FINANCIAL ACCOUNTING POLICY

Category	Finance
Policy Owner	Chief Financial Officer
Last review	1 July 2024
Next review	1 July 2029
Approved by	Executive Leadership Team
Effective date	1 July 2024

1. PURPOSE

To describe the accounting treatment in the preparation of the University's financial statements and to ensure comparability with the financial statements of other entities.

2. POLICY

The University's financial statements are to be prepared in accordance with the Financial Reporting Policy and as required by the Financial Accounting Policies set out below:

Revenue

Revenue is measured at fair value. The University recognises revenue from individual categories of transactions as follows:

Funding for delivery on the New Zealand Qualifications and Credentials Framework (NZQCF) (formerly SAC funding)
NZQCF-based delivery is the University's main source of operational funding from the Tertiary Education Commission (TEC). The University considers this funding to be nonexchange in nature and thus recognises it 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.

Fees-free funding
Fees-free funding from TEC is considered to be non-exchange in nature and is recognised as revenue when the course withdrawal date for an eligible student has passed. The University has presented funding received for fees-free as part of tuition fees. This is on the basis that receipts from the TEC are for payment on behalf of the student as specified in the relevant funding mechanism.

Domestic student tuition fees
Domestic student tuition fees are subsidised by government funding and are considered non-exchange in nature. Revenue is thus 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
International student tuition fees are treated as exchange transactions, and recognised as revenue on a course percentage of completion basis. The percentage of completion is measured by reference to the days of the course completed as a proportion of the total course days.

Performance-Based Research Fund (PBRF)
The University considers PBRF funding to be non-exchange in nature. PBRF funding is specifically identified by the TEC as being for a funding period as required by section 425 of the Education and Training Act 2020. The University recognises its confirmed allocation of PBRF funding at the commencement of the specified funding period, which is the same as the University's financial year. PBRF revenue is measured based on the University's funding entitlement adjusted for any expected adjustments as part of the final wash-up process. Indicative funding for future periods is not recognised until confirmed for that future period.

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

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

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

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

Trading revenue
Trading revenue includes revenue from the sales of goods and services, which is recognised when the product is sold to the customer, or the service provided.

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

Interest and dividends
Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. Interest revenue on financial assets classified as amortised cost or fair value through other comprehensive revenue and expense is accrued using the effective interest method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest revenue each period. This means interest is allocated at a constant rate of return over the expected life of the financial instrument based on the estimated cash flows. Interest revenue on financial assets classified as fair value through surplus or deficit is recognised as it accrues.

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

Operating leases

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings as current liabilities in the statement of financial position.

Receivables

Receivables are recorded at the amount due, less an allowance for expected credit losses (ECL). The University and the Consolidated Group apply the simplified ECL model of recognising lifetime expected credit losses for receivables.

In measuring expected credit losses, receivables have been grouped into trade receivables, and student fee receivables, and assessed on a collective basis as they possess shared credit risk characteristics. They have then been grouped based on the days past due. A provision matrix is then established based on the payment profile of receivables over the prior two years at the measurement date and the corresponding historical credit losses experienced for that period. The historical loss rates are adjusted for current and forward-looking macroeconomic factors that might affect the recoverability of receivables. Receivables are written-off when there is no reasonable expectation of recovery.

Financial assets

Financial assets are initially recognised at fair value. They are then classified as, and subsequently measured under, the following categories:
• amortised cost;
• fair value through other comprehensive revenue and expense (FVTOCRE); and
• fair value through surplus and deficit (FVTSD).

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

The classification of a financial asset depends on its cash flow characteristics and the University and the Consolidated group’s management model for managing them.

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

A financial asset is classified and subsequently measured at FVTOCRE if it gives rise to cash flows that are SPPI and held within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets that do not meet the criteria to be measured at amortised cost or FVTOCRE are subsequently measured at FVTSD. However, the University may elect at initial recognition to designate an equity investment not held for trading as subsequently measured at FVTOCRE.

Subsequent measurement of financial assets at amortised cost
Term deposits are initially measured at the amount invested and subsequently measured at amortised cost using the effective interest method, less any expected credit losses (ECL). Where applicable, interest accrued is added to the investment balance. A loss allowance for expected credit losses is recognised if the estimated loss allowance is not trivial.

Subsequent measurement of financial assets at FVTOCRE
Unlisted shares are irrevocably designated at FVTOCRE at initial recognition and subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense. These equity instruments are not subject to impairment assessments. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is transferred within equity to general reserve.

The University and the Consolidated group designate into this category all equity investments that are not held for trading as they are strategic investments that are intended to be held for the medium to long-term.

Subsequent measurement of financial assets at FVTSD
The managed fund is a portfolio of financial assets that are actively traded with the intention of making profits. Therefore, the managed fund is designated at FVTSD at initial recognition and subsequently measured at fair value with fair value gains and losses recognised in surplus or deficit. Interest revenue and dividends recognised from these financial assets are separately presented within revenue.

Expected credit loss allowance (ECL)
The University and the Consolidated group recognise an allowance for ECLs for all financial assets not classified as FVTSD. ECLs are the probability-weighted estimate of credit losses, measured at the present value of cash shortfalls, which is the difference between the cash flows due to University and the Consolidated group in accordance with the contract and the cash flows it expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

ECLs are recognised in two stages. ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). However, if there has been a significant increase in credit risk since initial recognition, the loss allowance is based on losses possible for the remaining life of the financial asset (Lifetime ECL).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the University and the Consolidated group consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the University and the Consolidated group's historical experience and informed credit assessment and including forward-looking information.

The University and the Consolidated group consider a financial asset to be in default when the financial asset is more than 90 days past due. The University and the Consolidated group may determine a default occurs prior to this if internal or external information indicates the entity is unlikely to pay its credit obligations in full.

Subsidiaries

The University consolidates in the consolidated financial statements those entities it controls. Control exists where the University 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 University. Investments in subsidiaries are measured at cost in the University's financial statements.

Associate

An associate is an entity over which the University has significant influence and that is neither a subsidiary nor an interest in a joint venture. Investment in associate is measured at cost in the University's financial statements. Investment in associate is accounted for in the consolidated financial statements using the equity method of accounting.

Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investment in joint ventures is measured at cost in the University's financial statements. Investment in joint venture is accounted for in the consolidated financial statements using the equity method of accounting.

Equity method of accounting in consolidated financial statements

Under the equity method of accounting, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the consolidated group's share of the change in net assets of the entity after the date of acquisition. The consolidated group's share of the surplus or deficit is recognised in the consolidated group surplus or deficit. Distributions received from the investee reduce the carrying amount of the investment in the consolidated financial statements.

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

Property, Plant and Equipment

Property, plant, and equipment consists of eleven asset classes: land, buildings, library collection, computers and electronic equipment, furniture and fittings, leasehold improvements, motor vehicles, office equipment, plant and equipment, speciality electronics and works of art.

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

Revaluations
Following initial recognition at cost, all land and buildings, whether owned by the Crown or purchased and built out of the University's reserves, are shown at fair value. Revaluation of land and buildings is carried out at least every three years by an independent Registered Valuer to ensure that their carrying amounts do not differ materially from fair values. The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from the assets' fair values at the balance date. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued.

Revaluation movements are accounted for on a class of asset basis. The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

Depreciation

Property, plant and equipment is depreciated using the straight-line method (except for motor vehicles, which uses the diminishing value method) to allocate cost or revalued amount to residual value over their estimated useful lives, as follows:

Buildings	20 - 50 years straight-line
Plant and equipment	5 - 20 years straight-line
Specialty electronics	6 years straight-line
Furniture and fittings	5 years straight-line
Leasehold improvements	5 years straight-line
Office equipment	5 years straight-line
Computers and electronic equipment	3 years straight-line
Motor vehicles	20% diminishing value

Land, works of art and work in progress are 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 sold, the amounts included in revaluation reserves in respect of those assets are transferred to general equity.

Work in progress

Work in progress is valued on the basis of expenditure incurred up to balance date. Financing costs have not been capitalised during the construction of assets. The total cost of a project is transferred to the relevant asset class on completion and is then depreciated.

Impairment of property, plant, and equipment

Property, plant, and equipment assets held at cost 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.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

Value in use for non-cash-generating assets

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return. For non-cash generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Intangible assets

Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and to bring the software to use. These costs are amortised on a straight-line basis over their estimated useful lives, being three years.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of identifiable and unique software controlled by the University, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives, being three years to seven years.

Programme development

Costs incurred on development of new academic programmes are capitalised to the extent that such costs are expected to be recovered. Capital costs are amortised from the commencement of a particular programme on a straight-line basis over the period of their expected benefits, being three years.

Impairment of intangible assets

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

For further details refer to the policy for impairment of property, plant, and equipment in Note 11. The same approach applies to the impairment of intangible assets

Payables

Short-term payables are measured at the amount payable.

Deferred revenue

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

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

Employee entitlements

Short-term employee entitlements

Employee benefits that are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date, sick leave and other employee entitlements.

Long-term employee entitlements
Employee benefits that are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, such as long service leave and retirement leave have been calculated on an actuarial basis. The calculations are based on:

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

Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of past events, when it is more likely than not that an outflow of resources will be required to settle the obligation, and when the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised in the surplus or deficit.

Finance leases

Leases where the University assumes substantially all the risks and rewards of ownership are classified as finance leases, whether or not title is eventually transferred.

Finance leases are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments, at inception of the lease, less accumulated depreciation and impairment losses. The corresponding liability to the lessor, net of finance charges, is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the surplus or deficit as finance costs.

Capitalised leased assets are depreciated over the estimated useful life of the asset or the lease term, whichever is shorter.

For a lease of land and buildings in which the minimum lease payments cannot be allocated reliably between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Derivative financial instruments

The University uses derivative financial instruments, such as interest rate swaps and forward foreign exchange contracts, to hedge its interest rate risks and foreign currency risks respectively. In accordance with its treasury policy, the University does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of interest rate swaps and forward foreign exchange contracts are determined by reference to market values for similar instruments.

For the purposes of hedge accounting, all the University's hedging instruments are designated as cash flow hedges. A cash flow hedge is defined as that which mitigates the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability, firm commitment, or highly probable forecast transaction, which could affect surplus or deficit. A cash flow hedge protects against the risk caused by variable prices, costs, rates or terms which cause uncertainty in the future.

The University documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instruments.

The University has interest rate risk resulting from its floating rate borrowings under its debt facility. The strategy for interest rate risk management is to minimise the uncertainty to cash flows arising from changes in interest rates.

The University enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities, and notional amount. The University policy is to not hedge 100% if its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, there is an economic relationship.

Hedge ineffectiveness for interest rate swaps is assessed using the hypothetical / matched terms method. Hedge ineffectiveness may occur due to:
- material changes in credit risks that affect the hedging instrument but do not affect the hedged item.
- drawn liabilities fall below the hedging amount, causing the hedge ratio to exceed 1:1.
- timing mismatch between hedging instrument and underlying hedged item.
- Non-zero value at inception.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in Other Comprehensive Revenue and Expense, within the Statement of Other Comprehensive Revenue and Expense and the ineffective portion is recognised immediately in the surplus or deficit as part of the finance costs.

The gain or loss accumulated in equity is recognised in the surplus or deficit when the hedged cash flows are settled.

Changes in the fair value of any derivative instrument that do not qualify for hedge accounting are recognised immediately in the surplus or deficit.

Borrowings

Borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction costs associated with the borrowings.

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

Gains or losses are recognised in the surplus or deficit when the liabilities are derecognised and through the amortisation process.

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

Equity

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

General Equity

- General reserve
- Research reinvestment reserve
- RGA carry-forward reserve

Revaluation Reserve

- Asset revaluation reserve
- Fair value through other comprehensive revenue and expense reserve
- Cash flow hedge reserve

Research reinvestment reserve

Research reinvestment reserve is a component of general equity which has been created by the University. The use of these funds is restricted to research activities.

RGA Carry-Forward reserve

RGA carry-forward reserve is a component of general equity which has been created from Revenue Generating Activities in the University. These funds can be used to achieve operational financial targets in the next two financial years.

Asset revaluation reserve

This reserve relates to the revaluation of land and buildings to fair value.

Fair value through other comprehensive revenue and expense reserve

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

Cash flow hedge reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of derivatives designated as cash flows hedges.

Foreign currency translation

Transactions in foreign currencies are translated to New Zealand dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. All foreign exchange differences arising on translation are recognised in the surplus or deficit.

Goods and Services Tax (GST)

Auckland University of Technology is a GST-registered entity as defined by the Goods and Services Act 1985. The Financial Statements have been prepared on a GST-exclusive basis with the exception of receivables and payables, which are stated GST inclusive. When GST is not recoverable on 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 at balance date is included as part of receivables or payables in the Statement of Financial Position.

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

Commitments and contingencies are disclosed exclusive of GST.

Income Tax

The University and its subsidiaries are exempt from the payment of income tax as they are treated by the Inland Revenue Department as charitable organisations for the purposes of the Income Tax Act. Accordingly, no provision for income tax has been made.

3. DEFINITIONS

University: means the Auckland University of Technology and includes all subsidiaries.

4. SCOPE

This policy applies to all financial accounting and disclosure requirements in the preparation of University's financial statements.

5. LEGISLATION AND COMPLIANCE

The University shall comply with all applicable New Zealand laws, legislation, and regulations.

See also the Register of Key Legislation.

6. RELATED DOCUMENTS AND PROCEDURES

Financial Reporting Policy

Accounts Receivable Policy

Financial Authorisations Procedures

7. DOCUMENT MANAGEMENT AND CONTROL

Policy Owner: Chief Financial Officer
Last review: 1 July 2024
Next review: 1 July 2029
Approved by: Executive Leadership Team
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