9,780	10,544	10,245	19,481	22,613	17,654
PBE IPSAS 2.40	Interest received	2,203	2,000	3,054	3,070	3,000	3,578
PBE IPSAS 2.40	Dividend revenue	436	0	377	0	0	0
	Receipts from other revenue	5,071	6,097	4,439	9,525	8,531	9,608
	Payments to employees[13]	(103,238)	(104,567)	(94,567)	(109,688)	(110,845)	(102,341)
	Payments to suppliers[13]	(52,191)	(53,872)	(52,436)	(57,302)	(58,641)	(62,439)
PBE IPSAS 2.40	Interest paid	(1,419)	(1,800)	(62)	(1,419)	(1,800)	(62)
	GST (net)	(424)	0	(21)	(718)	0	(67)
	Net cash flow from operating activities	23,635	22,258	29,556	29,822	27,624	28,190
PBE IPSAS 2.18,25	**Cash flows from investing activities**						
	Receipts from sale of property, plant, and equipment	293	0	382	314	0	413
	Receipts from sale or maturity of investments	3,040	2,000	2,500	5,090	2,000	2,500
	Purchase of property, plant, and equipment	(58,433)	(54,000)	(35,260)	(59,350)	(54,050)	(35,332)
	Purchase of intangible assets	(1,183)	(400)	(2,347)	(1,849)	(400)	(2,618)
	Acquisition of investments	(4,098)	(3,000)	(1,200)	(5,500)	(3,000)	(1,200)
	Net cash flow from investing activities	(60,381)	(55,400)	(35,925)	(61,295)	(55,450)	(36,237)
PBE IPSAS 2.18,26	**Cash flows from financing activities**						
	Proceeds from borrowings	16,000	14,000	0	16,000	14,000	0
	Capital contributions from the Crown	2,800	0	0	2,800	2,800	0
	Suspensory loans from the Crown	4,000	4,000	3,750	4,000	4,000	3,750
	Repayment of borrowings	0	0	0	0	0	0
	Payment of finance leases	(98)	(98)	(98)	(98)	(98)	(98)
	Net cash flow from financing activities	22,702	17,902	3,652	22,702	20,702	3,652
	Net (decrease)/increase in cash and cash equivalents	(14,044)	(15,240)	(2,717)	(8,771)	(7,124)	(4,395)
	Cash and cash equivalents at the beginning of the year	19,966	19,651	22,683	31,754	29,559	36,149
	Cash and cash equivalents at the end of the year	**5,922**	**4,411**	**19,966**	**22,983**	**22,435**	**31,754**

PBE IPSAS 2.54 Equipment totalling $nil (2015: $nil) was acquired by means of finance leases during the year.

[13] We consider it good practice to separately disclose cash outflows from payments to employees and cash outflows from payments to suppliers, although the amounts could be presented in aggregate.

TUKUKI TERTIARY INSTITUTE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

PBE IPSAS 2.29

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

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Surplus/(deficit)	3,431	9,496	6,558	12,939
Add/(less) non-cash items				
Share of associate's surplus	0	0	(71)	(44)
Depreciation and amortisation expense	19,189	16,552	19,232	16,659
Intangible asset write-off	0	0	437	0
(Gains)/losses on fair value of investment property	63	(67)	63	(67)
(Gains)/losses on derivative financial instruments	(136)	31	(136)	31
(Gains)/losses on managed fund	0	0	599	274
Increase/(decrease) in non-current employee entitlements	689	452	689	452
Net foreign exchange (gains)/losses	10	34	8	42
Total non-cash items	19,815	17,002	20,821	17,347
Add/(less) items classified as investing or financing activities				
(Gains)/losses on disposal of property, plant, and equipment	(42)	(21)	(60)	(21)
(Gains)/losses on disposal of investments classified as fair value through other comprehensive revenue and expense	10	(16)	10	(16)
Total items classified as investing or financing activities	(32)	(37)	(50)	(37)
Add/(less) movements in working capital items				
(Increase)/decrease in receivables[14]	(154)	8	(328)	345
(Increase)/decrease in inventories	150	(32)	150	(32)
(Increase)/decrease in prepayments	(768)	1,259	(885)	1,020
Increase/(decrease) in payables[15]	2,321	1,893	3,392	(797)
Increase/(decrease) in deferred revenue	(1,978)	(123)	(665)	(2,685)
Increase/(decrease) in provisions	1,007	324	1,007	324
Increase/(decrease) in current employee entitlements	(157)	(234)	(178)	(234)
Net movement in working capital items	421	3,095	2,493	(2,059)
Net cash flow from operating activities	**23,635**	**29,556**	**29,822**	**28,190**

PBE IPSAS 1.148.1

Explanations of major variances against budget are provided in Note 26.

The accompanying notes form part of these financial statements.

[14] Any receivables for the sale of property, plant, and equipment will need to be excluded when calculating this movement.
[15] Any payables for capital expenditure will need to be excluded when calculating this movement.

PBE IPSAS 1.21(f),127

TUTUKI TERTIARY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS

Notes index

1 Statement of accounting policies

REPORTING ENTITY

PBE IPSAS 1.150(a),(c)

The Tutuki Tertiary Institute (the Institute) is a tertiary education institution (TEI) that is domiciled and operates in New Zealand. The relevant legislation governing the Institute's operations includes the Crown Entities Act 2004 and the Education Act 1989.[16]

PBE IPSAS 6.62(a),64
PBE IPSAS 8.64
PBE IPSAS 20.25

The Institute and group consists of the Tutuki Tertiary Institute and its subsidiaries, Te Tutuki Enterprise Limited, Te Tutuki Foundation Trust, and Tutuki Accommodation Limited. Its 20.3% equity share of its associate Te TutukiTech Limited is equity accounted. Its 25% interest in the Institute for Advanced ResearchTech is accounted for as a jointly controlled entity and is proportionally consolidated into the group financial statements.

PBE IPSAS 1.150(b)

The Institute and group provides educational and research services for the benefit of the community. It does not operate to make a financial return.

PBE IPSAS 1.28.2(c)

The Institute has designated itself and the group as public benefit entities (PBEs) for the purposes of complying with generally accepted accounting practice.

PBE IPSAS 1.63(a)-(c)
PBE IPSAS 14.26

The financial statements of the Institute and group are for the year ended 31 December 2016, and were authorised for issue by the Council on 28 April 2017.

PBE IPSAS 1.127(a)

BASIS OF PREPARATION

Good practice
PBE IPSAS 1 Appendix B

The financial statements have been prepared on a going concern basis[17], and the accounting policies have been applied consistently throughout the year.

Statement of compliance

PBE IPSAS 1.28.2(a)

The financial statements of the Institute and 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 generally accepted accounting practice in New Zealand (NZ GAAP).

PBE IPSAS 1.28.2(b)
PBE IPSAS 1.28.4

The financial statements have been prepared in accordance with PBE Standards. *[TEIs that report in accordance with the Tier 2 PBE accounting requirements (RDR) shall state "The financial statements have been prepared in accordance with PBE Standards RDR" and shall also disclose the criteria that establish them as eligible to report in accordance with PBE Standards RDR (PBE IPSAS 1 RDR 28.3)]*

PBE IPSAS 1.28

These financial statements comply with PBE Standards. *[TEIs applying the RDR whose financial statements comply with PBE Standards RDR are required to make an explicit and unreserved statement of such compliance in the notes (PBE IPSAS 1 RDR 28.1)]*

Presentation currency and rounding

PBE IPSAS 1.63(d),(e)

The financial statements are presented in New Zealand dollars and all values, other than the Council member remuneration disclosures in Note 4 and the related party transaction disclosures in Note 23, are rounded to the nearest thousand dollars ($000). Council member remuneration and related party transaction disclosures are rounded to the nearest dollar.

PBE IPSAS 3.35,36

Standards issued and not yet effective and not early adopted

There are no standards issued and not yet effective that are relevant to the Institute and group.

PBE IPSAS 1.132

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES[18]

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.

PBE IPSAS 1.132(c)

Basis of consolidation

PBE IPSAS 6.43,45

The group financial statements are prepared by adding together like items of assets, liabilities, equity, revenue, expenses, and cash flows of entities in the group on a line-by-line basis. All intra-group balances, transactions, revenue, and expenses are eliminated on consolidation.

[16] PBE IPSAS 1.150 requires the following information to be included in the annual report, if not disclosed elsewhere in the information published with the financial statements: domicile and legal form of the entity and the jurisdiction in which it operates, description of the entity's operations and principal activities, and reference to the relevant legislation governing the entity's operations. These disclosures are not required by the RDR.

[17] The going concern concept is assumed when preparing financial statements. If those responsible for preparing the financial statements are aware of conditions or events that cause doubt over the ability to continue as a going concern, those facts shall be disclosed. If the financial statements are not prepared on a going concern basis, that fact shall also be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

[18] PBE IPSAS 1.132(c) requires disclosure of accounting policies that are relevant to an understanding of the financial statements. The materiality of transactions should also be considered in deciding what accounting policies to disclose. In this model, we have chosen to disclose a comprehensive range of accounting policies. A TEI may not need to disclose all the accounting policies included in this model due to the transactions associated with a particular policy being immaterial.

1 Statement of accounting policies (continued)

PBE IPSAS 1.132(c)

Foreign currency transactions

PBE IPSAS 4.24,32

Foreign currency transactions (including those subject to forward foreign exchange contracts) are translated into NZ$ (the functional currency) using the spot exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

PBE IPSAS 1.132(c)

Goods and services tax

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

The net amount of GST recoverable from, or payable to, the 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.

Good practice

Income tax

The Institute and group is exempt from income tax. Accordingly, no provision has been made for income tax.

Good practice

Budget figures

The budget figures for the Institute are those approved by the Council at the start of the financial year. The group budget figures are also approved by the Council at the start of the financial year. The group budget consists of the budget of the Institute and the individual budgets of the Institute's subsidiaries, approved by the governing bodies of those subsidiaries. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Council in preparing these financial statements.[19]

PBE IPSAS 1.140

Critical accounting estimates and assumptions[20]

In preparing these financial statements, estimates and assumptions have been made 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 13.
- Retirement gratuities – refer to Note 19.

PBE IPSAS 1.137

Critical judgements in applying accounting policies[20]

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

- Distinction between revenue and capital contributions – refer to Note 3.
- Research revenue – refer to Note 3.
- Early childhood centre grant – refer to Note 3.
- Crown-owned land and buildings – refer to Note 13.
- Research leave – refer to Note 19.
- Suspensory loans with equity conversion features – refer to Note 22.

[19] If a TEI has revised its budget numbers after the start of the year, it could choose to report the revised budget numbers in addition to (but not instead of) the budget numbers required by section 154 of the CEA.
[20] The examples provided are not intended to be exhaustive. TEIs will need to consider their own circumstances to ensure that the disclosures required by PBE IPSAS 1.137 and PBE IPSAS 1.140 are relevant and complete.

2 Summary cost of services

Good practice

Accounting policy

The cost of service for each significant activity of the Institute has been derived using the cost allocation system outlined below.

Direct costs are costs directly attributable to a significant activity. Indirect costs are costs that cannot be attributed to a specific significant activity in an economically feasible manner.

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities based on cost drivers and related activity or usage information. Depreciation is charged on the basis of asset utilisation. Personnel costs are charged on the basis of actual time incurred. Property and other premises costs, such as maintenance, are charged on the basis of floor area occupied for the production of each significant activity. Other indirect costs are assigned to significant activities based on the proportion of direct staff costs for each significant activity.

There have been no changes to the cost allocation methodology since the date of the last audited financial statements.

Good practice

Breakdown of summary cost of services for the Institute

	Actual 2016 $000	Budget 2016 $000	Actual 2015 $000
Revenue			
Commerce	63,620	63,680	61,571
Sciences	29,618	29,648	28,811
Humanities	27,876	27,904	27,116
Law	17,423	17,440	16,948
Creative Industries	22,649	22,672	22,032
Other activities	15,781	15,696	16,524
Total revenue from services	176,967	177,040	173,002
Other revenue	6,125	5,653	6,254
Total revenue	**183,092**	**182,693**	**179,256**
Expenses			
Commerce	63,552	64,662	60,487
Sciences	29,586	29,153	28,134
Humanities	27,846	27,438	26,479
Law	17,404	17,149	16,549
Creative industries	22,625	22,293	21,514
Other activities	15,663	15,434	14,894
Total cost of services	176,676	176,129	168,057
Finance costs	1,585	1,300	105
Other costs	1,400	1,350	1,598
Total expenses	**179,661**	**178,779**	**169,760**

3 Revenue

PBE IPSAS 23.107(a),(b)

Accounting policy

PBE IPSAS 9.39(a)

Revenue is measured at fair value.

The specific accounting policies for significant revenue items are explained below:[21]

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 and recognises SAC funding as revenue when the course withdrawal date has passed, based on the number of eligible students enrolled in the course at that date and the value of the course.

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.

Performance-Based Research Fund (PBRF)

The Institute considers PBRF funding 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. The Institute recognises its confirmed allocation of PBRF funding at the commencement of the specified funding period, which is the same as the Institute's financial year. PBRF revenue is measured based on the Institute'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.

Research revenue

For an exchange research contract, revenue is recognised on a percentage completion basis. The percentage of completion is measured by reference to the actual research expenditure incurred as a proportion to total expenditure expected to be incurred.

For a non-exchange research contract, the total funding receivable under the contract is recognised as revenue immediately, unless there are substantive conditions in the contract. If there are substantive conditions, revenue is recognised when the conditions are satisfied. A condition could include the requirement to complete research to the satisfaction of the funder to retain funding or return unspent funds. Revenue for future periods is not recognised where the contract contains substantive termination provisions for failure to comply with the requirements of the contract. Conditions and termination provisions need to be substantive, which is assessed by considering factors such as contract monitoring mechanisms of the funder and the past practice of the funder.

Other grants received

Other grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and then recognised as revenue when the conditions of the grant are satisfied.

[21] The application of PBE IPSAS 23 to some TEI revenue streams is a difficult area of judgement. The accounting policies set out in this model are our preferred treatment. However, there are other alternative interpretations for some revenue streams that may be acceptable. Some of the areas of debate have been:

- assessing whether a transaction is exchange or non-exchange;
- assessing when control over an asset is achieved;
- assessing whether there are substantive conditions in funding agreements; and
- assessing whether there are factors (such as legislation) that enable time-linked funding to be recognised in the stated funding period.

If a TEI proposes to adopt an alternative accounting treatment, it should discuss this with its auditor, explaining how it considers the alternative treatment meets the requirements of PBE IPSAS 23.

3 Revenue (continued)

Donations, bequests, and pledges

Donations and bequests are recognised as revenue when the right to receive the fund or asset has been established, unless there is an obligation in substance to return the funds if conditions of the donation or bequest are not met. If there is such an obligation, they are initially recorded as revenue in advance and then recognised as revenue when the conditions are satisfied. Pledges are not recognised as assets or revenue until the pledged item is received.

Sales of goods

Revenue from sales of goods is recognised when the product is sold to the customer.

Accommodation services

Revenue from the provision of accommodation services is recognised on a percentage completion basis. This is determined by reference to the number of accommodation days used up till balance date as a proportion of the total accommodation days contracted for with the individual.

Interest and dividends

Interest revenue is recognised by accruing on a time proportion basis the interest due for the investment.

Dividends are recognised when the right to receive payment has been established.

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Distinction between revenue and capital contributions

Most Crown funding received is operational in nature and is provided by the Crown under the authority of an expense appropriation and is recognised as revenue. Where funding is received from the Crown under the authority of a capital appropriation, the Institute and group accounts for the funding as a capital contribution directly in equity. Information about capital contributions recognised in equity is disclosed in Note 22.

Research revenue

The Institute and group exercises its judgement in determining whether funding received under a research contract is an exchange or non-exchange transaction. In making its judgement, the Institute and group considers factors such as:

- Whether the funder has substantive rights to the research output. This is a persuasive indicator of exchange or non-exchange.
- How the research funds were obtained – for example, whether through a commercial tender process for specified work or from applying to a general research funding pool.
- Nature of the funder.
- Specificity of the research brief or contract.

Judgement is often required in determining the timing of revenue recognition for contracts that span a balance date and for multi-year research contracts.

Early childhood centre grant

The Institute and group received a grant of $5.56 million from the Crown during the 2009 financial year for the construction of a new early childhood centre. There are a number of conditions attached to this grant, which include the condition to repay all or part of the grant (as determined by the Crown) should the Institute cease to operate, close, or sell the facility prior to 31 August 2019. Accounting for the revenue from this grant under PBE IPSAS 23 *Revenue from Non-Exchange Transactions* requires judgement. The Institute and group has recognised the funds received as a liability and releases the liability to revenue on a straight-line basis during the 30 March 2009 (when the facility became operational) to 31 August 2019 period. The Institute and group considers that it is continuously satisfying the condition while the facility remains in operation and that this would likely be considered by the Crown in determining the amount of any repayment should the condition be breached prior to its expiry on 31 August 2019.

3 Revenue (continued)

PBE IPSAS 1.127(c)

(i) Breakdown of Government grants

	Institute		Group	
	2016 $000	2015 $000	2016 $000	2015 $000
Student Achievement Component (SAC) funding	87,936	78,945	87,936	78,945
Performance-based research funding	7,227	6,936	7,227	6,936
Early childhood centre grant	533	533	533	533
Other grants	1,850	7,090	4,644	9,937
Total Government grants	**97,546**	**93,504**	**100,340**	**96,351**

(ii) Breakdown of tuition fees

	Institute		Group	
	2016 $000	2015 $000	2016 $000	2015 $000
Fees from domestic students	46,985	43,039	47,556	43,695
Fees from international students	18,540	21,847	18,632	21,847
Total tuition fees	**65,525**	**64,886**	**66,188**	**65,542**

(iii) Breakdown of other revenue

		Institute		Group	
		2016 $000	2015 $000	2016 $000	2015 $000
	Student services levy	2,641	2,453	2,641	2,563
	Student accommodation revenue	0	0	1,656	1,611
PBE IPSAS 16.86(f)(i)	Rental revenue from investment property	62	66	62	66
	Bookshop revenue	664	642	664	642
PBE IPSAS 23.107(d)	Monetary donations received	1,160	1,412	2,693	3,063
PBE IPSAS 1.51,107(c)	Gain on sale of property, plant, and equipment	42	21	60	21
PBE IPSAS 9.39(b)(iii) & 30.24(b)	Interest revenue	2,265	2,958	3,122	3,574
PBE IPSAS 9.39(b)(v)	Dividend revenue	436	377	0	0
PBE IPSAS 16.87(d)	Change in fair value of investment property	0	67	0	67
PBE IPSAS 30.24(a)(ii)	Reclassification on disposal of financial assets at fair value through other comprehensive revenue and expense	0	16	0	16
PBE IPSAS 30.24(a)(i)	Net gain on foreign exchange derivatives	226	0	226	0
	Other revenue	1,270	766	2,497	2,201
	Total other revenue	**8,766**	**8,778**	**13,621**	**13,824**

PBE IPSAS 1.127(c)

4 Personnel costs

Accounting policy

PBE IPSAS 1.132(c)

Superannuation schemes

PBE IPSAS 25.55

Defined contribution schemes

Employer contributions to KiwiSaver, the Government Superannuation Fund, and other defined contribution superannuation schemes[22] are accounted for as defined contribution schemes and are recognised as an expense in the surplus or deficit when incurred.

PBE IPSAS 25.33(b)(i)

Defined benefit schemes

The Institute and group makes employer contributions to the Defined Benefit Plan Contributors Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme.

PBE IPSAS 25.33(b)(ii)

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme the extent to which the surplus/deficit in the plan will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme. Further information on this scheme is disclosed in Note 21.

Breakdown of personnel costs and further information

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Academic salaries	62,570	59,674	66,506	62,727
General salaries and wages	37,257	35,492	39,745	37,363
PBE IPSAS 25.57 Defined contribution plan employer contributions	2,681	2,295	2,704	2,317
Increase/(decrease) in employee entitlements	732	250	720	249
Total personnel costs	**103,240**	**97,711**	**109,675**	**102,656**

Council member remuneration

CO (12) 06[23]

Remuneration paid or payable to Council members during the year was:

	Institute and group	
	2016 $000	**2015 $000**
A Scholer (Chairperson)*	24,050	24,050
B Kettle	11,000	11,000
V Able	4,000	4,000
Y Asque	4,000	4,000
Total remuneration of Council	**43,050**	**43,050**

*The Chairperson is a Director of Te Tutuki Enterprise Limited and Tutuki Accommodation Limited and received Director fees of $3,000 (2015: $3,000).

No Council members received compensation or other benefits in relation to cessation (2015: nil).

[22] The schemes listed are not exhaustive. TEIs may make contributions to other defined contribution schemes, including defined benefit schemes that are accounted for as defined contribution schemes.

[23] Paragraph 133 of Cabinet Office Circular CO (12) 06: *Fees framework for members appointed to bodies in which the Crown has an interest* states: "Any statutory requirements for the disclosure of fees and other benefits must be met. Crown entities, other than tertiary education institutions or schools, must meet the disclosure requirements of section 152 of the Crown Entities Act 2004. Where there are no statutory or other specified requirements, a level of disclosure consistent with public accountability should apply". We consider remuneration and compensation disclosures that follow the principles of section 152 fulfil the requirements of paragraph 133 of CO (12) 06.

PBE IPSAS 1.127(c)

5 Finance costs

PBE IPSAS 5.16,40(a)

Accounting policy

PBE IPSAS 5.14

Borrowing costs are expensed in the financial year in which they are incurred.

Breakdown of finance costs

		Institute		Group	
		2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
	Interest expense:				
PBE IPSAS 30.24(b)	Interest on bank borrowings	1,358	0	1,358	0
PBE IPSAS 30.24(b)	Interest on finance lease	62	67	62	67
PBE IPSAS 19.90	Discount unwind on provisions (Note 20)	75	38	75	38
PBE IPSAS 30.24(a)(i)	Net loss on interest rate swaps	90	0	90	0
	Total finance costs	**1,585**	**105**	**1,585**	**105**

PBE IPSAS 1.106

6 Other expenses

Accounting policy

PBE IPSAS 1.132(c)

Scholarships

Scholarships awarded by the Institute that reduce the amount of tuition fees payable by the student are accounted for as an expense and not offset against student tuition fees revenue.

Operating leases

PBE IPSAS 13.8,42,A5

An operating lease is a lease that does not transfer substantially all the risks 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.

Breakdown of other expenses and further information[24]

		Institute		Group	
		2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
	Fees to auditor[25]				
PBE IPSAS 1.116.1(a)	Fees to Audit New Zealand for audit of financial statements	98	115	127	135
PBE IPSAS 1.116.1(a)	Fees to Audit New Zealand for other services	11	11	11	11
PBE IPSAS 13.44(c)	Operating lease payments	3,509	2,647	3,509	2,499
	Repairs and maintenance	1,780	1,392	1,867	1,430
	Other occupancy costs	8,773	10,023	8,686	10,134
	Information technology	5,143	5,468	5,588	5,588
	Grants and scholarships	12,457	10,976	10,967	13,233
	Advertising and public relations	1,087	1,062	1,128	1,095
	Insurance premiums	506	423	520	433
	Consultants and legal fees	2,268	2,736	5,203	4,678
	Office costs	2,875	3,123	3,002	3,226
	Travel and accommodation	3,000	2,857	5,488	3,680
	Other course-related costs	3,047	2,753	3,553	3,040
PBE IPSAS 30.24(e)	Provision for uncollectability of receivables (Note 8)	(25)	192	(25)	192

[24] PBE IPSAS 1.106 requires separate disclosure of the nature and amount of material items of expense or revenue.
[25] PBE IPSAS 1.116.1–116.2 requires fees to each auditor or reviewer for other services performed during the reporting period to be separately disclosed from fees related to the audit or review of the financial statements. An entity shall describe the nature of the other services provided.

6 Other expenses (continued)

		Institute		Group	
		2016 $000	2015 $000	2016 $000	2015 $000
PBE IPSAS 12.47(d)	Inventories consumed	1,342	1,372	1,344	1,372
	Intangible asset write-off (Note 14)	0	0	437	0
PBE IPSAS 31.125	Research and development expenditure	2,274	2,772	2,341	2,705
	Change in fair value of investment property	63	0	63	0
PBE IPSAS 4.61(a)	Net foreign exchange losses	10	34	8	42
PBE IPSAS 30.24(a)(i)	Net loss on foreign exchange derivatives	0	31	0	31
PBE IPSAS 30.24(a)(ii)	Reclassification on disposal of financial assets at fair value through other comprehensive revenue and expense	10	0	10	0
PBE IPSAS 30.24(a)(i)	Net loss on managed fund	0	0	599	274
	Other operating expenses	7,420	7,404	8,825	9,205
	Total other expenses	**55,648**	**55,391**	**63,251**	**63,003**

PBE IPSAS 1.116.2

The fees paid to Audit New Zealand for other services were for a review report to the United States Department of Education in relation to the Federal Family Education Loan Program for a fee of $6,000 (2015: $6,000) and for the audit of the Institute's declaration to the Ministry of Education on the Performance-Based Research Fund external research revenue for the year ended 31 December 2016 for a fee of $5,000 (2015: $5,000).

Operating leases as lessee

PBE IPSAS 13.44(a)

The Institute and group leases property, plant, and equipment in the normal course of its business. The majority of these leases have a non-cancellable term of 36 months. The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

		Institute		Group	
		2016 $000	2015 $000	2016 $000	2015 $000
PBE IPSAS 13.44(a)(i)	Not later than one year	4,259	2,983	4,543	3,181
PBE IPSAS 13.44(a)(ii)	Later than one year but not later than five years	5,752	6,855	6,135	7,312
PBE IPSAS 13.44(a)(iii)	Later than five years	2,868	4,204	3,060	4,484
	Total non-cancellable operating leases	**12,879**	**14,042**	**13,738**	**14,977**

PBE IPSAS 13.44(b)

The total of minimum future sublease payments expected to be received under non-cancellable subleases at balance date is $530,000 (2015: $360,000).

PBE IPSAS 13.44(d)(ii)

Leases can be renewed at the Institute and group's option, with rents set by reference to current market rates for items of equivalent age and condition.

PBE IPSAS 13.44(d)(iii)

There are no restrictions placed on the Institute and group by any of its leasing arrangements.

Operating leases as lessor

PBE IPSAS 13.69(a),(c)

Investment property is leased under operating leases. The majority of these leases have a non-cancellable term of 36 months, with the exception of two leases that have a non-cancellable term of 72 months. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

		Institute		Group	
		2016 $000	2015 $000	2016 $000	2015 $000
PBE IPSAS 13.69(a)(i)	Not later than one year	42	42	42	42
PBE IPSAS 13.69(a)(ii)	Later than one year but not later than five years	126	168	126	168
PBE IPSAS 13.69(a)(iii)	Later than five years	0	0	0	0
	Total non-cancellable operating leases	**168**	**210**	**168**	**210**

PBE IPSAS 13.69(b)

No contingent rents have been recognised during the year.

PBE IPSAS 2.56

7 Cash and cash equivalents

Accounting policy

PBE IPSAS 2.57

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

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Breakdown of cash and cash equivalents and further information

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Cash at bank and on hand	1,460	359	4,057	1,505
Call deposits	1,849	1,849	1,849	1,849
Term deposits with maturities less than 3 months at acquisition	2,613	17,758	17,077	28,400
Total cash and cash equivalents	**5,922**	**19,966**	**22,983**	**31,754**

PBE IPSAS 23.106(d)[26]

Assets recognised in a non-exchange transaction that are subject to restrictions

The Institute has entered into a number of research contracts that require the funding to be spent in achieving the objectives of the research brief. For some of these contracts, there are no conditions to return the funding should the funding not be spent in achieving the objectives of the research brief. The amount of unspent funding for such contracts included within cash and cash equivalents totals $232,000 (2015: $334,000).

The Institute has a number of trusts and bequests that have restrictions on what the funds can be used for and when they can be used. The amount of these trusts and bequests of $2.704 million is included within cash and cash equivalents and term deposits (refer to Note 10). Further information on trusts and bequests is included in Note 22.

PBE IPSAS 1.94(b)

8 Receivables

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 29.45

Short-term receivables are recorded at the amount due, less any provision for uncollectability.

PBE IPSAS 29.72
PBE IPSAS 30 AG5

A receivable is considered uncollectable when there is evidence that the amount due will not be fully collected. The amount that is uncollectable is the difference between the amount due and the present value of the amount expected to be collected.

Breakdown of receivables and further information

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Student fee receivables				
Student fee receivables	2,111	2,794	2,111	2,794
Less: Provision for uncollectability	(267)	(355)	(267)	(355)
Net student fee receivables	1,844	2,439	1,844	2,439
Other receivables				
Commercial receivables	0	0	2,951	2,180
Research receivables	2,350	2,250	2,350	2,250
Receivables from subsidiaries	898	428	0	0
GST receivable	116	0	0	0
Other	163	100	277	225
Total receivables	**5,371**	**5,217**	**7,422**	**7,094**

[26] PBE IPSAS 23.106(d) requires disclosure of the amount of assets subject to restrictions and the nature of those restrictions.

8 Receivables (continued)

		Institute		Group	
		2016 $000	2015 $000	2016 $000	2015 $000
	Total receivables comprises:				
PBE IPSAS 1.88(h)	Receivables from exchange transactions	3,021	2,967	5,072	4,844
PBE IPSAS 1.88(g)	Receivables from non-exchange transactions	2,350	2,250	2,350	2,250

PBE IPSAS 30.29,35(a)

Fair value

Student fees are due before a course begins or are due on enrolment if the course has already begun. For courses that span more than one trimester, domestic students can arrange for fees to be paid in instalments. Student fee receivables are non-interest bearing and are generally paid in full by the course start date. Therefore, their carrying value approximates their fair value.

Other receivables are non-interest bearing and are generally settled on 30-day terms. Therefore, the carrying value of other receivables approximates their fair value.

Assessment for uncollectability

PBE IPSAS 30.44(a) The ageing profile of student fee receivables at year end is detailed below:

	2016			2015		
	Gross $000	Provision for uncollectability $000	Net $000	Gross $000	Provision for uncollectability $000	Net $000
Institute and group						
Not past due	922	(0)	922	1,101	(0)	1,101
Past due 1-30 days	569	(27)	542	761	(53)	708
Past due 31-60 days	242	(53)	189	382	(77)	305
Past due 61-90 days	189	(80)	109	387	(118)	269
Past due over 90 days	189	(107)	82	163	(107)	56
Total	**2,111**	**(267)**	**1,844**	**2,794**	**(355)**	**2,439**

All receivables greater than 30 days in age are considered to be past due.[27]

There are no provisions for uncollectability on other receivables and no amounts are overdue.

PBE IPSAS 30.44(b) Due to the large number of student fee receivables, the assessment for uncollectability is performed on a collective basis, based on an analysis of past collection history and write-offs.

PBE IPSAS 30.20 Movements in the provision for uncollectability of student fee receivables are as follows:

	Institute and group	
	2016 $000	2015 $000
Balance at 1 January	355	228
Additional provisions made during the year	0	192
Provisions reversed during the year	(25)	0
Receivables written off during the year	(63)	(65)
At 31 December	**267**	**355**

PBE IPSAS 30.44(c) The Institute holds no collateral as security or other credit enhancements over receivables that are either past due or uncollectable.

[27] When the amount is considered to be material, PBE IPSAS 30.43(d) requires Tier 1 entities to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

PBE IPSAS 1.127(c)

9 Derivative financial instruments

PBE IPSAS 30.25

Accounting policy

Derivative financial instruments are used to manage exposure to foreign exchange and interest rate risks arising from the Institute's financing activities. In accordance with its treasury policy, the Institute does not hold or issue derivative financial instruments for trading purposes. The Institute and group has elected not to apply hedge accounting.

PBE IPSAS 29.45,48,49
PBE IPSAS 29.64(a)

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date with the resulting gain or loss recognised in the surplus or deficit.

PBE IPSAS 1.76,80

A forward foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, the full fair value of forward foreign exchange derivatives is classified as non-current. The portion of the fair value of an interest rate derivative that is expected to be realised or settled within 12 months of the balance date is classified as current, with the remaining portion of the derivative classified as non-current.

Breakdown of derivative financial instruments and further information

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Current asset portion				
Forward foreign exchange contracts	203	17	203	17
Current liability portion				
Interest rate swaps	21	0	21	0
Forward foreign exchange contracts	8	32	8	32
Total current liability portion	29	32	29	32
Non-current liability portion				
Interest rate swaps	76	0	76	0
Total derivative financial instrument liabilities	**105**	**32**	**105**	**32**

PBE IPSAS 30.41(a)

The notional principal amounts of outstanding forward foreign exchange contracts in NZ$ were $1.25 million (2015: $324,000). The foreign currency principal amounts were US$350,000 (2015: US$280,000), AUS$200,000 (2015: AUS$nil), and £125,000 (2015: £nil).

PBE IPSAS 30.41(a)

The notional principal amounts of the outstanding interest rate swap contracts totalled $10.0 million (2015: $nil). The fixed interest rates of interest rate swaps vary from 4.75% to 5.87%.

Fair value[28]

PBE IPSAS 30.29,31

The fair values of interest rate swaps have been determined by calculating the expected cash flows under the terms of the swaps and discounting these values to present value. The inputs into the valuation model are from independently sourced market parameters such as interest rate yield curves. Most market parameters are implied from instrument prices.

PBE IPSAS 30.29,31

The fair values of forward foreign exchange contracts have been determined using a discounted cash flow valuation technique based on quoted market prices. The inputs into the valuation model are from independently sourced market parameters such as currency rates. Most market parameters are implied from forward foreign exchange contract prices.

[28] TEIs that apply the RDR are not required to disclose the fair value of instruments not measured at fair value. However, PBE IPSAS 30 RDR 31.1 requires for those instruments measured at fair value, disclosure of the basis for determining fair value, and, when a valuation technique is used, disclosure of the assumptions applied in determining fair value.

PBE IPSAS 1.127(c)

10 Other financial assets

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 29.45

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

Term deposits and loans to subsidiaries

PBE IPSAS 29.45,48(a)

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

PBE IPSAS 29.72

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

New Zealand Government bonds

PBE IPSAS 29.45

New Zealand Government bonds are designated at fair value through other comprehensive revenue and expense.[29]

PBE IPSAS 29.48,64(b)

After initial recognition, the bonds are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense.

Managed fund

PBE IPSAS 29.45

The managed fund is a portfolio of financial assets that are actively traded with the intention of making profits. Therefore, the managed fund is classified as held for trading.[30]

PBE IPSAS 29.48

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

Listed and unlisted shares

PBE IPSAS 29.45

Equity investments are designated at fair value through other comprehensive revenue and expense.

PBE IPSAS 29.48,64(b)

After initial recognition, the shares are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is transferred to the surplus or deficit.

PBE IPSAS 29.70,76,77

A significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment. If impairment evidence exists, the cumulative loss recognised in other comprehensive revenue and expense is transferred from equity to the surplus or deficit.

PBE IPSAS 29.78

Impairment losses on equity investments recognised in the surplus or deficit are not reversed through the surplus or deficit.

[29] The exact names as prescribed in PBE IPSAS 29 are not required to be used. Other descriptors can be used. For example, "fair value through other comprehensive revenue and expense" may better describe an entity's intention than the PBE IPSAS 29 title of "available-for-sale". Similar investments could be categorised differently, depending on the purposes for which they were acquired.

[30] The fair value through surplus or deficit category has two sub-categories: financial assets held for trading, and those designated at fair value through surplus or deficit at initial recognition. PBE IPSAS 30 AG5 (a)(ii) requires the disclosure of the criteria an entity uses when designating financial assets into the fair value through surplus or deficit category at initial recognition.

10 Other financial assets (continued)

Breakdown of other financial assets and further information

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Current portion				
Term deposits	8,496	4,541	8,496	4,541
New Zealand Government bonds	179	164	179	164
Managed fund	0	0	8,320	8,919
Total current portion	8,675	4,705	16,995	13,624
Non-current portion				
Term deposits	1,300	650	1,300	845
Loans to subsidiary	735	281	0	0
Unlisted shares	86	0	86	0
Listed shares	520	466	520	466
Total non-current portion	2,641	1,397	1,906	1,311
Total other financial assets	**11,316**	**6,102**	**18,901**	**14,935**

Fair value[31]

Term deposits

PBE IPSAS 30.29,31

The fair value of non-current term deposits is $1.25 million (2015: $640,000). Fair value has been determined by discounting future principal and interest cash flows using a discount rate based on the market interest rate on term deposits at balance date with terms to maturity that match as closely as possible the cash flows of term deposits held. The discount rates range between 3.6% – 4.7% (2015: 5.2% – 5.44%).

New Zealand Government bonds

PBE IPSAS 30.29,31

New Zealand Government bonds are recognised at their fair value. Fair value has been determined using quoted market bid prices from independently sourced market information for Government bond prices.

Loans to subsidiary

PBE IPSAS 30.29,35(a)

Loans to related parties are unsecured, non-interest bearing, and repayable on demand. The fair value of the on-demand loans cannot be less than the amount repayable on demand. Therefore, the carrying value of loans on demand reflects their fair value.

Shares

PBE IPSAS 30.29,31

Listed shares are recognised at their fair value. Fair value has been determined using published bid price quotations from the NZX at the balance date.

PBE IPSAS 30.35(b), 36(a)-(d)

Unlisted shares are held in non-commercial entities and are carried at cost because

- fair value cannot be reliably determined using a standardised valuation technique; or
- the cost is not materially different to fair value.

There is currently no intention to dispose of these investments.

Managed fund

PBE IPSAS 30.29,31

The managed fund is measured at fair value and consists of listed shares and listed bonds. The fair values of the managed fund investments are determined using the same methods and assumptions as described above for listed shares and Government bonds.

Impairment

PBE IPSAS 30.24(e),44

There were no impairment provisions for other financial assets. None of the financial assets are either past due or impaired.

[31] TEIs that apply the RDR are not required to disclose the fair value of instruments not measured at fair value. However, PBE IPSAS 30 RDR 31.1 requires for those instruments measured at fair value, disclosure of the basis for determining fair value, and, when a valuation technique is used, disclosure of the assumptions applied in determining fair value.

PBE IPSAS 12.47(b)

11 Inventories

PBE IPSAS 12.47(a)

Accounting policy

PBE IPSAS 12.15
PBE IPSAS 12.17(a)

Inventories are held for distribution or for use in the provision of goods and services. The measurement of inventories depends on whether the inventories are held for commercial or non-commercial (distribution at no charge or for a nominal charge) distribution or use. Inventories are measured as follows:

- Commercial: measured at the lower of cost and net realisable value.
- Non-commercial: measured at cost, adjusted for any loss of service potential.

Cost is allocated using the first in, first out (FIFO) method, which assumes the inventories that were purchased first are distributed or used first.

PE IPSAS 12.16

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

PBE IPSAS 12.44

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

Breakdown of inventories and further information

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Non-commercial inventories				
Materials and consumables	85	195	85	195
Commercial inventories				
Research work in progress	40	30	40	30
Bookshop	108	158	108	158
Total inventories	**233**	**383**	**233**	**383**

PBE IPSAS 12.47(h)

No inventories are pledged as security for liabilities (2015: $nil). However, some inventories are subject to retention of title clauses.

PBE IPSAS 12.47(e),(f)

The write-down of inventories during the year was $30,000 (2015: $18,000). There have been no reversals of write-downs (2015: $nil).[32]

[32] If there has been a reversal of a previous write-down, PBE IPSAS 12.47(g)) requires disclosure of the circumstances or events that led to the reversal of the write-down. A TEI that applies the RDR is not required to disclose this information.

12 Investments in subsidiaries, associates, and joint ventures

Accounting policy

Subsidiaries

PBE IPSAS 6.20,28,30

The Institute consolidates in the group financial statements all entities where the Institute has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the subsidiary. This power exists where the Institute controls the majority voting power on the governing body or where financing and operating policies have been irreversibly predetermined by the Institute or where the determination of such policies is unable to materially affect the level of potential ownership benefits that arise from the activities of the subsidiary.

PBE IFRS 3.18,32,34

The Institute will recognise goodwill where there is an excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. This difference reflects the goodwill to be recognised by the Institute. If the consideration transferred is lower than the net fair value of the Institute's interest in the identifiable assets acquired and liabilities assumed, the difference will be recognised immediately in the surplus or deficit.

PBE IPSAS 6.64(c)

Investments in subsidiaries are carried at cost in the Institute's parent financial statements.

Associate

PBE IPSAS 7.7,17

An associate is an entity over which the Institute has significant influence and that is neither a subsidiary nor an interest in a joint venture. The Institute'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.

PBE IPSAS 7.35,36

If the share of deficits of an associate equals or exceeds an interest in the associate, the group discontinues recognising its share of further deficits. After the group's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports surpluses, the group will resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

PBE IPSAS 7.28

Where the group transacts with an associate, surpluses or deficits are eliminated to the extent of the group's interest in the relevant associate.

PBE IPSAS 6.64(c)

Investments in associates are carried at cost in the Institute's parent financial statements.

Joint venture[33]

PBE IPSAS 8.6

A joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control. Joint control is the agreed sharing of control over an activity.

PBE IPSAS 8.64

The Institute's jointly controlled entity interest is accounted for by proportionate consolidation in the group financial statements.[34] The group combines its share of the joint venture's individual revenue and expenses, assets and liabilities, and cash flows on a line-by-line basis with similar items in the group's financial statements. The group recognises the portion of gains or losses on the sale of assets by the group to the joint venture that is attributable to the other venturers.

PBE IPSAS 6.64(c)

Investments in jointly controlled entities are carried at cost in the Institute's parent financial statements.

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[33] There are two further joint venture classifications: jointly controlled operations and jointly controlled assets. Possible accounting policies for these categories are:

- *Jointly controlled operations* – The Institute and group recognises in its financial statements the assets it controls, the liabilities and expenses it incurs, and the share of revenue that it earns from the joint venture.
- *Jointly controlled assets* – For jointly controlled assets, the Institute and group recognises in its financial statements its share of jointly controlled assets, the liabilities and expenses it incurs, its share of liabilities and expenses incurred jointly, and revenue from the sale or use of its share of the output of the joint venture.

[34] An interest in a jointly controlled entity can be recognised using the equity method rather than proportionate consolidation.

12 Investments in subsidiaries, associates, and joint ventures (continued)

Breakdown of investment in subsidiaries and further information

	Principal activity	2016 $000	2015 $000
Institute			
Investment in Te Tutuki Enterprise Limited	Develops and commercialises research intellectual property	72	158
Investment in Te Tutuki Foundation Trust	Receives and administers donations and bequests	50	50
Investment in Tutuki Accommodation Limited	Operates the Institute's halls of residence	105	105
Total		**227**	**313**

PBE IPSAS 6.62(a),(f),64 — All subsidiaries have 31 December balance dates, are 100% owned by the Institute, and are incorporated and domiciled in New Zealand.

PBE IPSAS 6.62(d) — The Institute controls the Te Tutuki Foundation Trust for financial reporting purposes because, in substance, the Institute predetermined the objectives of the Trust at establishment and benefits from the Trust's complementary activities.

PBE IPSAS 6.62(g) — Tutuki Accommodation Limited is a registered charity. Under its constitution, the company is prohibited from paying dividends (or similar distributions) to the Institute.

Breakdown of investment in associates and further information

		2016 $000	2015 $000
	Institute		
	Investment in Te TutukiTech Limited	352	352
	Group		
	Equity accounted carrying amount	852	526
PBE IPSAS 7.43(b)	*Summarised financial information of associate presented on a gross basis*[35]		
	Assets	5,081	2,891
	Liabilities	887	908
	Revenues	4,244	4,806
	Surplus/(deficit)	466	391
	Group's interest	*20.3%*	*27.5%*
PBE IPSAS 7.46(a)	Share of associate's contingent liabilities incurred jointly with other investors	22	18
PBE IPSAS 7.46(b)	Contingent liabilities that arise because of several liability	6	6

[35] These are the gross amounts from the associate's financial statements. An alternative presentation would be to show only the group's share. PBE IPSAS 7 does not specify which method of presentation is required.

12 Investments in subsidiaries, associates and joint ventures (continued)

Breakdown of investment in jointly controlled entity and further information

PBE IPSAS 8.63 The Institute has a 25% interest in a joint venture, the Institute for Advanced ResearchTech, which undertakes research jointly with other TEIs.

	2016 $000	2015 $000
Institute		
Investment in Institute for Advanced ResearchTech	163	163

Group

The following amounts represent the group's share of the assets, liabilities, revenue, and expenses of the joint venture that are consolidated on a proportionate consolidation basis into the group financial statements:

	2016 $000	2015 $000
Assets		
Current assets	3,176	1,778
Non-current assets	4,657	3,166
Total assets	7,833	4,944
Liabilities		
Current liabilities	1,458	1,368
Non-current liabilities	0	0
Total liabilities	1,458	1,368
Revenue	1,653	1,793
Expenses	(1,653)	(1,793)
Net surplus/(deficit)	0	0

Reference		2016 $000	2015 $000
PBE IPSAS 8.62(a)	Institute's capital commitments in relation to the joint venture	0	0
PBE IPSAS 8.62(b)	Share of joint venture's commitments	123	83
PBE IPSAS 8.61(a)	Institute's contingent liabilities incurred in relation to the joint venture	0	0
PBE IPSAS 8.61(a)	Share of joint venture's contingent liabilities	0	0
PBE IPSAS 8.61(a)	Other venturers' contingent liabilities the Institute is liable for	0	0
PBE IPSAS 8.61(b)	The Institute's contingent assets arising in relation to the joint venture	0	0
PBE IPSAS 8.61(b)	Share of joint venture's contingent assets	0	0

13 Property, plant, and equipment

PBE IPSAS 1.132(c)

Accounting policy

Property, plant, and equipment consists of nine asset classes: land, buildings, infrastructure, leasehold improvements, computer hardware, furniture and equipment, motor vehicles, library collection, and heritage collections.

PBE IPSAS 17.88(a)

Land is measured at fair value, and buildings and infrastructure are measured at fair value less accumulated depreciation. All other asset classes are measured at cost, less accumulated depreciation and impairment losses.

Revaluations

PBE IPSAS 17.44

Land, buildings, and infrastructure are revalued with sufficient regularity to ensure that their carrying amount does not differ materially from fair value and at least every three years.

PBE IPSAS 17.56

Revaluation movements are accounted for on a class-of-asset basis.

PBE IPSAS 17.54, 55

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class-of-asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses 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 other comprehensive revenue and expense.

Additions

PBE IPSAS 17.14

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

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

PBE IPSAS 17.26,27

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, it is recognised at its fair value as at the date of acquisition.

PBE IPSAS 17.14

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 Institute and group and the cost of the item can be measured reliably.

PBE IPSAS 17.23,24

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

Disposals

PBE IPSAS 17.57,83,86

Gains and losses on disposals are determined by comparing the 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 sold, the amounts included in revaluation reserves in respect of those assets are transferred to general funds within equity.

PBE IPSAS 17.88(b),(c)

Depreciation[36]

Depreciation is provided on a straight-line basis on all property, plant, and equipment other than land and heritage collections, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. Heritage collections are not depreciated because they are maintained such that they have indefinite or sufficiently long useful lives that any depreciation is considered to be negligible.

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Buildings (including components)	25 to 100 years	1% to 4%
Infrastructure	10 to 50 years	2% to 10%
Leasehold improvements	3 to 10 years	10% to 33.3%
Computer hardware	5 years	20%
Furniture and equipment	2 to 13 years	7.7% to 50%
Motor vehicles	4 years	25%
Library collection	10 years	10%

Leasehold improvements are depreciated over the shorter of the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

[36] The useful lives and depreciation rates that have been listed above are only illustrative. Each TEI will need to set these based on their specific circumstances.

13 Property, plant, and equipment (continued)

Impairment of property, plant, and equipment held at cost

PBE IPSAS 21.26
PBE IPSAS 26.22
PBE IPSAS 21.35
PBE IPSAS 26.31

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.

PBE IPSAS 21.52,54
PBE IPSAS 26.72,73

If an asset's carrying amount exceeds its recoverable amount, the asset is considered to be impaired and the carrying amount is written-down to the recoverable amount. The impairment loss is recognised in the surplus or deficit.

Value in use for non-cash-generating assets

PBE IPSAS 21.16-21
PBE IPSAS 26.14-18

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return.

PBE IPSAS 21.44-50

For non-cash-generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Value in use for cash-generating assets

PBE IPSAS 21.16-21
PBE IPSAS 26.14-18

Cash-generating assets are those assets that are held with the primary objective of generating a commercial return.

PBE IPSAS 26.43-70

The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows.

PBE IPSAS 1.140

Critical accounting estimates and assumptions

Estimating the fair value of land, buildings, and infrastructure

PBE IPSAS 17.92[37]

The most recent valuations of land, buildings, and infrastructure were performed by an independent registered valuer, R Holt ANZIV of O'Connell Valuers Limited. The valuation is effective as at 31 December 2015.

Land

Fair value, using market-based evidence, is based on the highest and best use of the land, with reference to comparable land values. Adjustments have been made to the "unencumbered" land value for campus land where there is a designation against the land or the use of the land is restricted because of reserve or endowment status. These adjustments are intended to reflect the negative effect on the value of the land where an owner is unable to use the land more intensively. These adjustments ranged from 10% to 20%.

Restrictions on the Institute's ability to sell land would normally not impair the value of the land because the Institute has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership.

Buildings

Specialised buildings are buildings specifically designed for educational purposes. They are valued using depreciated replacement cost because no reliable market data is available for such buildings.

Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions used in the 31 December 2015 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.
- The replacement cost is derived from recent construction contracts of modern equivalent assets and Property Institute of New Zealand cost information. Construction costs range from $868 to $2,800 per square metre, depending on the nature of the specific asset valued.
- Independent structural engineers have estimated present-value costs of between $14.0 million and $20.0 million to strengthen the Institute's earthquake-prone buildings. The mid-point of $17.0 million has been deducted off the depreciated replacement cost.

[37] Although it is not a requirement, we consider it good practice to disclose the name and qualifications of property valuers.

13 Property, plant, and equipment (continued)

- 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 depreciated replacement cost value of the asset.

Non-specialised buildings (for example, residential buildings and office buildings) are valued at fair value using market-based evidence. Significant assumptions in the 31 December 2015 valuation include market rents and capitalisation rates.

- Market rents range from $415 to $532 per square metre. An increase (decrease) in market rents would increase (decrease) the fair value of non-specialised buildings.
- Capitalisation rates are market-based rates of return and range from 7.25% to 8%. An increase (decrease) in the capitalisation rate would decrease (increase) the fair value of non-specialised buildings.

A comparison of the carrying value of buildings valued using depreciated replacement cost and buildings valued using market-based evidence is as follows:

	2016 $000	2015 $000
Institute and group		
Depreciated replacement cost	195,821	182,492
Market-based evidence	77,250	56,767
Total carrying value of buildings	**273,071**	**239,259**

Infrastructure

Infrastructure assets such as roads, car parks, footpaths, underground utilities (for example, water supply and sewerage systems), and site drainage have been independently valued using depreciated replacement cost. The valuations have been performed in accordance with the New Zealand Infrastructure Asset Valuation and Depreciation Guidelines issued by the NAMS Group. The significant assumptions applied in determining the depreciated replacement cost of infrastructure assets are similar to those described above for specialised buildings.

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Crown-owned land and buildings

Property in the legal name of the Crown that is occupied by the Institute and group is recognised as an asset in the statement of financial position. The Institute and group considers that it has assumed all the normal risks and rewards of ownership of this property despite legal ownership not being transferred and accordingly it would be misleading to exclude these assets from the financial statements.

The Institute and group has secured the use of the property by means of a lease from the Ministry of Education for a period of 99 years from 1 December 1995 at nil rent.

The legal ownership of land and buildings is detailed as follows:

	Land		Buildings	
	2016 $000	2015 $000	2016 $000	2015 $000
Institute-owned	40,000	40,000	241,000	205,557
Crown-owned	30,701	30,701	32,071	33,702
Total	**70,701**	**70,701**	**273,071**	**239,259**

13 Property, plant, and equipment (continued)

Breakdown of property, plant, and equipment and further information

Movements for each class of property, plant, and equipment are as follows:

Institute	Cost/ valuation 1/1/16	Accumulated depreciation & impairment 1/1/16	Carrying amount 1/1/16	Additions	Disposals	Impairment	Depreciation	Revaluation surplus	Cost/ valuation 31/12/16	Accumulated depreciation & impairment 31/12/16	Carrying amount 31/12/16
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Land	70,701	0	70,701	0	0	0	0	0	70,701	0	70,701
Buildings	239,259	0	239,259	40,313	0	0	(6,501)	0	279,572	(6,501)	273,071
Infrastructure	5,376	0	5,376	7	0	0	(421)	0	5,383	(421)	4,962
Leasehold improvements	6,721	(1,602)	5,119	467	0	0	(591)	0	7,188	(2,193)	4,995
Computer hardware	13,742	(7,622)	6,120	3,250	(2)	0	(2,428)	0	16,990	(10,050)	6,940
Furniture and equipment	28,065	(11,462)	16,603	4,617	(209)	0	(3,231)	0	32,406	(14,626)	17,780
Motor vehicles	938	(425)	513	42	(8)	0	(166)	0	945	(564)	381
Library collection	23,730	(12,126)	11,604	6,031	(32)	0	(4,202)	0	29,728	(16,327)	13,401
Heritage collections	7,217	0	7,217	37	0	0	0	0	7,254	0	7,254
Total Institute	**395,749**	**(33,237)**	**362,512**	**54,764**	**(251)**	**0**	**(17,540)**	**0**	**450,167**	**(50,682)**	**399,485**

PBE IPSAS 17.88(d),(e)[38]

Institute	Cost/ valuation 1/1/15	Accumulated depreciation & impairment 1/1/15	Carrying amount 1/1/15	Additions	Disposals[39]	Impairment	Depreciation	Revaluation surplus	Cost/ valuation 31/12/15	Accumulated depreciation & impairment 31/12/15	Carrying amount 31/12/15
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Land	60,786	0	60,786	810	0	0	0	9,105	70,701	0	70,701
Buildings	225,802	(6,360)	219,442	19,153	0	0	(5,473)	6,137	239,259	0	239,259
Infrastructure	4,460	(356)	4,104	101	0	0	(250)	1,421	5,376	0	5,376
Leasehold improvements	6,302	(1,068)	5,234	419	0	0	(534)	0	6,721	(1,602)	5,119
Computer hardware	15,343	(9,985)	5,358	2,909	(48)	0	(2,099)	0	13,742	(7,622)	6,120
Furniture and equipment	25,520	(11,569)	13,951	5,529	(50)	0	(2,827)	0	28,065	(11,462)	16,603
Motor vehicles	1,053	(528)	525	248	(92)	0	(168)	0	938	(425)	513
Library collection	18,463	(9,187)	9,276	6,059	(47)	0	(3,684)	0	23,730	(12,126)	11,604
Heritage collections	7,207	0	7,207	94	(84)	0	0	0	7,217	0	7,217
Total Institute	**364,936**	**(39,053)**	**325,883**	**35,322**	**(321)**	**0**	**(15,035)**	**16,663**	**395,749**	**(33,237)**	**362,512**

[38] This is just one way of presenting the reconciliation required by PBE IPSAS 17 *Property, Plant and Equipment*.

[39] Disposals in this reconciliation are reported net of accumulated depreciation and include property, plant, and equipment classified as held for sale during the year. Where assets classified as held for sale are material, these should be separately disclosed in the reconciliation of the carrying amount at the beginning and end of the year.

13 Property, plant, and equipment (continued)

Group	Cost/ valuation 1/1/16	Accumulated depreciation & impairment 1/1/16	Carrying amount 1/1/16	Additions	Disposals	Impairment	Depreciation	Revaluation surplus	Cost/ valuation 31/12/16	Accumulated depreciation & impairment 31/12/16	Carrying amount 31/12/16
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Land	70,701	0	70,701	0	0	0	0	0	70,701	0	70,701
Buildings	239,259	0	239,259	40,313	0	0	(6,501)	0	279,572	(6,501)	273,071
Infrastructure	5,376	0	5,376	7	0	0	(421)	0	5,383	(421)	4,962
Leasehold improvements	6,721	(1,602)	5,119	467	0	0	(592)	0	7,188	(2,194)	4,994
Computer hardware	13,844	(7,709)	6,135	3,270	(5)	0	(2,441)	0	17,074	(10,115)	6,959
Furniture and equipment	28,087	(11,484)	16,603	4,715	(209)	0	(3,260)	0	32,528	(14,679)	17,849
Motor vehicles	938	(425)	513	48	(8)	0	(166)	0	951	(564)	387
Library collection	23,730	(12,126)	11,604	6,031	(32)	0	(4,202)	0	29,728	(16,327)	13,401
Heritage collections	7,217	0	7,217	37	0	0	0	0	7,254	0	7,254
Total group	**395,873**	**(33,346)**	**362,527**	**54,888**	**(254)**	**0**	**(17,583)**	**0**	**450,379**	**(50,801)**	**399,578**

Group	Cost/ valuation 1/1/15	Accumulated depreciation & impairment 1/1/15	Carrying amount 1/1/15	Additions	Disposals	Impairment	Depreciation	Revaluation surplus	Cost/ valuation 31/12/15	Accumulated depreciation & impairment 31/12/15	Carrying amount 31/12/15
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Land	60,786	0	60,786	810	0	0	0	9,105	70,701	0	70,701
Buildings	225,802	(6,360)	219,442	19,153	0	0	(5,473)	6,137	239,259	0	239,259
Infrastructure	4,460	(356)	4,104	101	0	0	(250)	1,421	5,376	0	5,376
Leasehold improvements	6,302	(1,068)	5,234	419	0	0	(534)	0	6,721	(1,602)	5,119
Computer hardware	15,439	(10,047)	5,392	2,915	(48)	0	(2,124)	0	13,844	(7,709)	6,135
Furniture and equipment	25,607	(11,584)	14,023	5,533	(115)	0	(2,838)	0	28,087	(11,484)	16,603
Motor vehicles	1,053	(528)	525	248	(92)	0	(168)	0	938	(425)	513
Library collection	18,463	(9,187)	9,276	6,059	(47)	0	(3,684)	0	23,730	(12,126)	11,604
Heritage collections	7,207	0	7,207	94	(84)	0	0	0	7,217	0	7,217
Total group	**365,119**	**(39,130)**	**325,989**	**35,332**	**(386)**	**0**	**(15,071)**	**16,663**	**395,873**	**(33,346)**	**362,527**

13 Property, plant, and equipment (continued)

PBE IPSAS 17.89(a)

Restrictions on title

PBE IPSAS 23.106(d)

Under the Education Act 1989, the Institute is required to obtain consent from the Secretary for 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 consent from the Secretary for Education. Detailed information on the asset disposal rules can be found on the Tertiary Education Commission website.

There are also various restrictions in the form of historic designations, reserve, and endowment encumbrances attached to land. The Institute and group does not consider it practical to disclose in detail the value of land subject to these restrictions.[40]

Finance leases

PBE IPSAS 13.40(a)

The net carrying amount of computers and electronic equipment (included within computer hardware) held under finance leases is $422,000 (2015: $485,000). Note 18 provides further information about finance leases.

PBE IPSAS 17.89(b)

Work in progress

Buildings in the course of construction total $26.55 million (2015: $16.44 million). No other asset classes have assets in the course of construction. [41]

Capital commitments

PBE IPSAS 17.89(c)

The amount of contractual commitments for the acquisition of property, plant, and equipment is:

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Capital commitments				
Buildings[42]	12,458	8,478	12,458	8,478
Infrastructure	856	0	856	0
Total capital commitments	**13,314**	**8,478**	**13,314**	**8,478**

[40] PBE IPSAS 17.89 requires disclosure of the existence and amounts of restrictions on title, and property, plant, and equipment pledged as security for liabilities for each class of asset.
[41] PBE IPSAS 17.89 requires disclosure of the carrying amount of property, plant, and equipment in the course of construction for each class of asset.
[42] PBE IPSAS 17.89 requires disclosure of the amount of contractual commitments for the acquisition of property, plant, and equipment for each class of asset.

14 Intangible assets

PBE IPSAS 1.132(c)

Accounting policy

Software acquisition and development

PBE IPSAS 31.34,35

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

PBE IPSAS 31.64,65

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.

PBE IPSAS 31.36,65,67

Staff training costs are recognised as an expense when incurred.

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

Course development costs

PBE IPSAS 31 AG8

Costs that are directly associated with the development of new educational courses are recognised as an intangible asset to the extent that such costs are expected to be recovered. The development costs primarily consist of employee costs.

Intellectual property development

Research costs are expensed as incurred in the surplus or deficit.

PBE IPSAS 31 AG8

Development costs that are directly attributable to the design, construction, and testing of pre-production or pre-use prototypes and models associated with intellectual property development are recognised as an intangible asset if all the following can be demonstrated:

- It is technically feasible to complete the product so that it will be available for use or sale.
- Management intends to complete the product and use or sell it.
- There is an ability to use or sell the product.
- It can be demonstrated how the product will generate probable future economic benefits.
- Adequate technical, financial, and other resources to complete the development and to use or sell the product are available.
- The expenditure attributable to the product during its development can be reliably measured.

PBE IPSAS 31.66,70

Other development expenses that do not meet these criteria are recognised as an expense as incurred in the surplus or deficit. Development costs previously recognised as an expense cannot be subsequently recognised as an asset.

Amortisation

PBE IPSAS 31.96,117(b)

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.

PBE IAS 38.117(a)

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software	3 to 6 years	16.7% to 33.3%
Course development costs	5 years	20%

Capitalised intellectual property development costs are still work in progress. The useful life of completed projects will be established at project completion.

Impairment of intangible assets

PBE IPSAS 21.26A
PBE IPSAS 26.23.1

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 refer to the policy for impairment of property, plant, and equipment in Note 13. The same approach applies to the impairment of intangible assets.

14 Intangible assets (continued)

Breakdown of intangible assets and further information

Movements for each class of intangible asset are as follows:[43]

PBE IPSAS 31.117(c),(e)

	Software	Course development costs	Institute total	Intellectual property development	Group total
	$000	$000	$000	$000	$000
Balance at 1 January 2016					
Cost	7,891	1,972	9,863	923	10,786
Accumulated amortisation and impairment	(4,086)	(1,022)	(5,108)	0	(5,108)
Opening carrying amount	3,805	950	4,755	923	5,678
Year ended 31 December 2016					
Additions	949	235	1,184	667	1,851
Write-off	0	0	0	(437)	(437)
Amortisation	(1,318)	(330)	(1,648)	0	(1,648)
Closing carrying amount	3,436	855	4,291	1,153	5,444
Balance at 31 December 2016					
Cost	8,840	2,207	11,047	1,153	12,200
Accumulated amortisation and impairment	(5,404)	(1,352)	(6,756)	0	(6,756)
Closing carrying amount	3,436	855	4,291	1,153	5,444
Balance at 1 January 2015					
Cost	6,019	1,505	7,524	652	8,176
Accumulated amortisation and impairment	(2,872)	(718)	(3,590)	0	(3,590)
Opening carrying amount	3,147	787	3,934	652	4,586
Year ended 31 December 2015					
Additions	1,877	468	2,345	271	2,616
Disposals	(5)	(1)	(6)	0	(6)
Amortisation	(1,214)	(304)	(1,518)	0	(1,518)
Closing carrying amount	3,805	950	4,755	923	5,678
Balance at 31 December 2015					
Cost	7,891	1,972	9,863	923	10,786
Accumulated amortisation and impairment	(4,086)	(1,022)	(5,108)	0	(5,108)
Closing carrying amount	**3,805**	**950**	**4,755**	**923**	**5,678**

PBE IPSAS 31.121(d)

There are no restrictions over the title of the Institute and group's intangible assets, nor are any intangible assets pledged as security for liabilities.

PBE IPSAS 1.106

The group derecognised an asset with a carrying amount of $437,000 during the year in relation to a project on the development of certain electrical technology. The asset was derecognised, giving rise to a write-off expense of $437,000, because the investment partner in the development has decided not to contribute any further funding for the completion and commercialisation of the technology. With no commitments for future funding for the completion of development and commercialisation of the technology, the group has not been able to demonstrate that it is probable the project will provide future economic benefits. The group will endeavour to secure further investment for the completion and commercialisation of the technology development.

PBE IPSAS 31.121(e)

There were no contractual commitments for the acquisition of intangible assets for the Institute and group (2015: $nil).

[43] PBE IPSAS 31.117 requires entities to distinguish between internally generated intangible assets and other intangible assets. For example, internally developed software shall be distinguished from acquired software.

15 Investment property

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 16.7

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.

PBE IPSAS 16.26

Investment property is measured initially at its cost, including transaction costs.

PBE IPSAS 16.42,44, 86(a)

After initial recognition, investment property is measured at fair value as determined annually by an independent valuer. Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

Breakdown of investment property and further information

		Institute		Group	
		2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
PBE IPSAS 16.87	**Balance at 1 January**	882	815	882	815
	Additions from acquisitions[44]	0	0	0	0
	Additions from subsequent expenditure	0	0	0	0
	Disposals	0	0	0	0
	Fair value gains/(losses) on valuation	(63)	67	(63)	67
	Balance at 31 December	**819**	**882**	**819**	**882**

PBE IPSAS 16.86(e)

The valuation of investment property as at 31 December 2016 was performed by I Trevors ANZIV, an independent registered valuer from Oppenheim Valuers Limited. Oppenheim Valuers Limited are experienced valuers with extensive market knowledge in the types and location of investment properties owned by the Institute.

PBE IPSAS 16.86(d)

The fair value of investment property has been determined using the capitalisation of net revenue and discounted cash flow methods. These methods are based on market evidence and use assumptions including future rental revenue, anticipated maintenance costs, and appropriate capitalisation or discount rates:

- Net revenue, which takes into account future rental revenue and anticipated maintenance costs, ranges from $380 to $450 per square metre (2015: $350 to $450). An increase (decrease) in net revenue would increase (decrease) the fair value of investment property.
- Capitalisation rates range from 6.5% to 7.5% (2015: 7.25% to 8%). An increase (decrease) in the capitalisation rate would decrease (increase) the fair value of investment property.

		Institute		Group	
		2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
PBE IPSAS 16.86(f)	Rental revenue	62	66	62	66
PBE IPSAS 16.86(f)	Operating expenses from property generating revenue	12	11	12	11
PBE IPSAS 16.86(f)	Operating expenses from property not generating revenue	0	0	0	0
PBE IPSAS 16.86(h)	Contractual obligations for capital expenditure	0	0	0	0
PBE IPSAS 16.86(h)	Contractual obligations for operating expenditure	14	18	14	18

[44] PBE IPSAS 16 RDR 87.2 states that entities that apply the RDR are not required to distinguish additions between those resulting from acquisitions and those resulting from subsequent expenditure. Therefore, entities applying the RDR can present a single line for additions.

PBE IPSAS 1.93

16 Payables

PBE IPSAS 30.25
PBE IPSAS 29.45

Accounting policy

Short-term payables are recorded at the amount payable.

Breakdown of payables and further information

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Payables under exchange transactions				
Creditors	5,084	3,986	5,646	4,187
Accrued expenses	7,954	6,249	8,848	6,757
Contract retentions	1,329	621	1,329	622
Deposits held on behalf of students	808	1,406	808	1,406
Amounts due to subsidiaries	16	21	0	0
PBE IPSAS 1.88(k) *Total payables under exchange transactions*	15,191	12,283	16,631	12,972
Payables under non-exchange transactions				
PBE IPSAS 1.88(j) Taxes payable (e.g. GST, FBT, and rates)	0	587	34	752
Total payables	**15,191**	**12,870**	**16,665**	**13,724**

PBE IPSAS 30.29,35(a)

Payables are non-interest bearing and are normally settled on 30-day terms. Therefore, the carrying value of payables approximates their fair value.

PBE IPSAS 1.93

17 Deferred revenue

Breakdown of deferred revenue and further information

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Tuition fees	1,717	1,434	1,717	1,434
Research funding	1,047	2,422	8,006	8,503
Early childhood centre grant	1,423	1,956	1,423	1,956
Other revenue received in advance	0	353	569	487
Total deferred revenue	**4,187**	**6,165**	**11,715**	**12,380**

PBE IPSAS 23.106(c)

Deferred revenue from tuition fees includes both liabilities recognised for domestic student fees received for which the course withdrawal date has not yet passed and for international student fees, which is based on the percentage completion of the course.

Deferred revenue from research contracts includes both liabilities recognised for research funding with unsatisfied conditions (non-exchange contracts) and liabilities for exchange research funding received in excess of costs incurred to date on the required research.

During 2008, the Institute and group received a grant from the Crown for the construction of a new early childhood centre. There are a number of conditions attached to this grant that require all or part of the grant to be repaid in the event that the grant conditions are not met. The only condition of the grant remaining to be fulfilled at the balance date is continuing the operation of the centre up until 31 August 2019.

PBE IPSAS 1.93

18 Borrowings

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 29.45,49

Borrowings on normal commercial terms are initially recognised at the amount borrowed plus transaction costs. Interest due on the borrowings is subsequently accrued and added to the borrowings balance.

PBE IPSAS 1.80

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

Finance leases

PBE IPSAS 13.8

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.

PBE IPSAS 13.28

At the start of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

PBE IPSAS 13.34

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

PBE IPSAS 13.36

The amount recognised as an asset is depreciated over its useful life. If there is no reasonable certainty as to whether the Institute and 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.

Breakdown of borrowings and further information

		Institute		Group	
		2016 $000	2015 $000	2016 $000	2015 $000
PBE IPSAS 1.80	**Current portion**				
	Bank overdraft	0	0	0	0
	Secured loans	1,952	0	1,952	0
	Finance leases	98	98	98	98
	Total current portion	2,050	98	2,050	98
PBE IPSAS 1.80	**Non-current portion**				
	Secured loans	14,300	0	14,300	0
	Finance leases	439	492	439	492
	Total non-current portion	14,739	492	14,739	492
	Total borrowings	**16,789**	**590**	**16,789**	**590**

Interest terms for secured loans

PBE IPSAS 30.38

Secured loans are issued at floating rates of interest, with interest rates reset quarterly based on the 90-day bank bill rate plus a margin for credit risk.

Security

PBE IPSAS 30.10

The overdraft is unsecured.

PBE IPSAS 17.89(a)

The secured loans are secured by a registered first mortgage over certain campus land and buildings with a total carrying value of $10.34 million for land and $35.25 million for buildings.

PBE IPSAS 17.89(a)
PBE IPSAS 13.40(a)

Finance lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default. The net carrying amount of computers and electronic equipment (included within computer hardware) held under finance leases is $422,000 (2015: $485,000).

18 Borrowings (continued)

Secured loan covenants

PBE IPSAS 30.38

The Institute is required to ensure that the following financial covenant ratios for secured loans are achieved during the year:

- Total liabilities do not exceed 70% of total tangible assets.
- Total liabilities plus contingent liabilities do not exceed 75% of total tangible assets.
- Total equity is to be greater than $300 million.
- The surplus before interest, depreciation, and amortisation is greater than 1.5 times interest expense on the secured loans.

The secured loans become repayable on demand in the event that these covenants are breached or if interest and principal payments are not made when they fall due. The Institute has complied with all covenants and loan repayment obligations during the financial year.

Fair value

PBE IPSAS 30.29

Due to interest rates on floating rate debt resetting to the market rate every three months, the carrying amounts of secured loans approximate their fair value.

PBE IPSAS 30.29,31

The fair value of finance leases is $550,000 (2015: $602,000). Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 5.6% to 6.2% (2015: 6.4% to 7.3%)

Analysis of finance leases

		Institute		Group	
		2016 $000	2015 $000	2016 $000	2015 $000
PBE IPSAS 13.40(c)	**Total minimum lease payments payable**				
	Not later than one year	107	107	107	107
	Later than one year and not later than five years	426	426	426	426
	Later than five years	213	320	213	320
PBE IPSAS 13.40(c)	*Total minimum lease payments*	746	853	746	853
PBE IPSAS 13.40(b)	Future finance charges	(210)	(263)	(210)	(263)
PBE IPSAS 13.40(b)	*Present value of minimum lease payments*	536	590	536	590
PBE IPSAS 13.40(c)	**Present value of minimum lease payments payable**				
	Not later than one year	98	98	98	98
	Later than one year and not later than five years	248	248	248	248
	Later than five years	190	244	190	244
	Total present value of minimum lease payments	536	590	536	590

Finance leases as lessee

PBE IPSAS 13.40(f)(ii)

Finance leases can be renewed at the Institute and group's option, with rents set by reference to current market rates for items of equivalent age and condition. The Institute and group has the option to purchase the asset at the end of the lease term, but it is likely that the option to purchase will not be exercised because the leased assets are usually technologically obsolete at lease expiry.

PBE IPSAS 13.40(f)(iii)

The Institute and group is not permitted to pledge the leased assets as security, nor can it sublease the leased equipment without the permission of the lessor. There are no other restrictions placed on the Institute and group by any of the leasing arrangements.

PBE IPSAS 1.93

19 Employee entitlements

PBE IPSAS 1.132(c)

Accounting policy

Short-term employee entitlements

PBE IPSAS 25.13

Employee benefits that are due to be settled within 12 months after the end of the year in which the employee provides the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date, and sick leave.

PBE IPSAS 25.20

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

PBE IPSAS 25.147-152

Employee benefits that are due to be settled beyond 12 months after the end of the year in which the employee provides the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to employees, based on years of service, years to entitlement, the likelihood that employees will reach the point of entitlement, and contractual entitlement information; and
- the present value of the estimated future cash flows.

Good practice

Presentation of employee entitlements

Sick leave, annual leave, and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

PBE IPSAS 1.140

Critical accounting estimates and assumptions

Retirement gratuities

The present value of the retirement gratuities depends on factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

Expected future payments are discounted using forward discount rates derived from the yield curve of New Zealand Government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary. A weighted average discount rate of 5.1% (2015 5.4%) and an inflation factor of 3.0% (2015 2.5%) were used.

If the discount rate were to differ by 1% from that used, with all other factors held constant, the carrying amount of the retirement gratuity liability would be an estimated $432,000 higher/lower (2015: $401,000).

If the salary inflation factor were to differ by 1% from that used, with all other factors held constant, the carrying amount of the retirement gratuity liability would be an estimated $545,000 higher/lower (2015: $523,000).

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Research leave

Teaching staff are entitled to research leave in certain circumstances. The substance of this leave is that it is leave from teaching duties to undertake research activity with staff continuing to earn their salary and other employee entitlements. The Institute is of the view that research leave is not the type of leave contemplated in PBE IPSAS 25 *Employee Benefits*. Accordingly, a liability has not been recognised for such leave.

19 Employee entitlements (continued)

Breakdown of employee entitlements

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
Current portion				
Accrued pay	2,344	2,347	2,367	2,354
Annual leave	7,584	7,735	7,618	7,805
Sick leave	29	49	29	49
Long service leave	136	119	140	124
Total current portion	10,093	10,250	10,154	10,332
Non-current portion				
Long service leave	200	200	210	210
Retirement gratuities	8,310	7,620	8,310	7,621
Total non-current portion	8,510	7,820	8,520	7,831
Total employee entitlements	**18,603**	**18,070**	**18,674**	**18,163**

PBE IPSAS 1.93

20 Provisions

PBE IPSAS 1.132(c)

Accounting policy

General

PBE IPSAS 19.22

A provision is recognised for future expenditure of uncertain amount or timing when:

- there is a present obligation (either legal or constructive) as a result of a past event;
- it is probable that an outflow of future economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

PBE IPSAS 19.53,56,70

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in “finance costs” (refer Note 5).

PBE IPSAS 19.82,83

Restructuring

A provision for restructuring is recognised when either an approved detailed formal plan for the restructuring has been announced publicly to those affected, or implementation of it has already started.

PBE IFRS 4.37(a)

ACC Accredited Employers Programme

The Institute and group belongs to the ACC Accredited Employers Programme (the “Full Self Cover Plan”) whereby the Institute accepts the management and financial responsibility for employee work-related illnesses and accidents. Under the programme, the Institute and group is liable for all claim costs for a period of two years after the end of the cover period in which the injury occurred. At the end of the two-year period, the Institute and group pays a premium to ACC for the value of residual claims, and from that point the liability for ongoing claims passes to ACC.

The liability for the Programme is measured using actuarial techniques at the present value of expected future payments to be made in respect of employee injuries and claims up to the balance date. Consideration is given to anticipated future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields on Government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows.

20 Provisions (continued)

Breakdown of provisions and further information

		Institute		Group	
		2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
PBE IPSAS 1.80	**Current portion**				
	Restructuring provision	1,243	642	1,243	642
	ACC Accredited Employers Programme	332	313	332	313
	Total current portion	1,575	955	1,575	955
PBE IPSAS 1.80	**Non-current portion**				
	ACC Accredited Employers Programme	137	138	137	138
	Lease make-good	1,183	794	1,183	794
	Total non-current portion	1,320	932	1,320	932
	Total provisions	**2,895**	**1,887**	**2,895**	**1,887**

PBE IPSAS 19.98

Restructuring provision

The restructuring provision has arisen from the Council-approved restructuring plan of the Humanities Faculty, which is expected to be completed in April 2017. The provision represents the estimated cost for redundancy payments arising from the restructure.

ACC Accredited Employers Programme[45]

PBE IFRS 4 D17.7.1(a)

Exposures arising from the Programme are managed by promoting a safe and healthy working environment by:

- implementing and monitoring health and safety policies;
- carrying out induction training on health and safety;
- actively managing workplace injuries to ensure that employees return to work as soon as practical;
- recording and monitoring workplace injuries and near misses to identify risk areas and implementing mitigating actions; and
- identifying workplace hazards and implementation of appropriate safety procedures.

PBE IFRS 4 D17.7.1(c)

The Institute has chosen a stop loss limit of 200% of the industry premium. The stop loss limit means the Institute and group will carry the total cost of claims up to $520,000 for each year of cover, which runs from 1 April to 31 March. If claims for a year exceed the stop loss limit, the Institute will continue to meet the cost of claims and will be reimbursed by ACC for the costs that exceed the stop loss limit.

PBE IFRS 4 D17.7.1(b)(ii)

The Institute is not exposed to any significant concentrations of insurance risk, as work-related injuries are generally the result of an isolated event involving an individual employee.

PBE IFRS 4 D17.8A

An independent actuarial valuer, D W Smith BSc FIAA, has calculated the liability, and the valuation is effective as at 31 December 2016. The actuary has attested that he is satisfied as to the nature, sufficiency, and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the actuary's report.

PBE IFRS 4 D17.8B(b),(c)

Average inflation has been assumed as 1.62% for the years ending 31 December 2017 and 31 December 2018. A discount rate of 2.37% has been used for the year ending 31 December 2017 and 2.49% for the year ending 31 December 2018.

PBE IFRS 4 D17.6.1(d)

Any changes in liability valuation assumptions will not have a material effect on the financial statements.

[45] Where the ACC Accredited Employers Programme liability is material to a TEI, the disclosure requirements of PBE IFRS 4 *Insurance Contracts* will need to be considered.

20 Provisions (continued)

PBE IPSAS 19.98

Lease make-good provision

In respect of a number of its leased premises, the Institute and group is required at the expiry of the lease term to make-good any damage caused to the premises and to remove any fixtures or fittings installed by the Institute and group. In many cases, the Institute and group has the option to renew these leases, which affects the timing of expected cash outflows to make-good the premises.

The Institute and group has assumed that the options to renew will be exercised in measuring the provision. The cash flows associated with the non-current portion of the lease make-good provision are expected to occur in May and June 2018.[46]

Information about the Institute and group's leasing arrangements is disclosed in Note 6.

Movements for each class of provision are as follows:[47]

	Institute and group	Restructuring $000	Lease make-good $000	ACC Accredited Employers Programme $000	Total $000
Good practice	Balance at 1 January 2015	0	228	326	554
Good practice	Additional provisions	853	529	437	1,819
Good practice	Amounts used	(211)	0	(313)	(524)
Good practice	Unused amounts reversed	0	0	0	0
Good practice	Discount unwind (Note 5)	0	38	0	38
PBE IPSAS 19.97(a)	*Balance at 31 December 2015*	642	795	450	1,887
PBE IPSAS 19.97(b)	Additional provisions	827	348	412	1,587
PBE IPSAS 19.97(c)	Amounts used	(261)	0	(393)	(653)
PBE IPSAS 19.97(d)	Unused amounts reversed	0	0	0	0
PBE IPSAS 19.97(e)	Discount unwind (Note 5)	35	40	0	75
PBE IPSAS 19.97(a)	**Balance at 31 December 2016**	**1,243**	**1,183**	**469**	**2,895**

21 Contingencies

PBE IPSAS 19.100

Contingent liabilities

	Institute 2016 $000	Institute 2015 $000	Group 2016 $000	Group 2015 $000
Suspensory loans	2,000	3,000	2,000	3,000
Personal grievances	25	15	25	15
Total contingent liabilities	**2,025**	**3,015**	**2,025**	**3,015**

Suspensory loans with equity conversion features

The Institute and group has a contingent liability for suspensory loans received from the Crown for the Creative Thinkers Programme and Excellence Programme. The amount of loans that are still subject to achieving required objectives are $2.0 million (2015: $3.0 million) and will convert to equity when those objectives are achieved. The suspensory loans were recognised directly in equity on receipt to reflect the substance of the transactions and that it is more than probable all the funding deliverables will be achieved. If the Institute does not achieve the specified objectives in the loan agreement, it is required to repay all or part of the loan up to a maximum of $950,000 on 31 December 2017 and $1.05 million on 31 December 2018. The Institute and group continues to be committed to meeting the deliverables of the suspensory loans and considers it unlikely that any part of the loans will be required to be repaid. Further information is provided in Note 22.

[46] The RDR does not require disclosure of the major assumptions concerning future events used in measuring provisions (PBE IPSAS 19 RDR 98.1).

[47] The disclosure of comparative figures for provisions is not required by PBE IPSAS 19.97. However, we consider it good practice for Tier 1 entities to disclose the comparative figures for provisions.

21 Contingencies (continued)

Personal grievances

There are four (2015: three) open personal grievance claims against the Institute. If the claims were to be successful, the estimated amount of the settlement costs would be approximately $25,000 (2015: $15,000). The Institute is vigorously defending these claims.

PBE IPSAS 25.33(c)

Superannuation scheme

The Institute and group is a participating employer in the DBP Contributors Scheme (the Scheme), which is a multi-employer defined benefit scheme. If all the other participating employers cease to participate in the Scheme, the Institute and group could be responsible for any deficit of the Scheme. Similarly, if only some employers cease to participate in the Scheme, the Institute and group could be responsible for an increased share of any deficit.

As at 31 March 2016, the Scheme had a past service surplus of $11.7 million (exclusive of Employer Superannuation Contribution Tax) (2015: $16.2 million). This surplus was calculated using a discount rate equal to the expected return on assets, but otherwise the assumptions and methodology were consistent with the requirements of PBE IPSAS 25.[48]

The actuary to the Scheme recommended previously that the employer contributions be suspended with effect from 1 April 2011. In the latest report, the Actuary recommended that the employer contributions remain suspended.

Contingent assets

PBE IPSAS 19.105

The Institute and group has no contingent assets.[49]

PBE IPSAS 1.119(c)

22 Equity

Good practice

Accounting policy

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- general funds;
- property revaluation reserves;
- fair value through other comprehensive revenue and expense reserve; and
- trusts and bequests reserve.

Property revaluation reserves

PBE IPSAS 1.95(c)

These reserves relate to the revaluation of land, buildings, and infrastructure assets to fair value.

Fair value through other comprehensive revenue and expense reserve

PBE IPSAS 1.95(c)

This reserve comprises the cumulative net change of financial assets classified as fair value through other comprehensive revenue and expense.

Trusts and bequests reserve

PBE IPSAS 1.95(c)

The trusts and bequests reserve is a component of equity which has been created by the Institute. Transfers from the reserve may be made only for certain specified purposes or when certain specified conditions are met. The restrictions on use may be established by the Institute or legally through the terms and conditions of specific trusts and bequests.

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Suspensory loans with equity conversion features

The Institute and group has received various suspensory loans during the year from the Crown whereby the loans convert to equity when the conversion conditions of the loan agreement are satisfied. Suspensory loans received during the year from the Crown were for the Creative Thinkers Programme of $1.80 million (2015: $2.0 million) and Excellence Programme of $2.20 million (2015: $1.75 million).

Because the Institute and group is committed to meeting the equity conversion conditions, it considers that the loans are, in substance, equity contributions from the Crown and therefore recognises the amounts drawn down under the loan facilities directly in the statement of changes in equity. Further information about the suspensory loans is disclosed in Note 21.

[48] PBE IPSAS 25.33(c) requires that, where there is a surplus or deficit in a scheme that may affect the amount of future contributions, an entity must disclose any available information about the surplus or deficit, the basis used to determine the surplus or deficit (the RDR does not require this disclosure), and the implications, if any, for the entity.

[49] Where no contingent assets exist, we consider it good practice to state that fact.

22 Equity (continued)

Breakdown of equity and further information

		Institute		Group	
		2016 $000	2015 $000	2016 $000	2015 $000
PBE IPSAS 1.119(c)	**General funds**				
	Balance at 1 January	149,981	136,971	165,951	149,498
PBE IPSAS 17.57	Property revaluation reserve transfer on disposal	0	0	0	0
	Surplus/(deficit) for the year	3,431	9,496	6,558	12,939
	Capital contributions from the Crown	2,800	0	2,800	0
	Suspensory loans from the Crown	4,000	3,750	4,000	3,750
	Transfers to trusts and bequests reserve	(861)	(1,197)	(861)	(1,197)
	Transfers from trusts and bequests reserve	1,026	961	1,026	961
	Balance at 31 December	160,377	149,981	179,474	165,951
PBE IPSAS 1.119(c)	**Property revaluation reserves**				
	Balance at 1 January	211,306	194,643	211,306	194,643
	Transfers to general funds on disposal of property	0	0	0	0
	Land net revaluation gains	0	9,105	0	9,105
	Buildings net revaluation gains	0	6,137	0	6,137
	Infrastructure net revaluation gains	0	1,421	0	1,421
	Balance at 31 December	211,306	211,306	211,306	211,306
Good practice	*Property revaluation reserves consist of:*[50]				
	Land	150,487	150,487	150,487	150,487
	Buildings	59,362	59,362	59,362	59,362
	Infrastructure	1,457	1,457	1,457	1,457
	Total property revaluation reserves	211,306	211,306	211,306	211,306
PBE IPSAS 1.119(c)	**Fair value through other comprehensive revenue and expense reserve**				
	Balance at 1 January	116	66	116	66
PBE IPSAS 30.24(a)(ii)	Reclassification to surplus/(deficit) on disposal	10	(16)	10	(16)
PBE IPSAS 30.24(a)(ii)	Net revaluation gains	92	66	92	66
	Net movement in other comprehensive revenue and expense reserve	102	50	102	50
	Balance at 31 December	218	116	218	116
PBE IPSAS 1.119(c)	**Trusts and bequests reserve**				
	Balance at 1 January	2,869	2,633	2,869	2,633
	Appropriation of net surplus	861	1,197	861	1,197
	Application of trusts and bequests	(1,026)	(961)	(1,026)	(961)
	Balance at 31 December	2,704	2,869	2,704	2,869
	Total equity	**374,605**	**364,272**	**393,702**	**380,242**

[50] Entities could also elect to disclose an opening to closing balance reconciliation for each property revaluation reserve class.

22 Equity (continued)

Capital contributions

Good practice

Capital contributions received during the year from the Crown were from the Programme for Quality Fund of $1.30 million (2015: $nil) and the Distinctive Fund of $1.50 million (2015: $nil).

Capital management

PBE IPSAS 1.148A

The Institute and group's capital is its equity, which comprises general funds and reserves. Equity is represented by net assets.

The Institute is subject to the financial management and accountability provisions of the Education Act 1989, which include restrictions in relation to disposing of assets or interests in assets, ability to mortgage or otherwise charge assets or interests in assets, granting leases of land or buildings or parts of buildings, and borrowing.

The Institute manages its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. The Institute's equity is largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The objective of managing the Institute's equity is to ensure that it effectively and efficiently achieves the goals and objectives for which it has been established, while remaining a going concern.

23 Related party transactions

Good practice

Related party disclosures have not been made for transactions with related parties that are:

- within a normal supplier or client/recipient relationship; and
- on terms and conditions no more or less favourable than those that are reasonable to expect that the Institute would have adopted in dealing with the party at arm's length in the same circumstances.

Further, transactions with government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements with TEIs and undertaken on the normal terms and conditions for such transactions.

Related party transactions required to be disclosed

PBE IPSAS 20.27,30,32

The Institute purchased internal audit services totalling $56,564 (2015: $44,000) from Accountants Services Limited, an accounting firm of which [Council member 1] is a Partner. The services were procured without going through a tender process and the contracted hourly rates of the internal audit staff are at a significant discount compared to other recent internal audit service contracts the group has entered into. There is an amount of $2,183 outstanding at 31 December 2016 (2015: $10,000).

23 Related party transactions (continued)

PBE IPSAS 20.34(a)

Key management personnel compensation[51,52]

	2016	2015
Council members		
Full-time equivalent members	4	4
Remuneration	$43,050	$43,050
Executive Management Team, including the Chief Executive		
Full-time equivalent members	7	7
Remuneration	$2,560,950	$2,191,950
Total full-time equivalent members	**11**	**11**
Total key management personnel compensation	**$2,604,000**	**$2,235,000**

Good practice

The full-time equivalent for Council members has been determined based on the frequency and length of Council meetings and the estimated time for members to prepare for meetings.

An analysis of Council member remuneration is provided in Note 4.

24 Events after the balance date

PBE IPSAS 14.28,30

On 15 January 2017, the Institute agreed to pursue merger talks with Learn Institute New Zealand. The outcome of these talks is uncertain.

On 12 February 2017, the Council approved the purchase of the property at 50 Hazlewood Street for $9.23 million. The purchase has become unconditional and settlement will occur on 22 April 2017, with funds to be provided from long-term borrowings.

[51] PBE IPSAS 20.4 defines key management personnel as all directors or members of the governing body of the entity; and other persons having the authority and responsibility for planning, directing, and controlling the activities of the entity. Where they meet this requirement, key management personnel includes: i) where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the entity, that member; ii) key advisors of that member; and iii) the senior management group of the entity. For a TEI, we would expect the compensation of the Council, Chief Executive, and members of the senior management team, or equivalent body, to be included in the key management personnel disclosures. There may also be other individuals who meet the key management personnel definition of PBE IPSAS 20. TEIs will need to consider their specific facts and circumstances in determining the individuals that shall be included in the key management personnel compensation disclosures.

[52] PBE IPSAS 20.34(a) requires entities to disclose the aggregate remuneration of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within the category, showing separately major classes of key management personnel and including a description of each class.

25 Financial instruments

PBE IPSAS 30.11

25A Financial instruments categories

The carrying amounts of financial assets and liabilities in each of the financial instrument categories are as follows:

		Institute		Group	
		2016 $000	2015 $000	2016 $000	2015 $000
	FINANCIAL ASSETS				
	Fair value through surplus or deficit – Held for trading[53]				
PBE IPSAS 30.11(a)(ii)	Forward foreign exchange contracts	203	17	203	17
	Managed fund	0	0	8,320	8,919
	Total held for trading	203	17	8,523	8,936
PBE IPSAS 30.11(c)	**Loans and receivables**				
	Cash and cash equivalents	5,922	19,966	22,983	31,754
	Receivables	5,371	5,217	7,422	7,094
	Other financial assets:				
	Term deposits	9,796	5,191	9,796	5,386
	Loans to subsidiaries	735	281	0	0
	Total loans and receivables	21,824	30,655	40,201	44,234
PBE IPSAS 30.11(d)	**Fair value through other comprehensive revenue and expense**				
	Other financial assets:				
	New Zealand Government bonds	179	164	179	164
	Unlisted shares (at cost)	86	0	86	0
	Listed shares	520	466	520	466
	Total fair value through other comprehensive revenue and expense	785	630	785	630
	FINANCIAL LIABILITIES				
PBE IPSAS 30.11(e)(ii)	**Fair value through surplus or deficit – Held for trading**				
	Derivative financial instrument liabilities:				
	Interest rate swaps	97	0	97	0
	Forward foreign exchange contracts	8	32	8	32
	Total held for trading	105	32	105	32
PBE IPSAS 30.11(f)	**Financial liabilities at amortised cost**				
	Payables	15,191	12,870	16,665	13,724
	Secured loans	16,252	0	16,252	0
	Total financial liabilities at amortised cost	31,443	12,870	32,917	13,724

[53] A separate total must be presented for financial assets and financial liabilities that have been designated at initial recognition at fair value through surplus or deficit. If an entity applies the RDR, under PBE IPSAS 30 RDR 11.1 and 11.2 it can present a single total for financial instrument assets and a single total for financial instrument liabilities at fair value through surplus or deficit.

PBE IPSAS 30.32,33(a)

25B Fair value hierarchy

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation techniques 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 inactive markets and financial instruments valued using models where all significant inputs are observable.
- 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:[54]

		Valuation technique		
	Total	Quoted market price	Observable inputs	Significant non-observable inputs
	$000	$000	$000	$000
31 December 2016 – Institute and group				
Financial assets				
Derivatives	203	0	203	0
Government bonds	179	179	0	0
Listed shares	520	520	0	0
Financial liabilities				
Derivatives	105	0	105	0
31 December 2016 – Group				
Financial assets				
Managed fund	8,320	7,300	1,020	0
31 December 2015 – Institute and group				
Financial assets				
Derivatives	17	0	17	0
Government bonds	164	164	0	0
Listed shares	466	466	0	0
Financial liabilities				
Derivatives	32	0	32	0
31 December 2015 – Group				
Financial assets				
Managed fund	8,919	7,517	1,402	0

PBE IPSAS 30.33(b)

There were no transfers between the different levels of the fair value hierarchy.[55]

[54] A tabular format must be used in presenting the fair value hierarchy quantitative disclosures unless another format is more appropriate.
[55] Significant transfers between the different fair value hierarchy levels must be identified and the reasons for those transfers disclosed. PBE IPSAS 30.33(b) requires transfers into each level to be disclosed and discussed separately from transfers out of each level. Additionally, for measurements included in level 3 of the fair value hierarchy, PBE IPSAS 30.33(c) requires a reconciliation between the opening and closing balances to be presented.

25C Financial instrument risks

PBE IPSAS 30.38

The Institute's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Institute and group has policies to manage these risks and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

PBE IPSAS 30.40

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Institute and group's listed share investments and managed fund are exposed to price risk. This price risk is managed by diversification of the managed fund portfolio in accordance with the limits set out in the Institute and group's investment policy.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Institute purchases library items and scientific equipment from overseas, which exposes it to currency risk. The Institute's managed fund also invests in shares and bonds denominated in foreign currency, which also exposes it to currency risk.

The Institute and group manages currency risks associated with the purchase of assets from overseas that are above $100,000 by entering into forward foreign exchange contracts. This means the Institute and group is able to fix the New Zealand dollar amount payable prior to delivery of the asset from overseas. The managed fund's exposure to currency risk is mitigated to an extent via diversification of investments across different currencies in accordance with the Institute and group's investment policy.

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. Borrowings and investments issued at fixed rates of interest create exposure to fair value interest rate risk. The Institute and group does not actively manage its exposure to fair value interest rate risk.

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 create exposure to cash flow interest rate risk.

Generally, the Institute and group raises long-term borrowings at floating rates and swaps them into fixed rates using interest rate swaps in order to manage the cash flow interest rate risk. Such interest rate swaps have the economic effect of converting borrowings at floating rates into fixed rates that are generally lower than those available if the Institute and group borrowed at fixed rates directly. Under the interest rate swaps, the Institute and group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The Institute's interest rate risk policy requires that between 50% and 75% of its debt is fixed, which includes fixing interest rates on floating debt using interest rate swaps. As at 31 December 2016, 62% of the Institute's debt is essentially fixed.[56]

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Institute and group, causing it to incur a loss.

PBE IPSAS 30.43(a)

In the normal course of business, the Institute and group is exposed to credit risk from cash and term deposits with banks, receivables, Government bonds, loans to subsidiaries, derivative financial instrument assets, and bonds within the managed fund investment. For each of these, the maximum credit exposure is best represented by the carrying amount in the statement of financial position.

Due to the timing of its cash inflows and outflows, surplus cash is invested into term deposits and bonds, which give rise to credit risk. The Institute and group limits the amount of credit exposure to any one financial institution for term deposits to no more than 25% of total investments held. The group invests funds only with registered banks that have a Standard and Poor's credit rating of at least A2 for short-term investments and A for long-term investments. The Institute and group has experienced no defaults of interest or principal payments for term deposits.

[56] The Institute did not have any borrowings as at 31 December 2015. As such, comparative information has not been presented.

PBE IPSAS 30.43(b),44(c)

PBE IPSAS 30.43(c), IG 25,26

25C Financial instrument risks (continued)

The Institute and group holds no collateral or other credit enhancements for financial instruments that give rise to credit risk.

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:

	Institute		Group	
	2016 $000	**2015 $000**	**2016 $000**	**2015 $000**
COUNTERPARTIES WITH CREDIT RATINGS				
Cash at bank and term deposits				
AA	10,217	16,352	21,306	24,141
AA–	5,501	8,805	11,473	12,999
Total cash at bank and term deposits	15,718	25,157	32,779	37,140
Government bonds				
AAA	179	164	179	164
Derivative financial instrument assets				
AA	203	17	203	17
Managed fund (bonds)				
AAA–	0	0	936	1,026
AA–	0	0	2,246	2,462
A	0	0	562	615
Total managed fund	0	0	3,744	4,103
COUNTERPARTIES WITHOUT CREDIT RATINGS				
Loans to subsidiary				
Existing counterparty with no defaults in the past	735	281	0	0
Existing counterparty with defaults in the past	0	0	0	0
Total loans to subsidiary	735	281	0	0
Receivables				
Existing counterparty with no defaults in the past	5,349	5,155	7,348	7,000
Existing counterparty with defaults in the past	22	62	74	94
Total receivables	5,371	5,217	7,422	7,094

25C Financial instrument risks (continued)

Liquidity risk

PBE IPSAS 30.46(c)

Management of liquidity risk

Liquidity risk is the risk that the Institute and group will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions. The Institute aims to maintain flexibility in funding by keeping committed credit lines available.

The Institute and group manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

The Institute and group has a maximum amount that can be drawn down against its overdraft facility of $2.50 million (2015: $2.50 million). There are no restrictions on the use of this facility.

PBE IPSAS 30.46(a)

Contractual maturity analysis of financial liabilities, excluding derivatives

The table below analyses financial liabilities (excluding derivatives) into relevant 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 of the instrument at balance date. The amounts disclosed are the undiscounted contractual cash flows.[57]

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-3 years	More than 3 years
	$000	$000	$000	$000	$000	$000	$000
Institute 2016							
Payables	15,191	15,191	15,191	0	0	0	0
Secured loans	16,252	17,770	2,053	393	10,787	4,537	0
Finance leases	536	747	54	54	107	107	425
Total	**31,979**	**33,708**	**17,298**	**447**	**10,894**	**4,644**	**425**
Group 2016							
Payables	16,665	16,665	16,665	0	0	0	0
Secured loans	16,252	17,770	2,053	393	10,787	4,537	0
Finance leases	536	747	54	54	107	107	425
Total	**33,453**	**35,182**	**18,772**	**447**	**10,894**	**4,644**	**425**
Institute 2015							
Payables	12,870	12,870	12,870	0	0	0	0
Finance leases	590	853	54	54	107	107	531
Total	**13,460**	**13,723**	**12,924**	**54**	**107**	**107**	**531**
Group 2015							
Payables	13,724	13,724	13,724	0	0	0	0
Finance leases	590	853	54	54	107	107	531
Total	**14,314**	**14,577**	**13,778**	**54**	**107**	**107**	**531**

[57] PBE IPSAS 30 does not prescribe the time bands to use. Entities will need to exercise judgement in determining the appropriate time bands.

PBE IPSAS 30.46(b), AG16(c),(d)

25C Financial instrument risks (continued)

Contractual maturity analysis of derivative financial liabilities[58]

The table below analyses derivative financial instrument liabilities into those that are settled net and all gross settled derivatives into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the undiscounted contractual cash flows.

	Liability carrying amount	Asset carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years
	$000	$000	$000	$000	$000	$000
Institute and group 2016						
Gross settled forward foreign exchange contracts	8	203				
outflow			1,254	620	300	334
inflow			1,426	668	380	378
Net settled interest rate swaps	97		113	34	42	37
Institute and group 2015						
Gross settled forward foreign exchange contracts	32	17				
outflow			324	124	200	0
inflow			366	137	229	0

[58] Entities shall include all gross settled derivative financial instruments regardless of whether their fair value is an asset or a liability.

25C Financial instrument risks (continued)

PBE IPSAS 30.47

Sensitivity analysis[59]

The tables below illustrate the potential effect on the surplus or deficit and equity (excluding general funds) for reasonably possible market movements, with all other variables held constant, based on financial instrument exposures at balance date.

Institute

	2016 $000				2015 $000			
INTEREST RATE RISK	**-50bps**		**+150bps**		**-100bps**		**+100bps**	
	Surplus	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**
Financial assets								
Cash and cash equivalents	(17)	0	50	0	(22)	0	22	0
Financial liabilities								
Interest rate swaps	(121)	0	267	0	0	0	0	0
Secured loans	82	0	(245)	0	0	0	0	0
Total sensitivity	**(56)**	**0**	**72**	**0**	**(22)**	**0**	**22**	**0**

FOREIGN EXCHANGE RISK	**-10%**		**+10%**		**-10%**		**+10%**	
	Surplus	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**
Financial assets								
Foreign exchange derivatives	558	0	(406)	0	22	0	(20)	0
Financial liabilities								
Payables	(23)	0	18	0	(56)		46	
Foreign exchange derivatives	14	0	(11)	0	178	0	(152)	0
Total sensitivity	**549**	**0**	**(399)**	**0**	**144**	**0**	**(126)**	**0**

OTHER PRICE RISK	**-10%**		**+10%**		**-10%**		**+10%**	
	Surplus	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**
Financial assets								
Government bonds	0	(18)	0	18	0	(16)	0	16
Listed shares	0	(52)	0	52	0	(47)	0	47
Total sensitivity	**0**	**(70)**	**0**	**70**	**0**	**(63)**	**0**	**63**

[59] PBE IPSAS 30 does not prescribe the format for presenting the sensitivity analysis. These model financial statements illustrate one possible presentation that meets the requirements of PBE IPSAS 30.

25C Financial instrument risks (continued)

Group

	2016 $000				2015 $000			
INTEREST RATE RISK	**-50bps**		**+150bps**		**-100bps**		**+100bps**	
	Surplus	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**
Financial assets								
Cash and cash equivalents	(30)	0	89	0	(34)	0	34	0
Financial liabilities								
Interest rate swaps	(121)	0	267	0	0	0	0	0
Secured loans	82	0	(245)	0	0	0	0	0
Total sensitivity	**(69)**	**0**	**111**	**0**	**(34)**	**0**	**34**	**0**
FOREIGN EXCHANGE RISK	**-10%**		**+10%**		**-10%**		**+10%**	
	Surplus	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**
Financial assets								
Foreign exchange derivatives	558	0	(406)	0	22	0	(20)	0
Financial liabilities								
Payables	(23)	0	18	0	(56)		46	
Foreign exchange derivatives	14	0	(11)	0	178	0	(152)	0
Total sensitivity	**1,381**	**0**	**(1,201)**	**0**	**1,035**	**0**	**(970)**	**0**
OTHER PRICE RISK	**-10%**		**+10%**		**-10%**		**+10%**	
	Surplus	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**	**Surplus**	**Other equity**
Financial assets								
Government bonds	0	(18)	0	18	0	(16)	0	16
Listed shares	0	(52)	0	52	0	(47)	0	47
Managed fund (shares and bonds)	(1,012)	0	1,012	0	(1,211)	0	1,211	0
Total sensitivity	**(1,012)**	**(70)**	**1,012**	**70**	**(1,211)**	**(63)**	**1,211**	**63**

Explanation of interest rate risk sensitivity

The interest rate sensitivity is based on a reasonable possible movement in interest rates, with all other variables held constant, measured as a basis points (bps) movement. For example, a decrease in 50 bps is equivalent to a decrease in interest rates of 0.5%.

The sensitivity for interest rate swaps has been calculated using a derivative valuation model based on a parallel shift in interest rates of -50bps/+150bps (2015: -100bps/+100bps).

25C Financial instrument risks (continued)

Explanation of foreign exchange risk sensitivity

The foreign exchange sensitivity is based on a reasonable possible movement in foreign exchange rates, with all other variables held constant, measured as a percentage movement in the foreign exchange rate.

The sensitivity for foreign exchange derivatives has been calculated using a derivative valuation model based on movement in foreign exchange rates of -10%/+10% (2015: -10%/+10%).

Explanation of other price risk sensitivity

The sensitivity for Government bonds has been calculated based on a -10%/+10% (2015: -10%/+10%) movement in the quoted bid price at year end for the Government bonds.

The sensitivity for listed shares has been calculated based on a -10%/+10% (2015: -10%/+10%) movement in the quoted bid share price at year end for the listed shares.

The sensitivity for the managed fund has been calculated based on a -10%/+10% (2015: -10%/+10%) movement in the quoted bid price at year end for all of the investments held by the fund.

26 Explanations of major variances against budget

PBE IPSAS 1.148.1

Explanations of major variations against the budget information at the start of the financial year are as follows:

Statement of comprehensive revenue and expense

Research revenue

Group research revenue was $2.63 million less than budget. This unfavourable variance arose because expected research funding was not received during the year.

Statement of financial position

Other financial assets

Institute term deposits are greater than budgeted by $4.71 million due to surplus cash as a result of delays in planned capital expenditure projects of $2.50 million and delays in spending funds drawn down for suspensory loans of $2.0 million.

Group term deposits are greater than budgeted by $7.14 million due to the variances for the Institute of $4.71 million explained above and greater than expected research revenue received but not yet expended of $2.0 million.

Property, plant, and equipment

Institute and group property, plant, and equipment are greater than budgeted by $2.82 million and $2.63 million respectively, mainly due to acquisition of certain buildings, which was not budgeted for.

Employee entitlements

Institute and group employee entitlements are greater than budgeted by $2.0 million, mainly due to annual leave entitlements not being taken as expected.

General funds

Institute general funds are greater than budgeted by $7.48 million, mainly due to capital contributions from the Crown of $2.80 million that were not budgeted for and the prior year's actual surplus being greater than anticipated when the budget was set.

Group general funds are greater than budgeted by $13.19 million, mainly due to capital contributions from the Crown of $2.80 million that were not budgeted for, the group surplus being $2.0 million greater than budget, and the prior year's actual surplus being greater than anticipated when the budget was set.

Statement of changes in equity

Institute and group total equity is greater than budgeted by $8.98 million and $14.69 million respectively. The explanation provided above for general funds explain these variances.

Statement of cash flows

Purchase of property, plant, and equipment

The Institute and group's purchases of property, plant, and equipment are greater than budgeted by $4.43 million and $5.30 million, mainly due to acquisition of certain buildings that was not budgeted for and completion of capital projects that were budgeted to be completed in the previous year.

SUBJECT INDEX