OTAGO POLYTECHNIC
Te Kura Matatini ki Otago

Financial Report

1 January – 31 March 2020

contents

Report from the Chief Executive

We are pleased to report on the financial performance of Otago Polytechnic for the three month period ending 31 March 2020.

This report is a statutory requirement due to the passing of the Vocational Education and Training Reform Amendment Act which came into effect on 1 April 2020. This Act amended the Education Act 1989 and repealed the Industry Training and Apprenticeships Act 1992.

The Act established a new regulatory framework for vocation education and training and established the New Zealand Institute of Skills and Technology (NZIST). All 16 existing New Zealand Polytechnics became part of NZIST on the 1st of April 2020 as subsidiary companies. The rights, assets and liabilities of the existing Polytechnic's transferred to their corresponding subsidiary on this date.

This report is the final financial report for Otago Polytechnic and covers the period from 1 January 2020 until 31 March 2020, at which point Otago Polytechnic became a new legal entity, ceasing as a Crown Entity in its own right and becoming a subsidiary company of NZIST on 1 April 2020. This report includes financial performance only and does not report on service performance, which will be included in the report for the period ending 31 December 2020.

The financial performance reported is influenced greatly by the applicable financial reporting standards, in particular those around recognition of non exchange revenue. This has resulted in a very large surplus being reported for the three month period. While it is pleasing for the Polytechnic to end its period as a crown entity with a very favourable financial result, the reader will need to consider the result for the remining nine month period in 2020 before drawing any reliable conclusions about the underlying financial performance for the period.

The Polytechnic has a significant amount to take pride in, including its high level of educational performance, excellent post study outcomes for learners, significant research outputs, excellent relationships with our Māori communities and very high stakeholder satisfaction from both students and staff. The Polytechnic has continued to be highly responsive to industry and employer needs and continued to lead the sector in innovative initiatives including micro-credentials and the I Am Capable online tool which focuses on transferable skills.

The covid-19 pandemic emerged in New Zealand during this period and this resulted in all teaching and learning activities moving very rapidly to on-line delivery when the country moved to a level 4 alert on the 25th of March 2020. I would like to acknowledge the extraordinary efforts of all Otago Polytechnic people, staff and students alike who worked together to enable teaching and learning to continue in these circumstances.

It is appropriate to conclude this report with sincere thanks to our regional employers, community organisations and communities generally which have been integral to our success. As we transition to a new era as a subsidiary of the NZIST we hope that this support will continue and that Otago Polytechnic can continue to stand out, lead and excel.

Megan Gibbons
CHIEF EXECUTIVE

Statement of Responsibility

Otago Polytechnic Annual Financial Report 1 January – 31 March 2020

We hereby certify that:

1. The Board and Management of Otago Polytechnic accept responsibility for the preparation of the financial statements and the judgements used therein;

and

2. The Board and Management of Otago Polytechnic accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurances as to the integrity and reliability of financial reporting and

3. In the opinion of the Board and Management of the Otago Polytechnic, the financial statements reflect the financial position of this institution for the 3 month period ended 31 March 2020.

The financial statements were authorised for issue by the Board on Thursday 17 September 2020.

T Allison
BOARD CHAIR

M Gibbons
CHIEF EXECUTIVE

P Cullen
DEPUTY CHIEF EXECUTIVE
CORPORATE SERVICES

Financial Statements

For the period ended 31 March 2020

Financial Performance Summary

	Actual 2020	Budget 2020	Actual 2019
Net Surplus / (Deficit) (000s)	$39,682	-$1,839	$1,604
Proportion of Government Grants to Total Income (%)	66.9%	38.9%	43.6%
Total Cost per EFTS (excluding redundancies)	$5,135	$5,270	$17,965
Total Cost per EFTS (including redundancies)	$5,135	$5,305	$18,021
Average Government Grant per EFTS	$9,610	$1,902	$7,937
Debt (as a percentage of Total Assets)	2.9%	0%	10.3%
Debt per EFTS	$1,271	$0.00	$2,988
Working Capital Ratio	1.2	0.2	0.2
Student Staff Ratio	61.1	60.9	18.7
Total Assets (000s)	$191,262	$155,022	$155,687
EFTS	4,327	4,369	5,371
Academic FTE	70.8	71.8	286.9
Total FTE	140.7	145.5	568.0

Financial Statements

Statement of Financial Performance
for the period ended 31 March 2020

	Notes	POLYTECHNIC Actual 2020 $000	POLYTECHNIC Budget 2020 $000	POLYTECHNIC Actual 2019 $000	GROUP Actual 2020 $000	GROUP Budget 2020 $000	GROUP Actual 2019 $000
Revenue							
Government Grants	4 (a)	41,587	8,310	42,631	41,587	8,310	42,631
Student Tuition Fees	4 (b)	15,393	8,594	41,164	15,393	8,594	41,164
Other Revenue	4 (c)	5,136	4,428	13,559	5,153	4,432	13,916
Interest Received	4 (d)	3	1	30	3	2	31
Total Revenue		**62,119**	**21,333**	**97,384**	**62,136**	**21,338**	**97,742**
Expenditure							
Employment Expenses	4 (e)	11,898	12,430	49,057	11,950	12,501	49,339
Consumable Expenses	4 (f)	4,750	5,269	25,060	4,753	5,273	25,067
Operating Expenses	4 (f)	2,191	2,084	9,333	2,194	2,087	9,431
Occupancy Expenses	4 (f)	1,262	1,269	5,038	1,262	1,269	5,038
Interest Expense	4 (d)	53	40	163	53	40	163
Depreciation & Amortisation Expense	8 & 9	2,007	2,007	7,742	2,007	2,007	7,742
Loss on Disposal/Impairment of assets		0	0	13	0	0	13
Total Expenditure		**22,161**	**23,099**	**96,406**	**22,219**	**23,177**	**96,793**
Surplus/(Deficit) from Operations		**39,958**	**(1,766)**	**978**	**39,917**	**(1,839)**	**949**
Share of Associate's surplus/deficit	7	(235)	0	655	(235)	0	655
Net Surplus/(Deficit)		**39,723**	**(1,766)**	**1,633**	**39,682**	**(1,839)**	**1,604**
Surplus %		63.9%	-8.3%	1.7%	63.9%	-8.6%	1.6%

Explanations of non-GAAP underlying surplus are detailed in note 3.

Financial Statements

Statement of Other Comprehensive Revenue and Expense
for the period ended 31 March 2020

	Notes	POLYTECHNIC Actual 2020 $000	POLYTECHNIC Budget 2020 $000	POLYTECHNIC Actual 2019 $000	GROUP Actual 2020 $000	GROUP Budget 2020 $000	GROUP Actual 2019 $000
Net Surplus/(Deficit) for the year		39,723	(1,766)	1,633	39,682	(1,839)	1,604
Other Comprehensive Revenue and Expense							
Increase/(Decrease) in Asset Revaluation Reserves		0	0	343	0	0	343
Total Other Comprehensive Revenue and Expense		**0**	**0**	**343**	**0**	**0**	**343**
Total Comprehensive Revenue and Expense		**39,723**	**(1,766)**	**1,976**	**39,682**	**(1,839)**	**1,947**

Statement of Changes in Equity
for the period ended 31 March 2020

	Notes	POLYTECHNIC Actual 2020 $000	POLYTECHNIC Budget 2020 $000	POLYTECHNIC Actual 2019 $000	GROUP Actual 2020 $000	GROUP Budget 2020 $000	GROUP Actual 2019 $000
Public Equity at the start of the year		117,871	116,781	115,895	118,043	116,862	116,096
Total Comprehensive Revenue and Expense		**39,723**	**(1,766)**	**1,976**	**39,682**	**(1,839)**	**1,947**
Public Equity at the end of the year		**157,594**	**115,015**	**117,871**	**157,725**	**115,023**	**118,043**

Financial Statements

Statement of Financial Position
as at 31 March 2020

	Notes	POLYTECHNIC Actual 2020 $000	POLYTECHNIC Budget 2020 $000	POLYTECHNIC Actual 2019 $000	GROUP Actual 2020 $000	GROUP Budget 2020 $000	GROUP Actual 2019 $000
ASSETS							
Current Assets							
Cash and Cash Equivalents	5	1,988	1,324	1,282	2,044	1,336	1,282
Trade and Other Receivables	6	37,695	7,383	5,577	37,763	7,442	5,693
Prepayments		1,127	744	1,280	1,127	744	1,282
Inventories		489	263	439	489	263	439
Total Current Assets		**41,299**	**9,714**	**8,578**	**41,423**	**9,785**	**8,696**
Non Current Assets							
Investment in Associates	7	3,285	3,572	3,466	3,297	3,525	3,532
Property, Plant and Equipment	8	139,307	134,921	135,782	139,307	134,921	135,782
Intangible Assets	9	7,234	6,791	7,677	7,235	6,791	7,677
Total Non Current Assets		**149,826**	**145,284**	**146,925**	**149,839**	**145,237**	**146,991**
Total Assets		**191,125**	**154, 998**	**155,503**	**191,262**	**155,022**	**155,687**
LIABILITIES							
Current Liabilities							
Trade and Other Payables	10	25,706	35,842	18,859	25,712	35,850	18,872
Employee Entitlements	11	2,063	3,920	2,471	2,063	3,920	2,470
Loans and Borrowings	12	5,500	0	16,050	5,500	0	16,050
Total Current Liabilities		**33,269**	**39,762**	**37,380**	**33,275**	**39,770**	**37,392**
Non Current Liabilities							
Employee Entitlements	11	262	230	252	262	230	252
Loans and Borrowings	12	0	0	0	0	0	0
Total Non Current Liabilities		**262**	**230**	**252**	**262**	**230**	**252**
Total Liabilities		**33,531**	**39,992**	**37,632**	**33,537**	**40,000**	**37,644**
NET ASSETS		**157,594**	**115,006**	**117,871**	**157,725**	**115,022**	**118,043**
EQUITY							
Retained Earnings	13	122,356	79,671	82,633	122,487	79,687	82,804
Asset Revaluation Reserves	13	35,060	34,717	35,060	35,060	34,717	35,060
Other Reserves	13	178	618	178	178	618	179
Total Equity		**157,594**	**115,006**	**117,871**	**157,725**	**115,022**	**118,043**

The Notes to the Financial Statements and Summary of Significant Accounting Policies form part of and are to be read in conjunction with these Statements.

Financial Statements

Statement of Cash Flows
for the period ended 31 March 2020

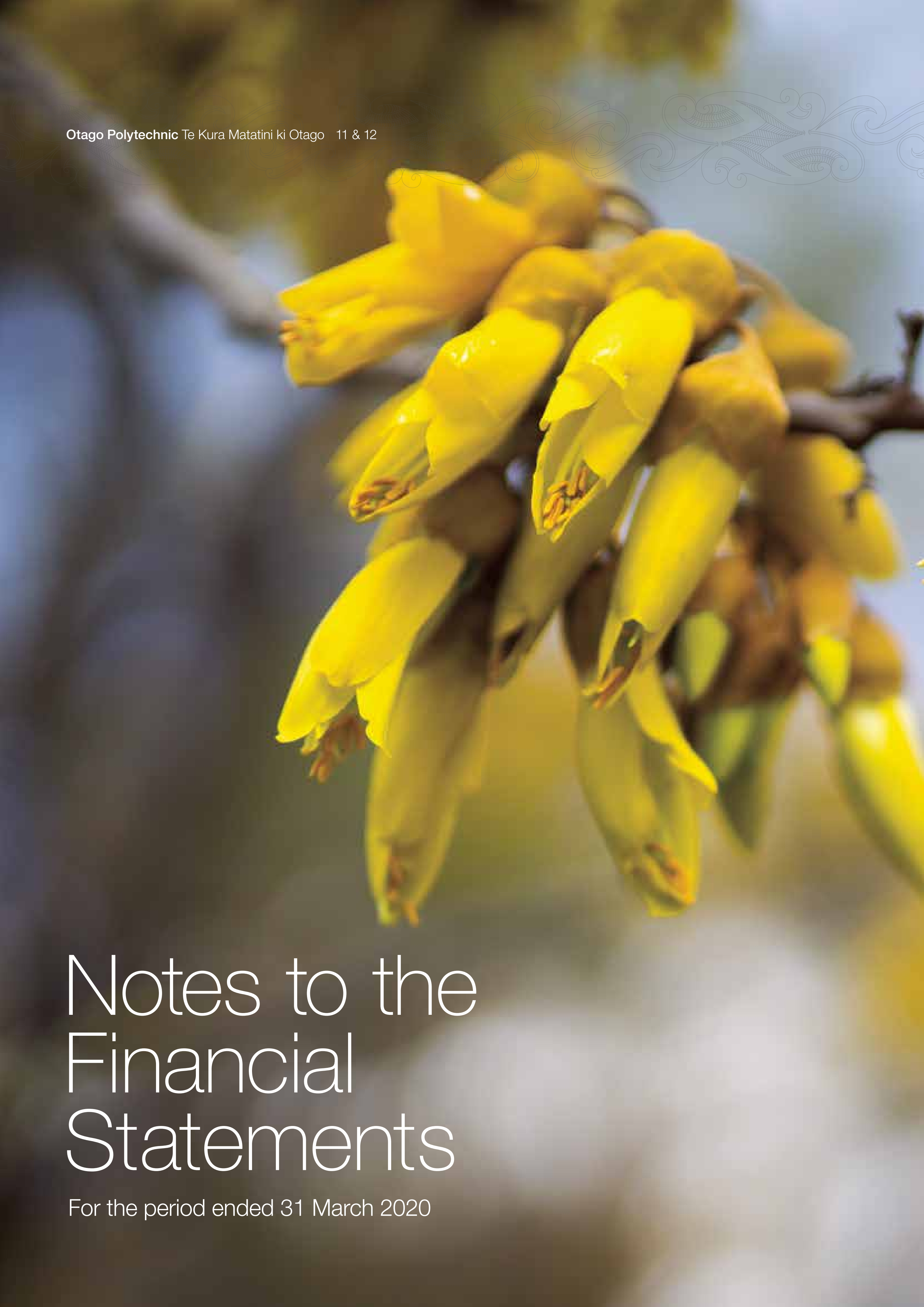
	Notes	POLYTECHNIC Actual 2020 $000	POLYTECHNIC Budget 2020 $000	POLYTECHNIC Actual 2019 $000	GROUP Actual 2020 $000	GROUP Budget 2020 $000	GROUP Actual 2019 $000
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash was provided from:							
Receipts from Government Grants		11,476	10,648	40,559	11,476	10,648	40,559
Receipts from Student Tuition Fees and Student Levies		23,308	23,289	41,985	23,308	23,288	41,985
Receipts from Other Revenue		3,040	1,982	8,671	3,095	2,046	8,958
Interest Received		2	2	25	2	2	25
		37,826	35,921	91,240	37,881	35,984	91,527
Cash was applied to:							
Payments to Employees		12,380	12,035	51,027	12,380	12,106	51,325
Payments for Consumables		5,194	4,634	25,545	5,194	4,637	25,556
Payments for Operating Expenses		1,519	1,957	7,153	1,519	1,959	7,171
Payments for Occupancy		917	1,219	4,994	917	1,219	4,994
Interest expense		53	40	168	53	40	168
Goods & Services Tax (net)		555	625	467	554	625	463
		20,618	20,510	89,354	20,617	20,586	89,677
Net Cash Flow from Operating Activities	5	**17,208**	**15,411**	**1,886**	**17,264**	**15,398**	**1,850**

Financial Statements

Statement of Cash Flows (continued)
for the period ended 31 March 2020

	Notes	POLYTECHNIC			GROUP		
		Actual 2020 $000	Budget 2020 $000	Actual 2019 $000	Actual 2020 $000	Budget 2020 $000	Actual 2019 $000
CASH FLOWS FROM INVESTING ACTIVITIES							
Cash was provided from:							
Proceeds from Sale of Property, Plant & Equipment		2	0	24	2	0	24
Distribution from Associate		0	313	522	0	313	522
		2	313	546	2	313	546
Cash was applied to:							
Purchase of Property, Plant & Equipment		5,858	2,440	11,407	5,858	2,440	11,407
Purchase of Intangible Assets		96	115	781	96	115	781
Contribution to TANZ & Wildlife Hospital		0	0	9	0	0	9
		5,954	2,555	12,197	5,954	2,555	12,197
Net Cash Flow from Investing Activities		**(5,952)**	**(2,242)**	**(11,651)**	**(5,952)**	**(2,242)**	**(11,651)**
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash was provided from:							
Loan Finance Received		21,450	0	35,200	21,450	0	35,200
		21,450	0	35,200	21,450	0	35,200
Cash was applied to:							
Loan Finance Repaid		32,000	12,300	24,597	32,000	12,300	24,597
		32,000	12,300	24,597	32,000	12,300	24,597
Net Cash Flow from Financing Activities		**(10,550)**	**(12,300)**	**10,603**	**(10,550)**	**(12,300)**	**10,603**
Cash Increase/(Decrease)		706	869	838	762	856	802
Opening Cash Balance		1,282	455	444	1,282	480	480
Closing Balance		**1,988**	**1,324**	**1,282**	**2,044**	**1,336**	**1,282**
Represented by:							
Bank deposits and current account		1,988	1,324	1,282	2,044	1,336	1,282
		1,988	**1,324**	**1,282**	**2,044**	**1,336**	**1,282**

The Notes to the Financial Statements and Summary of Significant Accounting Policies form part of and are to be read in conjunction with these Statements.



Notes to the Financial Statements

For the period ended 31 March 2020

Notes to the Financial Statements

for the period ended 31 March 2020

1. REPORTING ENTITY

Otago Polytechnic is a Crown Entity and was established in 1966 as a Polytechnic under the Education Act 1955. It provides full-time and part-time tertiary education in New Zealand.

The Polytechnic and group consists of Otago Polytechnic and its subsidiaries, Open Education Resource Foundation Limited (100% owned) and Otago Polytechnic Education Foundation Trust (100% interest). The 50% share of its associate OPAIC Ltd Partnership is equity accounted. The 16.67% share of its associate TANZ eCampus Limited is equity accounted. The Otago Polytechnic Education Foundation Trust was resettled into the OP Education Foundation Trust on 31 December 2017.

The primary objective of the Polytechnic and group is to provide education services for community or social benefit, rather than making a financial return. Accordingly the Polytechnic has designated itself and the group as public benefit entities for financial reporting purposes.

The financial statements of the Polytechnic and group for the period ended 31 March, 2020 were authorised for issue in accordance with a resolution of the Board on 17 September, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

Disestablishment Basis of Accounting

The Minister of Education announced the Government's decisions on the Reform of Vocational Education proposals on 1 August 2019, and has since enacted the Education (Vocational Education and Training and Reform) Amendment Act 2020 (the Act) on 24 February 2020 to give effect to those reforms. In essence, the Act reforms the delivery of vocational education in New Zealand by creating a new Crown entity, the New Zealand Institute of Skills and Technology (NZIST) by converting all existing institutes of technology and polytechnics (ITPs) into crown entity companies, which will take over the operational activities of existing ITPs.
The Act disestablished the Otago Polytechnic and transferred its assets and liabilities to a new company, Otago Polytechnic Limited on 1 April 2020. As a result, the Otago Polytechnic has prepared its financial statements on a disestablishment basis. However, because vocational education will continue to be provided through the Otago Polytechnic Limited, no change needs to be made to the measurement or classification of assets and liabilities. Decisions about the future of these assets and liabilities will be the responsibility of the new entity.

Change in Reporting Period

The financial statements of the Polytechnic and group have been prepared for the three months ending 31 March 2020 due to Otago Polytechnic becoming a crown entity company Otago Polytechnic Limited on 1 April 2020. Therefore the 2019 comparatives and 2020 budget amounts are not entirely comparable with the 31 March 2020 actuals.

Statutory reporting deadline

Under transition provisions in the Education (Vocational Education and Training) Amendment Act 2020, the Minister of Education determined the contents and timing of this final report of Otago Polytechnic. The timeline for providing the report to the Minister was 31 July 2020. Because of the lockdown, and the uncertainties created by the COVID-19 pandemic, both Otago Polytechnic and its auditors needed to consider the impact of COVID-19 on key information in the financial statements. These conclusions along with any additional disclosures and emphasis of matter paragraphs were subject to review by Audit New Zealand. Due to competing demands it was not possible for Audit New Zealand to complete their review prior to 31 July and consequently Otago Polytechnic could not report before the statutory deadline.

(b) Statement of compliance

The financial statements have been prepared in accordance and comply with, Tier 1 PBE accounting standards.

(c) Basis of consolidation

The purchase method is used to prepare the group financial statements, which involves adding together like items of assets, liabilities, equity, revenue, expenditure and cash flows on a line-by-line basis. All significant intra-group balances and transactions are eliminated on consolidation.

Subsidiaries

The Institute consolidates in the group financial statements those entities it controls. Control exists where the Institute is exposed, or has rights, to variable benefits (either financial or non-financial) and has the ability to affect the nature and amount of those benefits from its power over the entity. Power can exist over an entity if, by virtue of its purpose and design, the relevant activities and the way in which the relevant activities of the entity can be directed has been predetermined by the institute

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

Associate

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. Investments in associates are accounted for in the group financial statements using the equity method of accounting. Investments in associates are measured at cost in the Institute's parent financial statements.

Equity method of accounting in group financial statements

Investments in associates are accounted for in the group financial statements using the equity method of accounting.

Under the equity method of accounting, the investment 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 entity after the date of acquisition. The group's share of the surplus or deficit is recognised in the group surplus or deficit. Distributions received from the investee reduce the carrying amount of the investment in the group financial statements.

If the share of deficits of the entity equals or exceeds the interest in the entity, 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 entity. If the entity subsequently reports surpluses, the group will resume recognising its share of those surpluses only after its share of the surpluses equals its share of the deficits not recognised.

(d) Changes in accounting policy

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

PBE IFRS 9 Financial Instruments replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement and is effective for financial years beginning on or after 1 January 2021, with earlier adoption permitted. The main changes under the standard relevant to the Polytechnic are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which might result in the earlier recognition of impairment losses.
- The Financial Statements of the Government early adopted PBE IFRS 9 for the 30 June 2019 financial year. The Polytechnic early adopted PBE IFRS 9 for the 31 December 2019 financial year to be consistent with the Crown's accounting policies for financial instruments.

Standards issued and not yet effective and not early adopted

Standards and amendments, issued but not yet effective, that have not been early adopted and relevant to the Institute are:

PBE IPSAS 41 Financial Instruments replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement and PBE IFRS 9 Financial Instruments and is effective for financial years beginning on or after 1 January 2022, with earlier adoption permitted. The main changes compared to PBE IPSAS 29 that are relevant to the Institute are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which might result in the earlier recognition of impairment losses.

Otago Polytechnic intends to adopt PBE IPSAS 41 for the 31 December 2022 financial year. Otago Polytechnic has not yet assessed in detail the impact of the new standard.

An amendment to PBE IPSAS 2 Statement of Cash Flows requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. Otago Polytechnic does not intend to early adopt the amendment.

PBE FRS 48 Service Performance Reporting replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for annual periods beginning on or after 1 January 2021. The NZ Accounting Standards Board has recently issued an exposure draft that proposes to defer the adoption date of PBE FRS 48 by one year to reporting periods beginning on or after 1 January 2022. Otago Polytechnic has not yet determined how application of PBE FRS 48 will affect its statement of service performance. It does not plan to adopt the standard early.

(e) Revenue

Revenue is measured at fair value. Specific accounting policies for significant revenue items follow:

Government grants

SAC funding is the Polytechnic's main source of operational funding from the Tertiary Education Commission (TEC). Otago Polytechnic considers SAC funding and Performance Based Research Funding (PBRF) to be non-exchange revenue.

31 December 2019 comparative year – Otago Polytechnic 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.

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

Fees-Free

The Polytechnic considers fees-free revenue is non-exchange revenue and has presented funding received for fees-free as part of student fees. This is on the basis that receipts from TEC are for payment on behalf of the student as specified in the relevant funding mechanism. In response to the COVID-19 pandemic, TEC has confirmed that it will not seek repayment of 2020 fees free funding. Therefore, Otago Polytechnic has recognised a receivable and revenue for the period ended 31 March 2020 for the remaining 2020 funding to be received after balance date.

31 December 2019 comparative year

Otago Polytechnic recognises revenue when the course withdrawal date for an eligible student has passed.

31 March 2020 period

In response to the COVID-19 pandemic, TEC has confirmed that it will not seek repayment of 2020 fees free funding.

Notes to the Financial Statements

for the period ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Therefore, Otago Polytechnic has recognised a receivable and revenue for the period ended 31 March 2020 for the remaining 2020 funding to be received after balance date.

Student tuition fees

Domestic student tuition fees are subsidised by government funding and are considered non-exchange. Revenue is recognised when the course withdrawal date has passed, which is when a student is no longer entitled to a refund for withdrawing from the course.

International student tuition fees are accounted for as exchange transactions and recognised as revenue on a course percentage of completion basis. The percentage of completion is measured by reference to the days of the course completed as a proportion of the total course days.

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 when received and recognised as revenue when the conditions of the grant are satisfied.

Other Revenue

Other Revenue is recognised when earned. For the sale of materials this is when the significant risk and rewards of ownership have passed to the buyer and can be measured reliably.

Student accommodation revenue

Revenue from the provision of accommodation services is recognised on percentage of 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

Interest revenue is recognised using the effective interest method.

(f) Borrowing costs

Borrowing costs are recognised as an expense in the year in which they are incurred, except that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset until substantially all activities necessary to prepare the qualifying asset for its intended use are complete.

An asset that takes a substantial period of time to get ready for its intended use is considered as a qualifying asset.

(g) Goods and Services Tax (GST)

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

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

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cashflow in the statement of cashflows.

Commitments and contingencies are disclosed exclusive of GST.

(h) Foreign Currency transactions

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

(i) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and short-term deposits or highly liquid assets with an original maturity of three months or less.

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

(j) Trade and other receivables

Short-term receivables are recorded at the amount due, less an allowance for credit losses. Otago Polytechnic applies the simplified expected credit loss model of recognising lifetime expected credit losses for receivables.

In measuring expected credit losses, short-term receivables have been assessed on student and corporate debt as they possess different credit risk characteristics. They have been grouped based on the days past due.

Short-term receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the debtor being in liquidation.

(k) Non-current assets held for sale

Non-current assets are held for sale at the lower of the carrying amount or fair value less costs to sell.

(l) Other financial assets

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

Term deposits and loans to subsidiaries are initially measured at the amount invested. Where applicable, interest is subsequently accrued and added to the investment and loan balance. A loss allowance for expected credit losses is recognised if the estimated loss allowance is not trivial.

Unlisted shares

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

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.

For the prior year, 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.

(m) Property, plant and equipment

Property, plant and equipment consists of land, buildings, plant and equipment, motor vehicles, computer hardware, art works and library collections.

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

- Land and buildings are measured at fair value less subsequent accumulated depreciation and impairment losses.
- Other Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Additions

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

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition. Work in progress is recognised at cost less impairment and is not depreciated.

Disposals

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 disposed, the amounts included in the asset revaluation reserves in respect of those assets are transferred to retained earnings.

Subsequent costs

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

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Class of assets	Useful lives	Rate
Buildings and Fit out	2–80 years	1.25% – 50%
Plant and equipment	2–30 years	3.33% – 50%
Motor vehicles	5 years	20%
Computer hardware	4–10 years	10% – 25%
Library collection	10 years	10%

Revaluations

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

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

The fair values of Land and Buildings are derived from market based evidence or depreciated replacement cost as determined by an independent valuer. For example where buildings have been designed specifically for educational purposes they are valued at depreciated replacement cost which is considered to reflect fair value for such assets.

The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that off-sets 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.

(n) Intangible assets

Computer Software

Computer software is separately acquired and capitalised at its cost as at the date of acquisition. After initial recognition, separately acquired computer software is carried at cost less accumulated amortisation and impairment losses.

Course development costs

Course Development costs relate to development of educational programmes and courses and are capitalised when it is probable that future economic benefits arising from use of the intangible asset will flow to the group.

Following the initial recognition of the course development expenditure, the asset is carried at cost less accumulated amortisation and impairment losses.

Amortisation

A summary of the amortisation policies applied to the group's intangible assets is as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	Course Development Costs	Computer Software
Useful lives	3–5 years	5–10 years
Amortisation method used	Straight-line method from the commencement of the course	Straight-line method
Internally generated/ acquired	Internally generated	Separately acquired

The amortisation period and amortisation method for each class of intangible asset having a finite life is reviewed at each financial period-end. If the expected useful life or expected pattern of consumption is different from the previous assessment, changes are made accordingly.

The carrying value of each class of intangible asset is reviewed for indicators of impairment annually. Intangible assets are tested for impairment where an indicator of impairment exists.

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

(o) Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the statement of financial performance.

For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of financial performance.

(p) Employee entitlements

Short-term employee entitlements

Employee entitlements that are due to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued to balance date, annual leave earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent it will be used by staff to cover those future absences.

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.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on the following basis:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows. A discount rate of 1.06% (2019: 1.65%) and a salary inflation factor of 1.00% (2019: 1.01%) were used. The discount rate is based on government bonds with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the current CPI rate.

(q) Superannuation schemes

Defined contribution schemes

Employer contributions to Kiwisaver and other defined contribution schemes are accounted for as defined contribution schemes and are recognised as an expense in the surplus or deficit as incurred.

Defined benefit schemes

The Polytechnic and group belong to two Defined Benefit Plan Contributors Schemes (the schemes). The schemes are multi-employer defined benefit schemes.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the schemes the extent to which the surplus/deficit 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 these schemes are disclosed in Note 15.

(r) Loans and borrowings

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. 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.

(s) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of financial performance on a straight-line basis over the lease term.

(t) Budget figures

The budget figures are those approved by the Polytechnic Council and have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Otago Polytechnic and group for the preparation of the financial statements.

(u) Critical accounting estimates and assumptions

In preparing these financial statements the Polytechnic and group has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements 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 only estimate and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities is estimating the fair value of land and building – refer to note 8.

(v) Critical judgements in applying accounting policies

The Polytechnic and group has exercised the following critical judgements in applying accounting policies for the period ended 31 March 2020:

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 Polytechnic and group accounts for the funding as a capital contribution directly in equity. Information about capital contributions recognised in equity is disclosed in note 14.

(w) Taxation

The Polytechnic and group is exempt from the payment of income tax as it is classified by the Inland Revenue Department as a charitable organisation. Accordingly, no charge for income tax applies or has been provided for.

3. NON-GAAP UNDERLYING NET SURPLUS

Underlying net surplus is a non-GAAP financial performance measure that represents net surplus stated in compliance with NZ PBE accounting standards excluding the net movement in PBE non-exchange revenue. It is presented to enable to readers to make an assessment and comparison of the Polytechnic's underlying performance across different accounting periods.

PBE non-exchange revenue

The revenue for domestic students is classified as non-exchange. Due to this being accounted for under PBE IPSAS 23, all domestic student fee and government funding revenue must be recognised in full as soon as the withdrawal with refund period has passed.

This means that if a student enrols towards the end of a financial year, all of the revenue for the student has to be accrued into the year of enrolment while the delivery costs will be split over that year and the following year. Due to the nature of the flexible start dates for some students, for example those studying at Capable NZ, the number of students studying over the financial year end can (and does) change from year to year. These changes result in the variances in revenue recognition as set out below. The Polytechnic considers these variances to be timing in nature and not reflective of the underlying financial performance for the year.

	POLYTECHNIC			GROUP		
	2020 Actual $'000	2020 Budget $'000	2019 Actual $'000	2020 Actual $'000	2020 Budget $'000	2019 Actual $'000
Net Surplus	39,723	(1,766)	1,633	39,682	(1,839)	1,604
Adjustments						
less PBE non-exchange revenue adjustment	(40,930)	0	(351)	(40,930)	0	(351)
Underlying Net Surplus (Deficit)	(1,207)	(1,766)	1,282	(1,248)	(1,839)	1,253
Underlying surplus %	-5.8%	-8.3%	1.3%	-6.0%	-8.6%	1.3%

Notes to the Financial Statements

for the period ended 31 March 2020

4. REVENUES AND EXPENSES

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
(a) Government Grants				
Student Achievement Component	37,963	39,094	37,963	39,094
Equity Funding	252	236	252	236
Early Childhood Education	455	592	455	592
Performance Based Research Fund	1,087	1,203	1,087	1,203
Modern Apprentices	0	0	0	0
Trades Academy	1,364	579	1,364	579
Youth Guarantee	234	594	234	594
Other Government Grants	232	333	232	333
	41,587	**42,631**	**41,587**	**42,631**
(b) Student Tuition Revenue				
Student Fees Domestic	6,963	15,828	6,963	15,828
Student Fees Free Domestic	5,214	6,527	5,214	6,527
Student Fees International	3,826	20,410	3,826	20,410
Fee Subsidies and Discounts	(614)	(1,790)	(614)	(1,790)
Other Student Fee Revenue	4	189	4	189
	15,393	**41,164**	**15,393**	**41,164**
(c) Other revenue				
Revenue from other operating activities	5,124	13,501	5,141	13,858
Grants and Donations	12	58	12	58
	5,136	13,559	5,153	13,916
Grants and Donations were received from the following community organisations				
Campus Living Villages (Student Village Art Project)	0	10	0	10
Community Trust of Otago (Refugee youth resettlement)	12	16	12	16
Inner Court Trust (Dyslexia support and tinted lenses)	0	3	0	3
Logic Group Southern Limited (Student Village Art Project)	0	10	0	10
Moore Markhams Otago Ltd (Refugee youth resettlement)	0	4	0	4
Naylor Love (Student Village Art Project)	0	15	0	15
	12	**58**	**12**	**58**
(d) Finance revenue/costs				
Interest earned on bank deposits	3	30	3	31
Total finance revenue	**3**	**30**	**3**	**31**
Interest paid on bank loan facilities	53	163	53	163
Total finance costs	**53**	**163**	**53**	**163**
(e) Employment expenses				
Wages and salaries	11,069	44,877	11,118	45,102
Employer contributions to defined contribution schemes	330	1,321	332	1,329
Other employment expenses	499	2,859	500	2,908
	11,898	**49,057**	**11,950**	**49,339**

Employer contributions to defined contribution schemes include contributions to KiwiSaver, the Government Superannuation Fund and National Provident Fund DBP Contributors Scheme.

4. REVENUES AND EXPENSES (continued)

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
(f) Consumable, Operating and Occupancy expenses				
Audit fees – annual audit	89	106	89	110
Trade and other receivables impairment	(1)	294	(1)	312
Donations	2	43	2	143
Operating lease payments	267	1,839	267	1,839
Administrative and other expenses	7,846	37,149	7,852	37,132
	8,203	**39,431**	**8,209**	**39,536**

5. CASH AND CASH EQUIVALENTS

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Cash at bank and in hand	1,987	1,281	2,043	1,281
Short term deposits	1	1	1	1
	1,988	**1,282**	**2,044**	**1,282**
Reconciliation from the net surplus to the net cash flows from operations				
Net surplus for the year	39,723	1,633	39,682	1,604
Adjustments for:				
Depreciation and Amortisation	2,007	7,742	2,007	7,742
Net (gain)/loss on disposal of property, plant and equipment	(13)	(22)	(13)	(22)
(Increase) / decrease in financial assets	29	11	83	1
Share of Associates (Surplus)	235	(655)	235	(655)
Changes in working capital items				
(Increase) / decrease in trade and other receivables	(32,118)	(1,153)	(32,071)	(1,144)
(Increase) / decrease in prepayments	152	(673)	155	(671)
(Increase) / decrease in inventories	(50)	(242)	(50)	(242)
Increase / (decrease) in trade and other payables	7,641	(4,296)	7,633	(4,303)
Increase / (decrease) in employee entitlements	(398)	(459)	(397)	(460)
Net cash from operating activities	**17,208**	**1,886**	**17,264**	**1,850**

Notes to the Financial Statements

for the period ended 31 March 2020

6. BREAKDOWN OF RECEIVABLES AND FUTHER INFORMATION

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Student fee receivables	3,606	1,850	3,606	1,850
Less: Allowance for credit losses	-164	-174	-164	-174
Net student fee receivables	**3,442**	**1,676**	**3,442**	**1,676**
Other receivables				
Commercial receivables	1,234	1,097	1,308	1,218
Less: Allowance for credit losses	-138	-129	-144	-134
Net commercial receivables	**1,096**	**968**	**1,164**	**1,084**
PBE Non Exchange Revenue Adjustment	32,479	1,897	32,479	1,897
Government Funding Additional EFTS	678	1,036	678	1,036
Total receivables	**37,695**	**5,577**	**37,763**	**5,693**
Total receivables comprise:				
Receivables from exchange transactions	5,216	3,680	5,216	3,681
Receivables from non-exchange transactions	32,479	1,897	32,547	2,012

The allowance for credit losses at 31 March 2020 and 1 January 2020 was determined as follows:

	Current	Less than 6 months	6 months to 1 year	1 to 2 years	More than 2 years	Total
Student Fee receivables:						
31 March 2020						
Expected credit loss rate	0.07%	2.06%	29.14%	5.64%	61.91%	
Gross carrying amount ($'000)	587	2,511	282	195	31	3,606
Lifetime expected credit loss ($'000)	0	52	82	11	19	164
Commercial receivables:						
31 March 2020						
Expected credit loss rate	11.06%	0.16%	6.75%	78.23%	42.92%	
Gross carrying amount ($'000)	909	272	78	49	0	1,308
Lifetime expected credit loss ($'000)	101	0	5	38	0	144
Total lifetime expected credit loss	**101**	**52**	**87**	**49**	**19**	**308**
Student Fee receivables:						
1 January 2020						
Expected credit loss rate	0.07%	2.06%	29.14%	5.64%	61.91%	
Gross carrying amount ($'000)	520	523	438	342	27	1,850
Lifetime expected credit loss ($'000)	**0**	**11**	**127**	**19**	**17**	**175**

	Current	Less than 6 months	6 months to 1 year	1 to 2 years	More than 2 years	Total
Commercial receivables:						
1 January 2020						
Expected credit loss rate	11.06%	0.16%	6.75%	78.23%	42.92%	
Gross carrying amount ($'000)	1,153	46	11	8	0	1,218
Lifetime expected credit loss ($'000)	127	0	1	6	0	134
Total lifetime expected credit loss	127	11	128	25	17	308

The expected credit loss rates for receivables at 31 March 2020 and 1 January 2020 are based on the payment profile of revenue on credit over the previous reporting year and the corresponding historical credit losses experienced for that period. The historical loss rates are adjusted for current and forward-looking macroeconomic factors that might effect the recoverability of receivables. Given the short period of credit risk exposure, the impact of macroeconomic factors is not considered significant. The impact of COVID-19 on receivables is minimal, as the majority of domestic students access Studylink loans to pay their fees.

7. INVESTMENTS

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Open Education Resource Foundation	75	25	0	0
TANZ eCampus Limited	1,102	1,186	1,102	1,186
OPAIC Limited Partnership	2,094	2,246	2,094	2,246
Other	14	9	101	100
	3,285	**3,466**	**3,297**	**3,532**

Investment in TANZ eCampus Limited

The TANZ unincorporated joint venture has been converted to share capital in TANZ eCampus Ltd during the year.

TANZ eCampus Limited is jointly owned by six New Zealand Polytechnics one of which is Otago Polytechnic. TANZ eCampus was set up to develop and run an on-line e-learning platform. TANZ offers a variety of programmes that are delivered 100% online. Otago Polytechnic has equity accounted for TANZ eCampus Limited and the investment is shown at the cost price of the shares plus a 1/6 share of the surplus to date.

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Movements in the carrying amount of the investment in associate:				
Balance at 1 January	1,186	1,194	1,186	1,194
Investment	0	0	0	0
Share of total comprehensive revenue and expense	(83)	(8)	(83)	(8)
Balance at 31 March	**1,103**	**1,186**	**1,103**	**1,186**

Notes to the Financial Statements

for the period ended 31 March 2020

7. INVESTMENTS (continued)

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Summarised financial information of associate presented on a gross basis:				
Assets	7,394	7,929	7,394	7,929
Liabilities	772	807	772	807
Revenues	1,538	6,422	1,538	6,422
Surplus/(Deficit)	(283)	(50)	(283)	(50)
Polytechnic's interest	16.67%	16.67%	16.67%	16.67%

Investment in OPAIC Limited Partnership

OPAIC Ltd Partnership is a collaborative venture between Otago Polytechnic and Future Skills Academy Ltd. OPAIC delivers tertiary education from an Auckland Campus to international students. Otago Polytechnic has equity accounted for OPAIC Ltd Partnership and the investment is shown as the share of surplus to date (the initial cost being nil). OPAIC is highly dependent on international student enrolments to be profitable. Due to the significant uncertainty around when the borders will open, as a result of the COVID 19 pandemic, it is uncertain when OPAIC will be able to achieve a viable level of enrolments.

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Movements in the carrying amount of the investment in associate:				
Balance at 1 January	2,246	2,125	2,246	2,125
Distribution received by the Polytechnic	0	(522)	0	(522)
Share of total comprehensive revenue and expense	(152)	643	(152)	643
Balance at 31 March	**2,094**	**2,246**	**2,094**	**2,246**
Summarised financial information of associate presented on a gross basis:				
Assets	12,009	12,424	12,009	12,424
Liabilities	9,019	9,114	9,019	9,114
Revenues	2,337	16,011	2,337	16,011
Surplus/(Deficit)	(321)	1,116	(321)	1,116
Polytechnic's interest	50.00%	50.00%	50.00%	50.00%

There are no impairment provisions for other financial assets.

8. PROPERTY, PLANT AND EQUIPMENT

	POLYTECHNIC AND GROUP							
	Land $'000	Buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Computer Hardware $'000	Library Collection $'000	Art Works $'000	Total $'000
At 1 January 2020								
Cost or fair value	26,201	102,553	18,399	1,455	8,802	7,309	735	165,454
Accumulated depreciation and impairment	0	(6,028)	(10,982)	(1,059)	(5,373)	(6,230)	0	(29,672)
Net carrying amount	**26,201**	**96,525**	**7,417**	**396**	**3,429**	**1,079**	**735**	**135,782**

8. PROPERTY, PLANT AND EQUIPMENT (continued)

POLYTECHNIC AND GROUP

	Land $'000	Buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Computer Hardware $'000	Library Collection $'000	Art Works $'000	Total $'000
Year ended 31 March 2020								
Balance at 1 January	26,201	96,525	7,417	396	3,429	1,079	735	135,782
Additions	17	3,314	587	24	1,026	26	2	4,996
Revaluations	0	0	0	0	0	0	0	0
Disposals (net)	0	0	(87)	(2)	0	0	0	(89)
Depreciation expense	0	(708)	(307)	(35)	(282)	(51)	0	(1,382)
Balance at 31 March	**26,218**	**99,131**	**7,610**	**383**	**4,173**	**1,054**	**737**	**139,307**
At 31 March 2020								
Cost or fair value	26,218	105,867	18,811	1,475	9,828	7,334	737	170,270
Accumulated depreciation and impairment	0	(6,736)	(11,201)	(1,092)	(5,655)	(6,280)	0	(30,963)
Net carrying amount	**26,218**	**99,131**	**7,610**	**383**	**4,173**	**1,054**	**737**	**139,307**
At 1 January 2019								
Cost or fair value	26,135	93,107	17,695	1,283	7,589	7,069	295	153,173
Accumulated depreciation and impairment	0	(3,170)	(10,469)	(996)	(4,357)	(6,029)	0	(25,021)
Net carrying amount	**26,135**	**89,937**	**7,226**	**287**	**3,232**	**1,040**	**295**	**128,152**
Year ended 31 December 2019								
Balance at 1 January	26,135	89,937	7,226	287	3,232	1,040	295	128,152
Additions	66	9,446	1,505	233	1,214	239	97	12,800
Revaluations	0	0	0	0	0	0	343	343
Disposals (net)	0	0	(47)	0	(1)	0	0	(48)
Depreciation charge for the year	0	(2,858)	(1,267)	(124)	(1,016)	(200)	0	(5,465)
Balance at 31 December	**26,201**	**96,525**	**7,417**	**396**	**3,429**	**1,079**	**735**	**135,782**
At 31 December 2019								
Cost or fair value	26,201	102,553	18,399	1,455	8,802	7,309	735	165,454
Accumulated depreciation and impairment	0	(6,028)	(10,982)	(1,059)	(5,373)	(6,230)	0	(29,672)
Net carrying amount	**26,201**	**96,525**	**7,417**	**396**	**3,429**	**1,079**	**735**	**135,782**

Valuation

Land and Buildings

The most recent valuations of land and buildings was performed by independent registered valuers, J Dunckley FNZIV and Praveen Menon MPINZ of Crighton Anderson Property & Infrastructure Ltd. The valuation is effective as at 31 December 2017. A desktop exercise has been performed by Praveen Menon MPNZ, registered valuer, of Colliers International as at 31 March 2020 to determine if there was a material movement in values in those 27 months.

Land

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

Buildings

Specialised buildings (eg campuses) are valued at fair value using depreciated replacement cost because no reliable market data is available for buildings designed for education delivery purposes.

- Depreciated replacement cost is determined using a number of significant assumptions, these include:
- The replacement asset is based on modern equivalent assets with adjustments where appropriate for obsolescence due to over-design or surplus capacity.
- The replacement cost is derived from recent construction contracts of similar assets and Property Institute of

8. PROPERTY, PLANT AND EQUIPMENT (continued)

New Zealand cost information.

> The remaining useful life of assets is estimated.

> Straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

Restrictions on title

Under the Education Act 1989, the Polytechnic and group is required to obtain consent from the Ministry of Education to dispose or sell property where the value of the property exceeds an amount determined by the Minister.

Art

The most recent valuation of Art was performed by Ben Plumbly Director of Art, of Art and Object, with a valuation date of 25 November 2019.

Art is valued at fair market value using reference to observable prices in both the primary retail market and secondary auction market. If there is no active market, fair market value is determined by other market-based evidence adjudged by Art and Object as active and knowledgeable participants in the market

Work in progress

Buildings in the course of construction total $16.22m (2019 $12.91m) while Plant, Equipment, and Computers total $1,053k (2019 $581k).

Legal ownership of land and buildings

Legal title to land and buildings, previously in the name of the Crown, was transferred to Otago Polytechnic on 8 September 2016.

9. INTANGIBLE ASSETS

	POLYTECHNIC AND GROUP		
	Course Development costs $'000	Computer Software $'000	Total $'000
At 1 January 2020			
Cost (gross carrying amount)	9,543	8,378	17,921
Accumulated amortisation	(5,863)	(4,381)	(10,244)
Net carrying amount	**3,680**	**3,997**	**7,677**
Year ended 31 March 2020			
Balance at 1 January	3,680	3,997	7,677
Additions	74	108	182
Impairments (net)	0	0	0
Amortisation expense	(377)	(248)	(625)
Balance at 31 March	**3,377**	**3,857**	**7,234**
At 31 March 2020			
Cost (gross carrying amount)	9,617	8,714	18,331
Accumulated amortisation	(6,240)	(4,857)	(11,097)
Net carrying amount	**3,377**	**3,857**	**7,234**
At 1 January 2019			
Cost (gross carrying amount)	8,645	9,808	18,453
Accumulated amortisation	(4,985)	(6,275)	(11,260)
Net carrying amount	3,660	3,533	7,193
Year ended 31 December 2019			
Balance at 1 January	**3,660**	**3,533**	**7,193**
Additions	1,429	1,312	2,741
Impairments (net)	(2)	22	20
Amortisation expense	(1,407)	(870)	(2,277)
Balance at 31 December	**3,680**	**3,997**	**7,677**

	POLYTECHNIC AND GROUP		
	Course Development costs $'000	Computer Software $'000	Total $'000
At 31 December 2019			
Cost (gross carrying amount)	9,543	8,378	17,921
Accumulated amortisation	(5,863)	(4,381)	(10,244)
Net carrying amount	**3,680**	**3,997**	**7,677**

	Carrying Value $'000	Remaining amortisation period %
Details of material individual intangible assets are:		
Learner Journey software	852,299	14.29
Student Hub software	1,177,355	10.00

Work in progress

Course Development projects not yet completed total $84k (2019 $1,433k) while Software projects total $149k (2019 $161k).

10. TRADE AND OTHER PAYABLES

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Trade payables	6,299	8,284	6,299	8,291
Income in advance	19,407	10,575	19,413	10,581
	25,706	**18,859**	**25,712**	**18,872**

Trade payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payables approximates their fair value. Income in advance relates to international student fees for programmes that continue into the following financial year, and domestic student fees received for which the withdrawal date had not passed at balance date.

11. EMPLOYEE ENTITLEMENTS

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Employee Entitlements				
Annual and discretionary leave	1,406	1,862	1,406	1,862
Long service leave	272	258	272	258
Retirement leave	150	150	150	150
Sick Leave	137	137	137	137
Other Entitlements	360	316	360	316
	2,325	**2,723**	**2,325**	**2,722**
Current portion	2,063	2,471	2,063	2,470
Non-current portion	262	252	262	252
	2,325	**2,723**	**2,325**	**2,722**

Notes to the Financial Statements

for the period ended 31 March 2020

12. LOANS AND BORROWINGS

The Westpac Bank loan facility is secured with a negative pledge and operates as a multi-option credit line facility. The balance drawn down on the multi-option credit facility was $5,500k as at 31 March 2020 ($16,050k as at 31 December 2019). The interest rate was 1.83% per annum (2019 2.58%). As at 31 March 2020 Otago Polytechnic has met all of the Tertiary Education Commission (TEC) loan covenant ratios. (2019: Otago Polytechnic had breached three of the Tertiary Education Commission (TEC) loan covenant ratios, Operating Cash Inflows divided by Operating Cash Outflows, Net Surplus Ratio and Liquidity Ratio. TEC were advised of these breaches).

13. EQUITY

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Retained Earnings				
At 1 January	82,632	80,705	82,804	80,906
Resettlement of Trust	0	0	0	0
Net Surplus	39,723	1,633	39,682	1,604
Transfer from Revaluation Reserve	0	0	0	0
Net change in Trust and Special Funds	1	294	1	294
Balance at 31 March	**122,356**	**82,632**	**122,487**	**82,804**
Asset Revaluation Reserve				
At 1 January	35,060	34,717	35,060	34,717
Revaluation gains/(losses)	0	343	0	343
Change in reserve on disposal/transfer	0	0	0	0
Balance at 31 March	**35,060**	**35,060**	**35,060**	**35,060**
Trust Funds				
At 1 January	179	387	179	387
Receipts to funds	9	209	9	209
Payments from funds	(10)	(417)	(10)	(417)
Balance at 31 March	**178**	**179**	**178**	**179**
Special Funds				
At 1 January	0	84	0	84
Receipts to funds	0	0	0	0
Payments from funds	0	(84)	0	(84)
Balance at 31 March	0	0	0	0
Total Equity	**157,594**	**117,871**	**157,725**	**118,043**

Trust funds comprise scholarship and other funds held on behalf of students and staff. Special funds comprised student-related equity and support funds. The use of some of these funds is restricted.

14. FINANCIAL INSTRUMENT RISKS

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

Market risk

Currency risk

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

The Polytechnic has transactional currency exposures arising from overseas purchases that include capital equipment, software licences, library books and other expenditures in currencies other than the Polytechnic's functional currency. The Polytechnic's exposure to foreign currency risk is minimal.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The Polytechnic's exposure to market risk for changes in interest rates relates primarily to the Polytechnic's long-term debt obligations, refer to note 12 for interest rates and loan balances of any Otago Polytechnic borrowings.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Polytechnic, causing the Polytechnic to incur a loss.

The Polytechnic has no significant concentrations of credit risk other than the Tertiary Education Commission, as it has a large number of credit customers, mainly students. The Polytechnic invests funds only with registered banks and its investment policy limits the amount of exposure to any one institution. There is no collateral held as security against these financial instruments.

Liquidity risk

Liquidity risk is the risk that the Polytechnic will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through committed credit facilities. The Polytechnic aims to maintain flexibility in funding by keeping committed credit lines available.

The Polytechnic has a maximum amount that can be drawn down against its multi-option credit line facility of $17m. There are no restrictions on the use of this facility with the exception of TEC approval being required if used for long-term borrowing requirements.

Maturity analysis of financial assets and liabilities

	Carrying amount	Current	Less than 6 months	6 months to 1 year	More than 1 year
Polytechnic March 2020					
Cash and cash equivalents	1,988	1,988	0	0	0
Trade and other receivables	37,695	34,484	2,731	273	207
Total Loans and Receivables	39,683	36,472	2,731	273	207
Other financial assets fair value through other comprehensive revenue and expense	89	89	0	0	0
Total financial assets	39,772	36,561	2,731	273	207
Trade payables	6,299	6,299	0	0	0
Loans and borrowings (current)	5,500	5,500	0	0	0
Loans and borrowings (non-current)	0	0	0	0	0
Total financial liabilities at amortised cost	11,799	11,799	0	0	0
Group March 2020					
Cash and cash equivalents	2,044	2,044	0	0	0
Trade and other receivables	37,763	34,552	2,731	273	207
Total Loans and Receivables	39,807	36,596	2,731	273	207
Other financial assets – fair value through other comprehensive revenue and expense	101	101	0	0	0
Total financial assets	39,907	36,697	2,731	273	207
Trade payables	6,299	6,299	0	0	0
Loans and borrowings (current)	5,500	5,500	0	0	0
Loans and borrowings (non-current)	0	0	0	0	0
Total financial liabilities at amortised cost	11,799	11,799	0	0	0

14. FINANCIAL INSTRUMENT RISKS (continued)

	Carrying amount	Current	Less than 6 months	6 months to 1 year	More than 1 year
Polytechnic 2019					
Cash and cash equivalents	1,282	1,282	0	0	0
Trade and other receivables	5,577	4,364	558	321	334
Total Loans and Receivables	6,859	5,646	558	321	334
Other financial assets – fair value through other comprehensive revenue and expense	34	34	0	0	0
Total financial assets	6,893	5,680	558	321	334
Trade payables	8,284	8,284	0	0	0
Loans and borrowings (current)	16,050	16,050	0	0	0
Loans and borrowings (non-current)	0	0	0	0	0
Total financial liabilities at amortised cost	24,334	24,334	0	0	0
Group 2019					
Cash and cash equivalents	1,282	1,282	0	0	0
Trade and other receivables	5,693	4,480	558	321	334
Total Loans and Receivables	6,975	5,762	558	321	334
Other financial assets – fair value through other comprehensive revenue and expense	100	100	0	0	0
Total financial assets	7,075	5,862	558	321	334
Trade payables	8,291	8,291	0	0	0
Loans and borrowings (current)	16,050	16,050	0	0	0
Loans and borrowings (non-current)	0	0	0	0	0
Total financial liabilities at amortised cost	24,341	24,341	0	0	0

15. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Polytechnic has entered into commercial leases on certain items of property, plant and equipment where it is not in the best interest of the Polytechnic to purchase these assets.

These leases have an average life of 5 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

	POLYTECHNIC		GROUP	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Future minimum rentals payable under non-cancellable operating leases as at 31 March are as follows:				
Within one year	916	960	916	960
After one year but not more than five years	2,753	2,778	2,753	2,778
More than five years	4,562	4,703	4,562	4,703
	8,231	**8,441**	**8,231**	**8,441**

15. COMMITMENTS AND CONTINGENCIES (continued)

Capital commitments

At 31 March 2020 the Polytechnic had total commitments of $2.21m for the major building works at the Forth St and Central Otago campuses; O Block Extension, G Block Upgrade, Foundation Prefabs and Central Otago Accommodation. (2019: $5.06m, Forth St and Central campuses; O Block Extension, G Block Upgrade, Foundation Prefabs and Central Otago Accommodation.).

Legal claim

Otago Polytechnic had one contingent matter in the pre sentencing stage as at balance date relating to a Worksafe notifiable event involving a learner. The outcome was an enforceable undertaking to the value of $275k against Otago Polytechnic, court costs of $3.4k and reparation of $15k to be paid the learner. Otago Polytechnic will meet the enforceable undertaking by designing and delivering Health & Safety training modules for construction worksites and providing six scholarships.

Otago Polytechnic has no significant contingent assets as at balance date.

Contingent liabilities

The Polytechnic and group is a participating employer in two Defined Benefit Plan Contributors Schemes (the schemes), which are multi-employer defined benefit schemes. If the other participating employers ceased to participate in the scheme the Polytechnic and group could be responsible for any deficit of the schemes. Similarly, if a number of employers ceased to participate in the schemes the Polytechnic and group could be responsible for an increased share of the deficit.

Otago Polytechnic is joint and several guarantor for property leases relating to the OPAIC's Auckland Campus. There is a significant uncertainty as to whether OPAIC will continue to be able to meet the lease payments, thereby resulting in Otago Polytechnic having to honour the lease contract payments. The remaining lease payments, at 31 March 2020, were $7.5 million noting that Future Skills has provided a bond of $850,000 in favour of the Polytechnic. The monthly lease commitment is $96,809 and the expiry date is 1 September 2026. The Polytechnic has the right to sub-lease. Otago Polytechnic's exposure to this cannot be quantified due to the uncertainty from the impact of the COVID 19 pandemic, on the rental property market in central Auckland. Otago Polytechnic assess that it is less than probable that any contribution will need to be paid as the Polytechnic has the right to sub-lease the building.

16. RELATED PARTY DISCLOSURE

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that are reasonable to expect that the Polytechnic would have adopted in dealing with the party at arm's length in the same circumstances.

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.

Inter-group transactions

The Otago Polytechnic Education Foundation Trust paid $0 (2019: $19,923) to Otago Polytechnic for hospitality catering. Otago Polytechnic provides accounting, secretarial and trustee services to the Otago Polytechnic Education Foundation Trust at no cost. Monies owed by Otago Polytechnic to the Otago Polytechnic Education Foundation Trust are held in a current account balance at 31 December 2020 $86,952 (2019: $71,797).

Otago Polytechnic provides accounting, secretarial and director services to the Open Education Resource Foundation Limited for no charge in lieu of payment of membership fees of $6,961 (US$4,000) annually. Monies owed between the parties are held in a current account, being -$74,676 (2019: -$24,647).

OPAIC Ltd Partnership paid $173,332 (2019: $1,013,477) to Otago Polytechnic as reimbursement for expenses paid by Otago Polytechnic on behalf of the Partnership. These expenses were oncharged at original cost without any margin. OPAIC Ltd Partnership paid Otago Polytechnic $39,250 (2019: $157,000) for an operating lease on assets owned by Otago Polytechnic but used by OPAIC Ltd Partnership. Otago Polytechnic paid $2,755,883 (2019: $15,181,832) to OPAIC Ltd Partnership for Contracted Education Services delivered to students who are enrolled in Otago Polytechnic programmes delivered by the Limited Partnership. The fees are paid on a service delivered basis. Until payment is transferred to the Limited Partnership, Otago Polytechnic pays interest on the balance of fees paid in advance of services delivered.

Otago Polytechnic paid $150,406 (2019: $687,887) to TANZ eCampus Limited for Contracted Education Services delivered to students who are enrolled in Otago Polytechnic programmes delivered by TANZ eCampus Limited. The fees are paid on a service delivered basis.

Related Parties

Otago Polytechnic made sponsorship payments of $36,800 (2019: $36,800) to Startup Dunedin of which Megan Gibbons is a Director.

Otago Polytechnic has an outstanding loan of $49,500 (2019: $49,500) to the Wildlife Hospital Trust of which Megan Gibbons is a Director.

Otago Polytechnic made a sponsorship payment of $500 (2019: $500) to Dunedin Fringe Arts Trust of which Oonagh McGirr is a Director.

Key management personnel compensation

	POLYTECHNIC	GROUP
	2020 $'000	2019 $'000
Salaries and other short-term employee benefits	351	1,390
Post employment benefits	7	48
	358	1,438

Key management personnel included 6 members of the Executive Leadership Team and the Director of Open Education Resource Foundation Ltd, totalling 1.7FTE to 31 March 2020 (6.8 for full year 2020) (2019: 7 FTE).

There are close family members of key management personnel employed by the Polytechnic. The terms and conditions of those arrangements are no more favourable than the Polytechnic would have adopted if there were no relationship to key management personnel.

Notes to the Financial Statements

for the period ended 31 March 2020

17. COVID-19 PANDEMIC

COVID-19

11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this, the country was in lockdown at Alert Level 4 for the period 26 March to 27 April and remained in lockdown at Alert Level 3, thereafter, until 13 May. During this period, Otago Polytechnic closed all delivery sites and brought forward the mid-semester break to align with the new timing of the school holidays. All professional services moved to a work from home model from 25 March and all teaching moved to on-line delivery after the mid-semester break. Otago Polytechnic Campus reopened on Monday 18 May with a gradual return to onsite delivery on a programme by programme basis under strict hygiene and contract tracing rules. On Monday 8 June the Government lowered the alert level to level one with resumption of normal daily activities, however the New Zealand borders remain closed indefinitely.

The effect on our operations is reflected in these financial statements based on the information available to the date these financial statements are signed. At this time, it is difficult to determine the full on-going effect of COVID-19 pandemic and therefore some material uncertainties remain. There could also be other matters that affect Otago Polytechnic going forward that we are not yet aware of.

We have disclosed in the financial statements our significant assumptions and judgements regarding the future potential impacts that may have a material impact on Otago Polytechnic going forward.

The main impacts on Otago Polytechnic's financial statements due to COVID-19 are explained below.

Government Funding – The TEC has confirmed that 2020 funding for Investment Plans and Fees Free will continue. The TEC has informed ITPs that it will not recover 2020 funding because of either non-achievement of Education Performance Indicators or under-delivery during the 2020 year. This provides Otago Polytechnic with certainty that it can continue to deliver to students despite disruption caused by COVID-19. A consequence of this is that Otago Polytechnic has recorded a receivable and revenue for the year ended 31 March 2020 of $32,479,151 for the remaining 2020 investment plan funding to be received after 31 March 2020.

International Students – the travel restrictions and continued closure of international borders have meant that international students who are off-shore have not been able to come to New Zealand to start their programmes. The Polytechnic is working with all affected students to defer start dates or offer on-line provision as appropriate. We have had a better than expected uptake from international students who are in country, meaning that the impact on enrolments during 2020 has been largely mitigated. 2020 enrolled EFTS are only 13% behind budgeted EFTS and the budget was prepared prior to the COVID-19 pandemic commencing.

Share of surplus from OPAIC – as OPAIC Limited Partnership is a wholly international campus, there will be a reduction in the share of surplus that Otago Polytechnic receives from OPAIC for the 2020 year. The reduction has been mitigated by stronger than anticipated enrolments from in country learners along with revenue diversification strategies that have been implemented.

It is estimated that the Otago Polytechnic 2020 surplus will be $500k less than that achieved in 2019. International student enrolments at OPAIC are 10% behind EFTS budgeted pre COVID-19. The continued effect of the decrease in 2021 will depend on how quickly the borders are reopened and students are able to return. As OPAIC has several student intakes each year they are able to provide flexibility in start dates if needed.

Domestic Students and Compulsory Student services fees – Otago Polytechnic has seen an increase in requests for compassionate withdrawal and fees refunds during semester one 2020, due to the disruption to learners whilst in lockdown. Any revenue lost will be mitigated by an increase in enrolments in semester two due to a combination of increased unemployment and the introduction of the Targeted Training and Apprenticeship Fund. Current indications are that domestic student numbers for 2020 will be above our funding allocation and the original budget.

Student Accommodation Revenue – Te Pā Tauira remained open during the level 4 alert period, however the majority of the students chose to return home to their families during this time. Otago Polytechnic has issued 50% refunds for the time that these students were not staying at Te Pā Tauira.

Operating Expenses – Operating expenses have reduced during 2020, in particular due to savings in professional development and travel along with some rent relief provided during lockdown. Additionally discretionary expenditure has been cut to mitigate the impact of the reduced revenue from international students. There have not been any significant increases in operating expenditure due to COVID-19.

Valuation of Land and Buildings – A desktop exercise has been performed by Praveen Menon MPNZ, registered valuer, of Colliers International as at 31 March 2020 where it was determined there was no material change to the valuation of Otago Polytechnic's land and buildings. The impact of the COVID-19 pandemic on land and buildings valuations was considered by Praveen in reaching his opinion. He took into account the impacts of the pandemic on the regional economy and the inverse relationship between the economy and the performance of Polytechnic's. While the level of property transactions was significantly reduced during the level 4 lockdown, the OP assessment and that of the independent valuer is that there are sufficient mitigating regional and economic factors to underpin and support no material change in values of land and buildings.

Debtors – There has been no significant change to the debtors provision for impairment as the majority of students access Studylink to pay their fees or are eligible for government funded fees free. There has been no change to commercial debt payments.

Otago Polytechnic has completed a reforecast for 2020 and is now working to deliver on this. This includes managing and reducing operating costs where possible, maintaining cashflow by issuing credits rather than cash refunds, working closely with the bank and negotiating with landlords.

At this time it is difficult to determine the full effect of the COVID-19 pandemic, and there could be other matters that affect Otago Polytechnic.

18. COUNCILLOR FEES

The following fees were earned by members of the Council during the year:

	POLYTECHNIC AND GROUP 2020 $	2019 $
Jamie Adamson	2,853	16,120
Paul Allison	3,937	14,120
Neil Barns	3,937	14,120
Peter Coolbear	3,937	14,120
Kathy Grant	8,988	35,952
Mike Horne	0	4,280
Bill Moran	5,967	21,402
Megan Potiki	4,774	17,120
	34,393	**137,234**

19. CHILDCARE CENTRE

	POLYTECHNIC AND GROUP		
	Actual 2020 $000	Budget 2020 $000	Actual 2019 $000
Revenue			
Ministry grants	138	580	591
Guardians and Student income	80	330	363
Total Revenue	**218**	**910**	**954**
Expenditure			
Employment costs	193	733	777
Other Operating costs	28	110	113
Total Expenditure	**221**	**843**	**890**
Surplus/(Deficit)	**(3)**	**67**	**64**

The Childcare Centre is part of the provision of student and staff services. No capital charge has been applied by the Polytechnic to the Centre. The Statement of Financial Performance for the Childcare Centre has been extracted from the Statement of Financial Performance for Otago Polytechnic.

Statistics	2020 hours	2019 hours
Under two year olds	4,017	17,626
Two years old and over	5,083	23,212
Fees free fully funded 3 years and over	6,144	26,355

Enrolments remain high in both the under two and over two areas and funded hours show a slight increase compared to the same period in 2019.

Notes to the Financial Statements

for the period ended 31 March 2020

20. CAPITAL MANAGEMENT

The Polytechnic's capital is its equity which is comprised of retained earnings and reserves. Equity is represented by net assets.

The Polytechnic manages its revenues, expenses, assets, liabilities and general financial dealings prudently. The Polytechnic's equity is largely managed as a by-product of managing revenue, expenses, assets, liabilities and general financial dealings.

The objective of managing the Polytechnic's equity is to ensure that the Polytechnic effectively achieves its goals and objectives contained within its Investment Plan, whilst remaining a going concern.

21. EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Due to only a 3 month reporting period, numerous timing differences and unbudgeted PBE adjustments, the major variances to budget were not considered comparable or useful for analysis and as such were not disclosed.

22. EVENTS AFTER THE BALANCE SHEET DATE

Other than the ongoing development of the Covid-19 pandemic (see note 17 for detailed explanation) and the transition to Otago Polytechnic Limited on 1 April 2020 as detailed in note 2a, there were no further post balance date events.

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Otago Polytechnic and group's financial statements for the period 1 January 2020 to 31 March 2020.

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

Opinion

We have audited the financial statements of the Polytechnic and group on pages 6 to 32, which have been prepared on a disestablishment basis, that comprise the statement of financial position as at 31 March 2020, the statement of financial performance, statement of other comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the period ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Polytechnic and group on pages 6 to 32, which have been prepared on a disestablishment basis:

> present fairly, in all material respects:
  - the financial position as at 31 March 2020; and
  - the financial performance and cash flows for the period then ended; and

> comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Reporting Standards.

Our audit was completed on 17 September 2020. This is the date at which our opinion is expressed.

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

Emphasis of matters

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

The financial statements have been appropriately prepared on a disestablishment basis

Accounting policy 2a on page 12, which outlines that the financial statements have been prepared on a disestablishment basis. We consider the disestablishment basis to be appropriate because the Polytechnic ceased as an entity and its assets and liabilities were transferred to Otago Polytechnic Limited on 1 April 2020 as a result of the reform of the institutes of technology and polytechnics sector.

COVID-19

Note 17 on page 30 to the financial statements, discloses the impact of the COVID-19 pandemic on the Polytechnic and group. We draw specific attention to the following matter due to the significant level of uncertainty caused by the COVID-19 pandemic:

> **Investment in Otago Polytechnic Auckland International Campus (OPAIC) and related contingent liability**

Note 7 on page 22 and Note 15 on page 29 describe the significant uncertainties related to assessing any impairment of the Polytechnic's investment in the OPAIC joint venture and estimating the timing and amount of any payments required as guarantor of an OPAIC lease.

Basis for our opinion

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

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

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

Responsibilities of the Board for the financial statements

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

The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board's responsibilities arise from the Crown Entities Act 2004, the Education Act 1989 and The Education (Vocational Education and Training Reform) Amendment Act 2020.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

For the budget information reported in the financial statements, our procedures were limited to checking that the information agreed to the Polytechnic and group's investment plan.

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

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

> We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

> We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Polytechnic and group's internal control.

> We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.

> We conclude on the appropriateness of the use of the disestablishment basis of accounting by the Board.

> We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

> We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 2 to 3, but does not include the financial statements, and our auditor's report thereon.

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

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

Independence

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

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

John Mackey

Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand

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