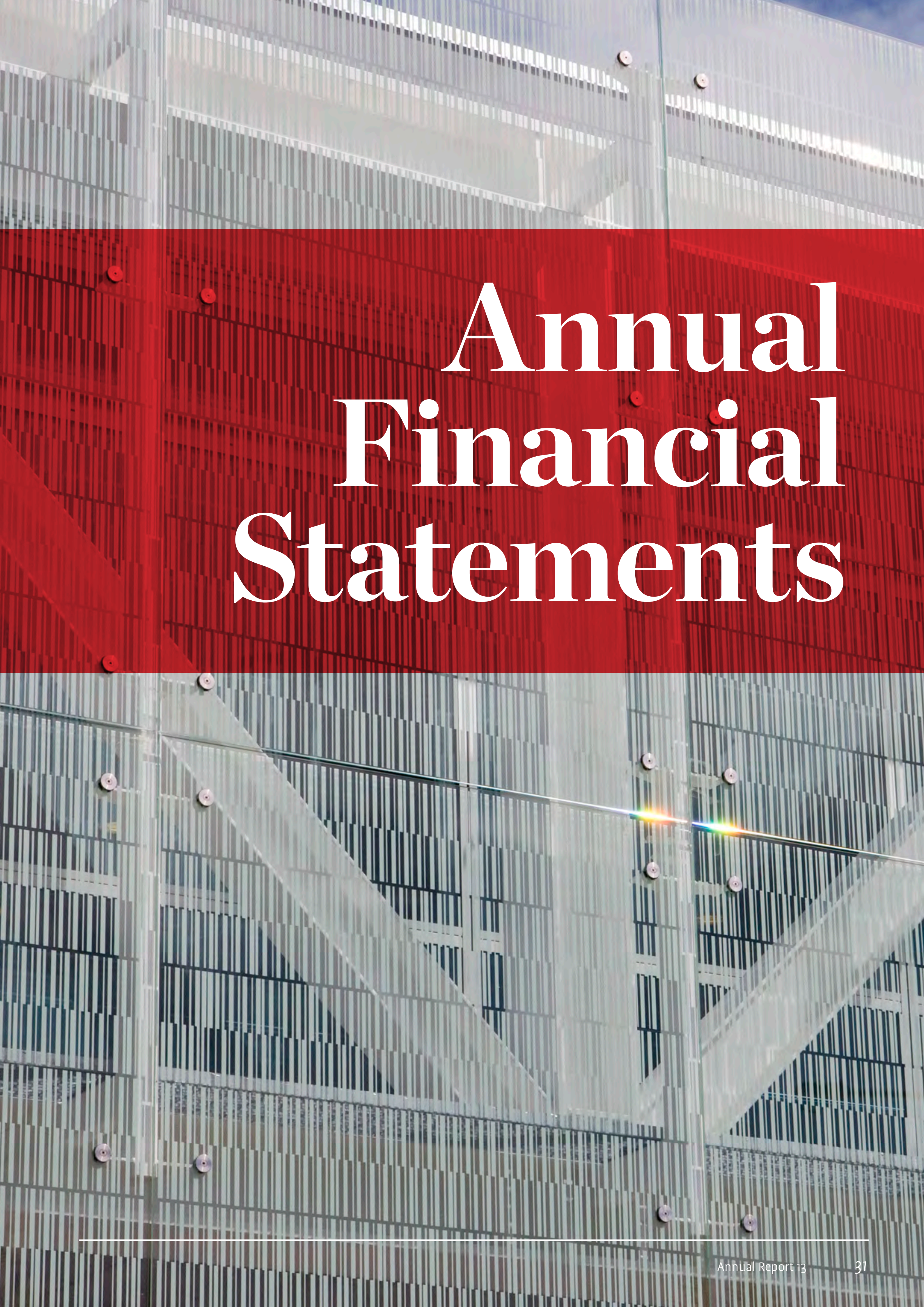

Annual Financial Statements

Statement of Accounting Policies

For the year ended 31 December 2013

REPORTING ENTITY

The University of Canterbury group (the UC group) is domiciled in New Zealand and consists primarily of the University of Canterbury (UC) and its main operating subsidiary Canterprise Limited (100% owned). Full details of the UC group are shown in note 9.

The University is a Tertiary Education Institution governed by the Crown Entities Act 2004 and the Education Act 1989.

The primary objective of the UC group is to provide education services for the benefit of the community, rather than make a financial return. Accordingly, the UC group has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS (PBE)).

These financial statements of the UC group are for the year ended 31 December 2013. The financial statements were authorised for issue by Council on 26 February 2014.

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

We draw attention to the accounting policy on the creation of the Te Pourewa settlement reserve as part of General Equity.

BASIS OF PREPARATION

Statement of compliance

The financial statements of the UC group have been prepared in accordance with the requirements of the Crown Entities Act 2004, Financial Reporting Act 1993 and the Education Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable financial reporting standards, as appropriate for public benefit entities.

These financial statements have been prepared under the going concern assumption. This is discussed further in Note 25.

Measurement base

The financial statements have been prepared on an historical cost basis, adjusted by the revaluation of certain assets and derivatives.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

Changes in accounting policies

There have been no changes in accounting policies in 2013.

Standards, amendments and interpretations issued that are not yet effective and have not been adopted early

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39.

The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit. The new standard is required to be adopted for the year ended 31 December 2015. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

New Accounting Standards framework

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, UC group is classified as a Tier 1 reporting entity and it will be required to apply full public sector Public Benefit Entity Accounting Standards (PAS).

The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. This means UC group will transition to the new standards in preparing its 31 December 2015 financial statements. The UC group has not assessed the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

SIGNIFICANT ACCOUNTING POLICIES

The following are the particular accounting policies that have a material effect on the measurement of financial performance and the financial position.

Basis of Consolidation

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

Subsidiaries

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

Investments in subsidiaries are carried at cost, less impairment, in UC's parent entity financial statements.

Revenue

Government grants are recognised as revenue on entitlement.

Student tuition fees are primarily recognised as revenue over the 12 month period of the financial year.

Research grants are recognised as revenue on a percentage of completion calculation, which is based on the proportion of costs incurred as a percentage of the total costs. Research grant revenue not expended is shown in the Statement of Financial Position as 'Funds Received in Advance'. Research grants that are milestone specific are treated as revenue as milestones are achieved.

Insurance reimbursements are recognised as revenue when the claimable expenditure is incurred. This expenditure is verified by the Marsh Risk Consulting forensic accounting team prior to submission to the insurer. Rejection rates to date have been insignificant. Further details on insurance receipts is included in Note 24.

Donations of money are recognised immediately as revenue unless a condition is attached. If a condition is attached it would be recognised as a liability until the condition is met, at which time it is recognised as revenue.

Donations of assets are recorded at fair value on receipt and recognised as revenue.

Reversionary interest income is recognised to reflect the Campus Living building assets, which will become UC group assets in 2040. The interest is calculated using the latest building valuation and a discounted cash flow methodology.

Revenue from sales of goods and services is recognised when the product is sold to the customer, or the service provided.

Derivative Financial Instruments

UC group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in Notes 16 and 17.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into, and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the surplus or deficit immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the surplus or deficit depends on the nature of the hedge relationship. UC group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge Accounting

UC group designates certain hedging instruments, which may include derivatives, embedded derivatives and non-derivatives in respect of foreign currency exchange risk and interest rate risk, as cash flow hedges. Hedges of foreign currency exchange risk on firm commitments, forecast transactions, and hedges of interest rate risk on future interest payments, are accounted for as cash flow hedges.

At the inception of the hedge relationship, UC group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the UC group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Note 17 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the Statement of Changes in Equity and in Note 18.

Cash flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the surplus or deficit, and is included in the other income or general expenditure line items.

Amounts recognised in the hedging reserve are reclassified from equity to the surplus or deficit (as a reclassification adjustment) in the periods when the hedged item is recognised in the surplus or deficit, in the same line as the recognised hedged item.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the hedging reserve are reclassified from equity and included in the initial measurement of the cost of the asset or liability (as a reclassification adjustment).

Hedge accounting is discontinued when the UC group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the surplus or deficit. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in the hedging reserve is recognised immediately in the surplus or deficit.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks and other short-term highly liquid cash investments with original maturities of three months or less from date of acquisition.

Trade and Other Receivables

Receivables are initially measured at fair value and then adjusted for amounts not considered recoverable.

All receivables are reviewed for recoverability. Receivables that are 180 days past due date are considered unrecoverable unless there is a clear agreement for repayment. Receivables over $1,000 that are 90–180 days overdue are also assessed for recoverability based on the type of debtor, relationship to the UC group, communications with the debtor and predicted chances of recovery and costs associated with recovery.

Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at cost (using the FIFO method), adjusted, when applicable, for any loss of service potential. Loss of service potential is assessed by physical inspection when stocktakes occur.

Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost (using the FIFO method) and net realisable value.

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

Any obsolete inventories have been written off.

Other Financial Assets and Liabilities

The UC group classifies its financial assets into the following three categories: financial assets at fair value through the surplus or deficit; loans and receivables; and financial assets at fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired. The UC group determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Other financial assets include term deposits with maturities greater than three months, classified as current where the remaining duration is less than 12 months, or non-current where the remaining duration is more than 12 months.

All financial assets and financial liabilities are initially recognised at fair value.

Further details of other financial assets and liabilities are included in Note 16.

Property Plant and Equipment

Land and Buildings

Land has been valued at fair value by CB Richard Ellis Limited as at 31 December 2013. The fair value of land is determined by reference to its highest and best use vacant, and then adjustments are made for possible legal impediments to achieving the fair market value. The fair value of land is normally determined from market based evidence and a discounted cash flow basis, with no optimisation process applied. As there is no sales based market evidence, the valuation is based on a discounted hypothetical development less allowances for legal impediments.

Buildings, on a component basis, have been valued by CB Richard Ellis Limited at depreciated replacement cost as at 31 December 2013, except where there exists a contestable market in which case a comparative sales or discounted cash flow approach is used. The valuation makes no adjustment for any contingent costs, associated with strengthening, for those buildings that have a seismic rating of less than 67% of the New Building Standard, or for any impairment.

The depreciated replacement cost methodology is based on the current gross replacement cost of buildings less allowances for physical deterioration, and optimisation for obsolescence and relative surplus capacity. The Buildings Valuation completed by CB Richard Ellis Limited has been modified by the University to allow for the impact of the Canterbury earthquakes. This is explained in Note 24.

Independent registered valuers undertake revaluations of Land and Buildings every three years, unless there is reason to suggest that values have changed materially in the intervening years, in which case a revaluation may be undertaken outside of the three year cycle, which is currently the case.

At 30 June 2013, UC group valued its Ilam Homestead property on a market value basis (previously depreciated replacement cost), as the nature of its use is changing to incorporate more commercial activity. The impact of this change is shown on the face of the Statement of Comprehensive Income. CB Richard Ellis Limited have confirmed that the valuation at 30 June 2013 remains valid for inclusion in the 31 December 2013 financial statements.

Additions to Land and Buildings subsequent to the date of valuation are recorded at cost. Where a Land and Building asset is acquired at no cost, or for a nominal cost, it is recognised at fair value at the date of acquisition.

Any gains or losses on disposal of Land or Buildings are determined by comparing the proceeds, if any, with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When re-valued assets are disposed of, the amounts included in the asset revaluation reserves in respect of those assets are transferred to General Equity.

Infrastructure Assets

Infrastructure Assets have been valued by AECOM as at 1 December 2011 at depreciated replacement cost.

Independent registered valuers undertake revaluations of Infrastructure Assets every three years, unless there is reason to suggest that values have changed materially in the intervening years, in which case a revaluation may be undertaken outside of the three year cycle.

Additions to Infrastructure Assets subsequent to the date of valuation are recorded at cost. Where an Infrastructure Asset is acquired at no cost, or for a nominal cost, it is recognised at fair value at the date of acquisition.

Any gains or losses on a disposal of Infrastructure Assets are determined by comparing the proceeds, if any, with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When re-valued assets are disposed of, the amounts included in the asset revaluation reserves in respect of those assets are transferred to General Equity.

Library

The Current Collection is valued at historical cost less depreciation.

The Permanent Collection was valued on a fair value basis as at 31 December 2013 by Jones Lang Lasalle Limited. The valuation was carried out in accordance with the University's Treasury valuation guidelines. Non-specialised assets have been valued at market value and specialised assets have been valued on a depreciated replacement cost basis. The Permanent Collection is revalued every three years by an independent registered valuer.

Donated books have been included at estimated market value.

Additions to Library Assets subsequent to the date of valuation are recorded at cost.

Any gains or losses on the disposal of Library Assets are determined by comparing the proceeds, if any, with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When re-valued assets are disposed of, the amounts included in the asset revaluation reserves in respect of those assets are transferred to General Equity.

Artworks/Medals/Logie Collection

Initial recognition of items in these collections is at cost. Where an item is acquired at no cost, or for a nominal cost, it is recognised at fair value at the date of acquisition. The collections are then revalued on the following cycle:

- Artworks are revalued on a three yearly cycle
- Medals are revalued on a five yearly cycle
- The Logie Collection is revalued on a five yearly cycle

Artwork fair value was determined by reference to market values for comparable works and the size and condition of the piece. They were not revalued at 31 December 2013. The specialised nature of these assets and the volume of artworks involved has meant that the valuation was unable to be completed before the finalisation of these financial statements. The last valuation performed was as at 31 December 2010. The carrying value of Artworks in these financial statements is $3.8 million, and indicative work on the major items in the collection does not indicate any significant movement since the previous valuation. The valuation will be completed in 2014 and included in the next year's results. All movements will flow through the revaluation reserves and will not affect the operating result.

Medals were valued at fair value by R. J Watt & Associates as at 18 December 2013. Fair value was determined by reference to the NZ market and, where appropriate, the global market adjusted for the condition of the medal, rarity and any premium associated with the recipient. The latter particularly applies to the Lord Rutherford medal collection.

The Logie Collection has been valued at the replacement cost by James Ede, Director of Charles Ede Limited in London, at the valuation date of 25 September 2012. James Ede has 30 years of commercial experience in Classical and Pre-Classical antiquities.

Medals, Artworks and the Logie Collection valuations are carried out by independent valuers.

Any gains or losses on the disposal of items in the Artworks collection, Medals collection, and the Logie Collection are determined by comparing the proceeds, if any, with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When revalued assets are disposed of, the amounts included in the asset revaluation reserves in respect of those assets are transferred to General Equity.

Plant and Equipment

Assets including plant, equipment, motor vehicles and furniture are recorded at cost less accumulated depreciation. Assets with a cost value lower than $2,500 are expensed on acquisition, with the exception of computers and data projectors, which are capitalised regardless of cost.

Additions to Plant and Equipment assets are recorded at cost. Where Plant and Equipment is acquired at no cost, or for a nominal cost, it is recognised at fair value at the date of acquisition.

Gains and losses on disposals of Plant and Equipment are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit.

Capital Work-in-Progress

Capital work-in-progress is valued on the basis of expenditure incurred and certified gross Progress Claim Certificates up to balance date. Work-in-progress is not depreciated. The total cost of a project is transferred to the relevant asset class on completion and then depreciated accordingly.

Course development and website costs

Course development costs are not capitalised. Any costs involved in the development of new courses are expensed in the year incurred. Website development costs are normally expensed unless the development has resulted in new functionality, in which case the cost is capitalised.

Intangible Assets

Software acquisition and development

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

Amortisation of Software

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

The useful lives of the UC group's software ranges from 3–10 years.

Accounting for Revaluations of Property Plant and Equipment

The UC group accounts for revaluations on a class of asset basis.

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

Impairment of Property Plant and Equipment

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, any impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus or deficit.

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

The reversal of any impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit, a reversal of the impairment loss is recognised first in the surplus or deficit.

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

Depreciation of Property Plant and Equipment

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

Buildings Components:	
Structure	1.25–2%
Building Services	2.50–6.70%
Fittings and Fit-out	4.00%
Furnishings (chattels)	5.00%
Infrastructure Assets	0.95%–33.3%
Other Plant and Equipment	6.7% to 33.3%

Leased Equipment	33.3%
Current Collection (Library)	10.00%

Artworks, Medals, Logie and the Permanent collections are not depreciated because they are maintained such that they have indefinite or sufficiently long useful lives that any depreciation is considered negligible.

Refer to "Change in Accounting Estimate" below for the change in depreciation rates in relation to the Current Collection (Library).

Leases

Finance Leases

Leases which effectively transfer substantially all the risks and benefits of ownership of the leased item are classified as finance leases. These are capitalised at the lower of the fair value of the asset and the present value of the minimum lease payments.

The leased assets and corresponding lease liabilities are recognised in the Statement of Financial Position. The leased assets are depreciated over the period of expected benefit from the asset's use on a straight line basis.

The finance charge is included in the surplus or deficit over the lease period so as to produce a constant periodic rate of interest.

Operating Leases

Leases that do not transfer the risks and rewards incidental to ownership are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

The UC group has entered into a 35 year lease of its student accommodation facilities with Campus Living Villages Limited. The majority of the lease rental was received in advance in 2005, and is being recognised as income, apportioned equally over the period of the lease.

The present value of the term receivable for the remaining interim and terminal lease payment from this transaction is reflected in non-current assets. The income received in advance is shown in current and non-current liabilities.

Provisions

Provisions are required for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event that makes it probable that expenditure will be required to settle the obligation. Provisions are only recognised when a reliable estimate can be made as to the amount of the obligation. Provisions are not made for future operating losses.

Employee Entitlements

Provision is made in respect of the UC group's liability for annual leave, long service leave, retirement leave, sick leave and earthquake related leave.

Annual leave which has vested in the employee (an entitlement has been established) has been measured at nominal value using remuneration rates current at reporting date. This provision is shown as a current liability.

Long Service leave for all eligible staff is equal to the present value of the estimated future cash flows as a result of employee service, as calculated at balance date by an independent actuary. The portion which has already vested in the employee (an entitlement has been established) is presented as a current liability using remuneration rates current at reporting date. The balance is shown as a non-current liability.

The retirement gratuity for all eligible staff is equal to the present value of the estimated future cash flows as a result of employee service, as calculated at balance date by an independent actuary. This provision is shown as a non-current liability, except for the estimated amount attributable to retirees for the following financial period — this is shown as a current liability.

Sick leave for all eligible staff is calculated at balance date by an independent actuary and is an actuarial function of the extent to which absences are expected to be greater than sick leave entitlements earned over the next 12 months and future years. The liability balance is split into a current and non-current portion.

Earthquake related leave is based on all continuing employees being eligible for a maximum of 15 days, from 1 August 2011, to be used before 31 December 2013. The provision allowed for assumes that the number of days taken will be dependent on estimated earthquake damage zones of an employee's residence. The value of this provision has been measured using remuneration rates current at reporting date.

This provision is shown as having terminated as at 31 December 2013.

Prior to 31 December 2013, the UC group announced that while the earthquake related leave benefit had been terminated, employees could still apply for discretionary leave where they were required to attend to earthquake related matters up to 31 December 2014. While remaining discretionary, UC group considers that there is sufficient probability that such leave will be applied for and granted that a new provision for this leave, based on previous earthquake leave taken, has been included in these financial statements. The calculation was performed by management with reference to published data of progress on earthquake damage repairs to residential property and to leave taken to date by UC staff relating to earthquake residential property damage.

The present value of long service, retirement and sick leave obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The key assumptions used in calculating this liability include the discount rate and the salary growth factor. Any changes in these assumptions will impact on the carrying amount of the liability. The valuation was carried out by an independent actuary, Eriksen & Associates Limited, as at 31 December 2013. They have based their valuation on the model recommended by Treasury for the reporting purposes of Crown Entities.

Superannuation

Defined Benefit Plan

The UC group is party to the Government Superannuation Fund (GSF) but has no underwriting responsibilities as any shortfall is met by the Government.

Insufficient information is available to use defined benefit accounting as it is not possible to determine from the terms of the scheme the extent to which the surplus or 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.

Defined Contribution Plan

Any superannuation defined contributions are undertaken and reflected as normal operating expenses and are included within both the surplus or deficit and Statement of Financial Position as appropriate.

Foreign Currencies

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ$ (the functional currency) using the exchange rates prevailing at the dates of the transactions.

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

Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the UC group has an unconditional right to defer settlement of liability for at least 12 months after balance date or if the borrowings are expected to be settled within 12 months of the balance date.

Borrowing Costs

The UC group has elected to defer the adoption of the revised NZ IAS 23 Borrowing Costs (Revised 2007) in accordance with the transitional provisions of NZ IAS 23 that are applicable to public benefit entities.

Consequently, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognised as an expense in the period in which they are incurred.

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of components. The components of equity are:

- general equity;
- general equity — Te Pourewa settlement reserve;
- general equity — student service levy capital reserve;
- cash flow hedge reserves;
- property revaluation reserves; and
- fair value through other comprehensive income reserves

General equity — Te Pourewa settlement reserve

This reserve has been created to acknowledge the University's undertakings to its insurers on receipt of the advance insurance settlement of $17.5 million. Principally, the University undertakes to replace the work space provided by the demolished Te Pourewa building as a new building or as part of a larger new building on another site owned by the University, yet to be determined. The reserve will be released back into general equity once this undertaking has been met.

General Equity — student service levy capital reserve

This reserve records the annual allocation of funding of capital items from the student services levy, which is shown as a transfer from general equity. As capital items are purchased, the corresponding balance is deducted from this reserve and transferred back to general equity.

Cash flow hedge reserves

These reserves relate to the movements of fair value of all foreign exchange forward contracts and interest rate swaps.

Property revaluation reserves

These reserves relate to the revaluation of building, land, library and collections to fair value. The Building Revaluation Reserve is currently nil due to significant impairment in 2011 as a result of earthquake damage.

Fair value through other comprehensive income reserves

These reserves comprises the cumulative net change in the fair value of "fair value through other comprehensive income" instruments.

Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of receivables and payables, which are stated GST inclusive. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense. GST owing to the Inland Revenue Department as at 31 December 2013 is included in Accounts Payable.

Taxation

The UC group is exempt from the payment of income tax as it is treated by the Inland Revenue Department as a charitable organisation. Accordingly, there is no provision for income tax.

Critical Accounting Estimates and Assumptions

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

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

Land and Buildings Valuations

The valuation from CB Richard Ellis Limited assumes that there were no physical consequences of the Canterbury earthquakes that had a detrimental effect on the value of the land and buildings. It also assumes there are no rectification costs which are not covered by insurance and hence no extraordinary costs that will warrant deductions from the valuation. UC has adjusted the valuation to allow for the decrease in value in the buildings asset as at 31 December 2013 for unremediated earthquake damage. Note 24 explains the rationale for this and the methodology used, and highlights risks that estimates of damage to buildings may be different from that reflected in these financial statements.

(a) **Land**

A key assumption of the land valuation was that an allowance was made to reflect the possible legal impediments to achieving the fair market value of the land's highest and best use. The assumption used was an extended realisation period for the disposal of property sections, yielding lower overall returns and resulting in a lower valuation than as at 31 December 2012.

(b) **Buildings at Depreciated Replacement Cost**

In performing depreciated replacement cost valuations with respect to buildings, estimates are made when determining the remaining useful lives over which the asset will be depreciated.

If useful lives do not reflect the actual consumption of the benefits of the asset, then the UC group could be over or underestimating the annual depreciation charge recognised as an expense in the surplus or deficit. The cost element is determined by indexing to building cost indices.

The valuation excludes any capitalisation for any borrowing costs that may have been incurred in the construction or acquisition of a component asset.

Adjustments have been made as appropriate to fairly reflect remaining lives by reference to physical condition and capital expenditure.

(c) **Residential Properties at Market Values**

The valuation of residential property owned by the UC group is based on market value. Market value is the estimated amount the property would sell for on the date of valuation, between a willing buyer and willing seller in an arm's length transaction, acting knowledgeably, prudently and without compulsion.

The market value methodology for residential properties takes into account recent sales of comparable properties.

(d) **Buildings at Market Value – Ilam Homestead**

The valuation of the Ilam Homestead is based on market value and is predicated on a standard commercial lease arrangement for a property of this type.

(e) **Campus Living Villages**

The valuation of land and improvements that are leased to Campus Living ignores the lease impediment and treats the valuation in the same fashion as the balance of the UC campus assets.

(f) **Dovedale Campu**s

The valuation merges the interests of the Crown and UC in respect of the Dovedale campus. The Government has indicated that ownership of this land is likely to be transferred to the University as part of the present Tertiary Education Commission (TEC) and Minsitry of education (MOE) asset transfer policy process.

Reversionary Interest

A reversionary interest amount is recognised representing the progressive recognition of the value of the Campus Living accommodation which reverts to UC ownership in 2040. The key assumption used in calculating this revenue is the discount rate at 7.0% (December 2012: 5.8%). Any changes in this rate will impact on the revenue recognised.

Long Service, Retirement Gratuity and Sick Leave

The estimates and uncertainties surrounding these valuations include an estimation of salary growth rate of 3.0%, resignation rates (as per Government Superannuation Fund), retirement rates (as per Government Superannuation Fund), and discounting rates based on the yields on Government Bonds (consistent with all entities that form part of the Crown's annual reporting).

Earthquake Leave and other leave provisions

Up until 31 December 2013, UC included a provision for earthquake leave. This provision was based on assumptions around earthquake leave pertaining to the number of employees in each zone and the number of earthquake leave days an employee is likely to use in each of those zones. The assumptions used apply:

- the full 15 days for the assumed percentage of employees in the red zone;
- 10 days for the assumed percentage of employees in the orange zone; and
- 5 days for the assumed percentage of employees in the green zone.

These percentages are then applied against remuneration rates, current at reporting date, for continuing employees. The provision was then reduced to take into account days used to 31 December 2013.

This leave provision expired at 31 December 2013, and the remaining balance has been written back to surplus.

UC has advised employees that discretionary leave to enable them to address earthquake-related matters can still be applied for through the normal processes up until 31 December 2014. UC considers this to be a tangible enough offer to recognise a reliably estimated provision of $750,000 in respect of this leave. The amount has been calculated based on:

- the amount of earthquake leave taken to date;
- the current stage of residential rebuild and repair in Christchurch, as advised by CERA; and
- discounted by 25% to reflect the likelihood that some work will still remain to be completed by the end of 2014.

Recognition of Insurance Reimbursements

Insurance Reimbursements have been recognised based on costs incurred to date in respect of both the Business Interruption and Material Damage claims. At this stage, no insurance reimbursements have been recognised for any loss of income with respect to the Business Interruption claim given the uncertainty surrounding this area and negotiations with the insurers are ongoing.

UC uses the forensic accounting and claims services of Marsh Risk Consulting to verify all claimed items prior to submission to the insurers, as a result the UC group is confident that any expenditure incurred (less insurance excess) will be successfully claimable from the insurers.

UC is in the early stages of the remediation programme, and negotiations with the insurers are also ongoing in this respect. During the year, estimates in repair costs have risen significantly, and further earthquake damage continues to be revealed. The UC group position in respect of the damage estimates is discussed more fully in Note 24, but UC's view is that there is insufficient evidence to recognise any potential future insurance reimbursements as revenue due to the inherent uncertainties in the estimation, together with unresolved negotiations with insurers over Business Interruption insurance.

Recognition of Impairments

UC has estimated the extent of damage to its buildings through the use of independent Quantity Surveyors, Davis Ogilvie and Partners Limited (2012: Rawlinsons). These estimates are based on the following:

- each building has been separately considered;
- historical data and experience gathered over the last three years of remediation work;
- no allowance has been made for cost escalation;
- allowances are included for professional fees, contractor's costs and contingencies where appropriate, using industry rates; and
- certain buildings have detailed information and reports while others have very limited information and where the estimates have been developed using the best information available for each building.

Impairment is discussed further in Note 24.

Change in Accounting Estimate

Current collection depreciation method

UC has historically depreciated its Library Current Collection on a diminishing value basis, varying from 6% to 15% across seven distinct categories.

As at 1 July 2012, UC determined that more reliable and relevant information will be provided by adopting a straight line depreciation method over a 10 year period, applied across the entire Current Collection. This more accurately reflects the useful life of a modern university library asset held across both written and electronic media, and where texts are increasingly of a multi-disciplinary nature.

This causes a slight variance when comparing amortization between the 2013 and 2012 years.

Current collection impairment

Subsequent to 30 June 2012, UC completed an analysis of its library stock that revealed usage of books after 10 years was negligible, and so that books older than 10 years had no value in use. Accordingly, the 31 December 2012 result included an impairment charge of $17.8 million relating to the Current Collection of Library books.

There is no such charge for the year ended 31 December 2013.

Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
OPERATING INCOME						
Government Grant		126,996	125,237	126,996	125,237	125,645
Performance Based Research Funding (PBRF)		24,566	26,284	24,566	26,284	26,502
Student Tuition Fees Domestic Fee Paying		57,478	59,580	57,478	59,580	60,859
Student Tuition Fees Full Fee Paying		18,371	19,159	18,371	19,159	20,150
Student Services Levy		7,611	7,369	7,611	7,369	8,290
Other Student Related Fees		734	756	734	756	841
Research Income		26,282	27,328	26,282	27,328	25,092
Interest Income		4,338	4,498	4,338	4,497	2,220
Other Income	1	15,113	23,031	15,521	22,174	15,784
Insurance Reimbursements	24	78,887	41,023	78,887	41,023	–
Increase in Revaluation of Buildings	8,24	65,229	34,256	65,229	34,256	–
TOTAL OPERATING INCOME		**425,605**	**368,521**	**426,013**	**367,663**	**285,383**
OPERATING EXPENDITURE						
Personnel Expenses	2	159,185	175,293	159,185	175,293	168,971
Site & Property Costs		10,076	10,567	10,076	10,567	10,894
General / Operating Expenditure	3	92,571	84,180	92,746	83,793	75,919
Finance Charges	4	3,913	4,054	3,913	4,054	3,802
Depreciation, Amortisation and Impairment	8	36,947	53,320	36,946	53,320	35,996
Increase in Impairment of Buildings	8,24	42,920	107,707	42,920	107,707	–
Ilam Homestead Revaluation Loss	26	3,666	–	3,666	–	–
TOTAL OPERATING EXPENDITURE		**349,278**	**435,121**	**349,452**	**434,734**	**295,582**
SURPLUS/(DEFICIT)		**76,328**	**(66,600)**	**76,562**	**(67,071)**	**(10,199)**
Other Comprehensive Income						
Movements in revaluation reserves relating to Library Permanent Collections	8	2,354	2,592	2,354	2,592	–
Movements in revaluation reserves relating to Land valuations	8	(10,795)	3,325	(10,795)	3,325	–
Net Movements in revaluation reserves	18	(8,441)	5,917	(8,441)	5,917	–
Effective portion of changes in fair value of cash flow hedges	18	3,225	(1,753)	3,225	(1,753)	–
Adjustments to Fair Value through Other Comprehensive Income Reserve to Net Surplus / (Deficit)	18	993	(175)	993	(175)	–
Total Other Comprehensive Income		(4,223)	3,989	(4,223)	3,989	–
TOTAL COMPREHENSIVE INCOME		**72,105**	**(62,611)**	**72,339**	**(63,082)**	**(10,199)**

The accompanying policies and notes form an integral part of these financial statements.

The surplus/(deficit) can be analysed as follows:

	Notes	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
Deficit from primary operations	**27**	(2,969)	(6,230)	(2,735)	(6,701)	(10,199)
Library impairment and change in depreciation rates	**27**	–	(20,039)	–	(20,039)	–
Campus rebuild costs, Science Lecture Theatre, Commerce and Te Pourewa demolition and write offs	**3**	(19,730)	–	(19,730)	–	–
Ilam Homestead Revaluation Loss	**26**	(3,666)	–	(3,666)	–	–
Insurance Reimbursements	**24**	78,887	41,023	78,887	41,023	–
Increase in Revaluation of Buildings	**8,24**	65,229	34,256	65,229	34,256	–
Increase in Impairment of Buildings	**8,24**	(42,920)	(107,707)	(42,920)	(107,707)	–
Leave provision adjustments	**15**	2,638	(290)	2,638	(290)	–
Increased costs of working	**24**	(1,142)	(7,613)	(1,142)	(7,613)	–
SURPLUS/(DEFICIT)		76,328	(66,600)	76,562	(67,071)	(10,199)

Further details on the impact of the earthquake and the rebuilding of the UC campus are included in the notes as indicated.

Statement of Changes in Equity

For the year ended 31 December 2013

	Notes	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
Balance at 1 January		522,100	584,711	521,793	584,875	593,039
Comprehensive income						
Surplus/(deficit)	**18**	76,328	(66,600)	76,562	(67,071)	(10,199)
Other comprehensive income	**18**	(4,223)	3,989	(4,223)	3,989	–
Total comprehensive income		72,105	(62,611)	72,339	(63,082)	(10,199)
Non Comprehensive income Items						
Contributions from the Crown	**18,25**	10,000	–	10,000	–	–
Total Non Comprehensive income Items		10,000	–	10,000	–	–
Balance as at period end		604,205	522,100	604,132	521,793	582,840

Significant variances to budget are explained in Note 26 EXPLANATIONS OF MAJOR VARIANCES AGAINST THE 2013 BUDGET
The accompanying policies and notes form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2013

	Notes	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
CURRENT ASSETS						
Cash and Cash Equivalents	5	65,648	17,688	65,583	17,629	36,643
Other Financial Assets / Short Term Deposits	16	5,299	57,665	5,299	57,665	–
Receivables	6	15,313	8,779	15,313	8,779	32,393
Prepayments		8,487	6,832	8,487	6,832	10,256
Inventories	7	1,391	1,437	1,391	1,437	1,466
Total Current Assets		96,138	92,401	96,073	92,342	80,758
LESS CURRENT LIABILITIES						
Funds Received in Advance	11	22,697	22,307	22,697	22,307	18,971
Accounts Payable	12	31,709	21,198	31,715	21,895	14,564
Current Loans & Leases	13	1,032	2,032	1,032	2,032	1,032
Philanthropic Bond	14	2,000	2,000	2,000	2,000	2,000
Current Provisions - Employee Entitlements	15	9,685	14,784	9,685	14,784	11,549
Total Current Liabilities		67,123	62,321	67,129	63,018	48,116
WORKING CAPITAL		**29,015**	**30,080**	**28,944**	**29,324**	**32,642**
NON CURRENT ASSETS						
Property, Plant and Equipment	8	551,310	515,287	551,308	515,284	630,676
Intangible Assets	8	3,717	5,548	3,717	5,548	–
Capital Work-in-Progress		91,420	65,783	91,420	65,783	–
Investments	9	745	1,060	745	1,510	1,501
Other Financial Assets / Long Term Deposits	16	17,500	–	17,500	–	–
Term – Receivable	10	1,641	1,533	1,641	1,533	14,687
Other Non Current Assets	10	5,078	6,743	5,078	6,743	4,337
Total Non Current Assets		671,411	595,954	671,409	596,402	651,201
NON CURRENT LIABILITIES						
Loans & Leases	13	928	1,960	928	1,960	928
Other Financial Liabilities	16	1,552	4,785	1,552	4,785	3,032
Philanthropic Bond	14	47,273	47,186	47,273	47,186	48,010
Term Provisions - Employee Entitlements	15	22,643	25,350	22,643	25,350	25,382
Term – Funds Received in Advance	11	23,825	24,653	23,825	24,653	23,651
Total Non Current Liabilities		96,221	103,934	96,221	103,934	101,003

Significant variances to budget are explained in Note 26 EXPLANATIONS OF MAJOR VARIANCES AGAINST THE 2013 BUDGET
The accompanying policies and notes form an integral part of these financial statements.

	Notes	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
NET ASSETS		**604,205**	**522,100**	**604,132**	**521,792**	**582,840**
Represented by:						
General Equity	18	470,494	401,376	470,421	401,068	462,137
General Equity – Te Pourewa Settlement Reserve	18	17,500	–	17,500	–	–
General Equity – Student Services Levy Capital Reserve	18	550	(250)	550	(250)	–
Revaluation Reserves	18,24	117,221	126,752	117,221	126,752	123,735
Cashflow Hedge Reserve	18	(1,560)	(4,785)	(1,560)	(4,785)	(3,032)
Fair Value Through Other Comprehensive Income Reserve	18	–	(993)	–	(993)	–
TOTAL EQUITY		**604,205**	**522,100**	**604,132**	**521,792**	**582,840**

Significant variances to budget are explained in Note 26 EXPLANATIONS OF MAJOR VARIANCES AGAINST THE 2013 BUDGET
The accompanying policies and notes form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
OPERATING ACTIVITIES						
Cash provided from:						
Government Grant		151,562	151,521	151,562	151,521	152,296
Tuition Fees		76,869	78,591	76,869	78,590	82,447
Other Income		51,563	58,473	51,286	58,198	52,123
Agency Funds		4,227	3,627	4,227	3,627	–
Interest Received		4,461	4,110	4,461	4,110	2,220
Earthquake Insurance Receipts		–	14,913	–	14,913	–
		288,682	311,235	288,405	310,959	289,086
Cash applied to:						
Personnel Expenses		166,427	173,052	166,427	173,052	168,129
Site & Property Expenses		9,837	10,609	9,837	10,609	10,894
General / Operating Expenses		77,764	77,295	77,492	77,012	84,151
Agency Funds		4,227	3,627	4,227	3,627	–
Interest Paid		3,794	3,935	3,794	3,935	3,960
Net GST Movement		1,720	(1,548)	1,721	(1,549)	(2,000)
		263,769	266,970	263,498	266,686	265,134
Net cash provided by Operating Activities	19	**24,912**	**44,265**	**24,906**	**44,273**	**23,952**
INVESTING ACTIVITIES						
Cash provided from:						
Proceeds from disposal of Fixed Assets		34	76	34	74	–
Earthquake Insurance Receipts		70,737	37,809	70,737	37,809	–
Maturity of Deposits with terms greater than 3 months but less than 12 months		57,665	28,000	57,665	28,000	–
		128,436	65,885	128,436	65,883	–
Cash applied to:						
Capital Expenditure		90,545	71,362	90,545	71,362	45,624
Deposits with terms greater than 3 months but less than 12 months		5,299	57,665	5,299	57,665	–
Deposits with terms greater than 12 months		17,500	–	17,500	–	–
		113,344	129,027	113,344	129,027	45,624
Net cash used in Investing Activities		**15,092**	**(63,142)**	**15,092**	**(63,144)**	**(45,624)**

	Notes	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
FINANCING ACTIVITIES						
Cash provided from:						
Capital Contribution from the Crown		10,000	–	10,000	–	–
		10,000	**–**	**10,000**	**–**	**–**
Cash applied to:						
Repayment of Loans		2,064	2,109	2,064	2,109	1,532
		2,064	**2,109**	**2,064**	**2,109**	**1,532**
Net cash provided by Financing Activities		**7,936**	**(2,109)**	**7,936**	**(2,109)**	**(1,532)**
Net increase (decrease) in cash held		47,940	(20,987)	47,934	(20,980)	(23,204)
Cash and Cash Equivalents on hand at beginning of period		17,688	38,572	17,629	38,506	59,847
Effects of exchange rate changes on the balance of cash held in foreign currencies		20	102	20	102	–
Cash and Cash Equivalents on hand at end of period		65,648	17,688	65,583	17,629	36,643
Represented by:						
Cash and Cash Equivalents		65,648	17,688	65,583	17,629	36,643
		65,648	**17,688**	**65,583**	**17,629**	**36,643**

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Significant variances to budget are explained in Note 26 EXPLANATIONS OF MAJOR VARIANCES AGAINST THE 2013 BUDGET

The accompanying policies and notes form an integral part of these financial statements.

Statement of Commitments

As at 31 December 2013

Capital Commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have been contracted for but not incurred at balance date. Capital commitments listed below represent contractual commitments.

Non-cancellable Operating Lease Commitments

The University leases property in the normal course of business. These leases are predominantly for premises which have non-cancellable leasing periods ranging from six months to 33 years. The leases have varying terms and renewal rights. There are no restrictions placed on the University by any of its leasing arrangements.

	2013 University & Group Actuals ($000's)	*2012 University & Group Actuals ($000's)*	*2013 University Actuals ($000's)*	*2012 University Actuals ($000's)*
Capital Commitments				
Not later than one year	6,579	25,889	6,579	25,889
Two to five years	120	5,021	120	5,021
Total Capital Commitments	6,699	30,910	6,699	30,910
Non-cancellable Operating Lease Commitments as Lessee				
Not later than one year	583	136	583	136
Two to five years	2,273	75	2,273	75
Later than five years	1,003	192	1,003	192
Total Non-cancellable Operating Lease Commitments	3,859	403	3,859	403
Non-cancellable Operating Lease Commitments as Lessor				
Not later than one year	1,618	868	1,618	868
Two to five years	4,763	3,470	4,763	3,470
Later than five years	19,263	21,183	19,263	21,183
Total Non-cancellable Operating Lease Commitments	25,644	25,521	25,644	25,521

The University entered into a 35 year lease arrangement with Campus Living Villages for the University's student accomodation in 2005. No contingent rents have been recognised in revenue during the year.

Statement of Contingencies

As at 31 December 2013

Earthquake and insurance related contingencies

As at 31 December 2013, UC has estimated the damage to buildings as a result of the earthquakes at $483 million (31 December 2012: $390 million). This estimate was prepared by Davis Ogilvie on behalf of UC (2012: prepared by Rawlinsons, who act as the quantity surveyors for the insurers' loss adjusters Cunningham Lindsey). This is the estimated cost of the damage to buildings only and does not reflect any cost that may be required to make buildings code compliant in order to get consent for remediation work or any costs for strengthening buildings to make them lower risk. The estimated cost of damage to buildings is based on reinstatement at 34% of the New Building Standard (NBS). This estimate commits neither UC nor the insurer in any negotiations regarding the insurance claim.

While the damage has been estimated to be $483 million, as work progresses and more information becomes available it is possible that more damage could be identified. Any damage identified relating to the September 2010, February 2011 or June 2011 earthquakes will be claimable on the University's insurance policy. However, the claim will be limited by the cap on the insured value of certain buildings and the overall cap of $550 million per event on the policy as a whole. Under the insurance policy in place from 1 December 2011, the University is responsible for excesses on any events, which range from $10 million to $20 million, dependent on who the reinsurer is. No claims have been made in 2013 under this policy.

UC has recognised as income an amount corresponding to the value of all expenditure to date on remediating this damage and payments for certain items under its business interruption insurance policies.

UC has a contingent asset for any future insurance claims in relation to the Canterbury earthquakes. These claims can only be made when there is a corresponding expenditure incurred in repairing the damage or acceptance and quantification of business interruption claims. In UC's view there is insufficient certainty to recognise any future insurance claims as revenue in 2013. Any claims are reliant on insurers acceptance of expenditure yet to be incurred.

There continues to be uncertainty as to whether the Christchurch City Council (CCC) as the territorial authority can require earthquake prone buildings to be strengthened to more than 34% of the NBS. The significance for UC is that the difference between 34% and 67% of NBS is estimated at approximately $15.8 million, of which a significant amount could be the insurers' responsibility. The original High Court ruling in favour of the Insurance Council indicated this was not within CCC's powers. A subsequent appeal in August 2013 led by UC received a similar ruling. A request for leave to appeal to the Supreme Court is being prepared.

This is a complex area of law and there is no certainty as to the timing of future judgements, any detailed rulings or any consequential financial effect. UC has no clear information on which to make an assessment as to whether there is any contingent asset or liability in respect of these court proceedings.

Other contingencies

UC has provided a bond of $30,000 to the NZX to secure amounts payable under the NZX Listing Rules for Debt-only Issuers Listed on the NZX Main Board. This bond is held by UC's bankers, ANZ.

UC has also provided a Carnet Indemnity for $42,000 to the Wellington Regional Chamber of Commerce for the export of a Formula 1 car to Australia for testing. This will expire in May 2014.

UC has no other contingent liabilities or assets at 31 December 2013 (2012 $nil).

Notes to the Financial Statements

For the year ended 31 December 2013

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
1 / Other Income					
Donations / Koha	135	372	135	372	20
Donations from Trusts	2,641	3,861	2,641	3,861	1,454
Rentals	2,747	2,706	2,747	2,706	2,863
External Sales	2,793	2,756	2,793	2,756	3,157
Consultancy	3,419	4,075	3,419	4,075	2,830
Membership Fees	718	1,174	718	1,174	854
Reversionary Interest	(1,665)	2,418	(1,665)	2,418	314
Dividends Received	–	–	684	–	–
Sundry Income	4,325	5,669	4,049	4,812	4,292
TOTAL OTHER INCOME	**15,113**	**23,031**	**15,521**	**22,174**	**15,784**
2 / Personnel Expenses					
Academic Salaries	77,635	79,766	77,635	79,766	79,080
General Salaries*	76,158	80,889	76,158	80,889	75,998
Superannuation Contributions	6,606	6,627	6,606	6,627	6,658
Councillors' Honoraria	75	72	75	72	140
Redundancy Costs	1,778	2,881	1,778	2,881	1,750
Actuarially Valued Employee Entitlements	(2,792)	3,420	(2,792)	3,420	–
Earthquake Leave Provision Used	(336)	(290)	(336)	(290)	–
Earthquake Leave Provision Released	(3,388)	–	(3,388)	–	–
Special Leave Provision	750	–	750	–	–
Other Salary Related Expenditure	2,699	1,928	2,699	1,928	5,345
TOTAL PERSONNEL EXPENSES	**159,185**	**175,293**	**159,185**	**175,293**	**168,971**
*The General Salaries classification includes Education Plus staff	**3,967**	**3,327**	**3,967**	**3,327**	**3,490**

	Note	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
3 / General / Operating Expenditure						
Audit New Zealand – External Financial Audit		189	186	189	186	204
Audit New Zealand – External Financial Audit Earthquake Related Issues		70	12	70	12	–
Audit New Zealand – External Financial Audit Subsidiaries		16	13	16	13	–
Audit New Zealand – Other Non Audit Work: Report to Bond Trustees and PBRF Certification		11	11	11	11	–
Bad Debts Written Off		73	185	73	185	5
Promotional Activities, Compensation Grants and Refunds		1,171	1,136	1,171	1,136	1,451
Direct Academic Costs		7,072	8,011	7,072	8,011	7,623
Equipment Rentals		240	1,066	240	1,066	323
Exchange Losses		51	278	51	278	–
Insurance		3,512	6,667	3,512	6,667	3,309
Increase / (Decrease) in Provision for Doubtful Debts		276	(16)	276	(16)	34
Loss on Disposal of Property, Plant & Equipment		676	2,189	676	2,189	–
Demolition Costs		5,542	–	5,542	–	–
Building Write offs		14,188	–	14,188	–	–
Student Association Service Provision		2,065	2,312	2,065	2,312	2,089
Movement in Inventories		47	206	47	206	–
Travel and Conference Costs		6,845	7,395	6,845	7,395	7,623
Scholarships & Prizes		20,620	20,437	20,620	20,437	19,799
Publications/Electronic Data purchased		3,256	2,975	3,256	2,975	3,134
Other General/Operating Costs		26,651	31,117	26,826	30,730	30,325
TOTAL GENERAL / OPERATING EXPENDITURE		**92,571**	**84,180**	**92,746**	**83,793**	**75,919**
4 / Finance Charges						
Finance Charges – Interest Paid		3,766	3,768	3,766	3,768	3,655
Finance Charges – Interest on Finance Leases	13	147	286	147	286	147
TOTAL FINANCE CHARGES		3,913	4,054	3,913	4,054	3,802
5 / Cash and Cash Equivalents						
Cash at bank and in hand		65,648	17,688	65,583	17,629	36,643
TOTAL CASH AND CASH EQUIVALENTS		**65,648**	**17,688**	**65,583**	**17,629**	**36,643**

The weighted average interest rate as at 31 December 2013 is 3.71% (31 December 2012 is 3.69%).
The carrying amount approximates the fair value.

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
6 / Receivables					
Trade Receivables	5,919	6,396	5,919	6,396	5,707
Provision for Doubtful Debts	(502)	(226)	(502)	(226)	(100)
Other Receivables	9,896	2,609	9,896	2,609	26,786
TOTAL RECEIVABLES	**15,313**	**8,779**	**15,313**	**8,779**	**32,393**

The carrying value of Trade Receivables and Other Receivables approximates their fair value.
There is no concentration of credit risk with respect to Trade Receivables as the balances are made up of a large number of customers.

As at 31 December 2013 and 2012, overdue receivables have been assessed for impairment and appropriate provisions applied as detailed below:

	Dec 2013 Actuals ($000's)			*Dec 2012 Actuals ($000's)*		
	Gross	Impairment	Net	Gross	Impairment	Net
University						
Not past due	3,620	–	3,620	4,018	–	4,018
1–30 Days Past Due	1,436	–	1,436	936	–	936
31–60 Days Past Due	155	–	155	384	–	384
61–90 Days Past Due	61	–	61	334	–	334
Greater than 91 Days Past Due	647	(502)	145	723	(226)	497
	5,919	(502)	5,417	6,396	(226)	6,170

	Dec 2013 Actuals ($000's)			*Dec 2012 Actuals ($000's)*		
	Gross	Impairment	Net	Gross	Impairment	Net
University & Group						
Not past due	3,620	–	3,620	4,018	–	4,018
1–30 Days Past Due	1,436	–	1,436	936	–	936
31–60 Days Past Due	155	–	155	384	–	384
61–90 Days Past Due	61	–	61	334	–	334
Greater than 91 Days Past Due	647	(502)	145	723	(226)	497
	5,919	(502)	5,417	6,396	(226)	6,170

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
7 / Inventories					
Held for distribution					
Materials and consumables	1,155	1,179	1,155	1,179	1,466
Commercial inventory					
Canterbury University Press	227	249	227	249	–
Other	9	9	9	9	–
Total Inventory	1,391	1,437	1,391	1,437	1,466

The write-down of inventories held for distribution or consumption amounted to $nil as at 31 December 2013 ($nil as at 31 December 2012).
No inventories are pledged as security for liabilities.

8 / Property Plant and Equipment and Intangibles

	COST / VALN DEC 11 ($000's)	ACCUM DEPN & AMORTISATION DEC 11 ($000's)	NET BOOK VALUE DEC 11 ($000's)	CURRENT YEAR ADDITIONS DEC 12 ($000's)	CURRENT YEAR DISPOSALS COST DEC 12 ($000's)	CURRENT YEAR DISPOSALS ACCUM DEPN DEC 12 ($000's)	CURRENT YEAR DEPN & AMORTISATION DEC 12 ($000's)	CURRENT YEAR REVALUATION MOVEMENTS DEC 12 ($000's)	CURRENT YEAR REVALUATION ACCUM DEPN DEC 12($000's)	CURRENT YEAR IMPAIRMENT MOVEMENTS DEC 12 ($000's)	COST / VALN DEC 12 ($000's)	ACCUM DEPN & AMORTISATION DEC 12 ($000's)	NET BOOK VALUE DEC 12 ($000's)
UNIVERSITY & GROUP													
Land at Valuation	96,760	–	96,760	–	–	–	–	3,325	–	–	100,085	–	100,085
Buildings at Valuation	352,031	(8,965)	343,064	32,150	–	–	(14,825)	10,464	23,790	(107,707)	286,937	–	286,937
Infrastructure Assets	22,984	(66)	22,918	368	–	–	(894)	–	–	–	23,352	(959)	22,393
Plant & Equipment at Cost	110,830	(76,115)	34,716	9,107	(9,759)	9,590	(8,409)	–	–	–	110,178	(74,934)	35,241
Leased Equipment at Cost	11,055	(4,770)	6,285	–	–	–	(2,585)	–	–	–	11,055	(7,355)	3,700
Library (Current Collection) at Cost	102,862	(56,236)	46,627	3,645	(4,108)	2,031	(6,784)	–	–	(17,818)	84,581	(60,989)	23,593
Library (Permanent Collection) / Other Collections at Valuation	40,383	–	40,383	361	–	–	–	2,591	–	–	43,335	–	43,335
Intangible Assets – Software	16,795	(11,030)	5,765	1,809	(20)	–	(2,006)	–	–	–	18,584	(13,036)	5,548
TOTAL UNIVERSITY PROPERTY PLANT & EQUIPMENT AND INTANGIBLES	**753,700**	**(157,182)**	**596,518**	**47,440**	**(13,887)**	**11,621**	**(35,502)**	**16,380**	**23,790**	**(125,525)**	**678,107**	**(157,273)**	**520,832**

	COST / VALN DEC 12 ($000's)	ACCUM DEPN & AMORTISATION DEC 12 ($000's)	NET BOOK VALUE DEC 12 ($000's)	CURRENT YEAR ADDITIONS DEC 13 ($000's)	CURRENT YEAR DISPOSALS COST DEC 13 ($000's)	CURRENT YEAR DISPOSALS ACCUM DEPN DEC 13 ($000's)	CURRENT YEAR DEPN & AMORTISATION DEC 13 ($000's)	CURRENT YEAR REVALUATION MOVEMENTS DEC 13 ($000's)	CURRENT YEAR REVALUATION ACCUM DEPN DEC 13 ($000's)	CURRENT YEAR IMPAIRMENT MOVEMENTS DEC 13 ($000's)	COST / VALN DEC 13 ($000's)	ACCUM DEPN & AMORTISATION DEC 13 ($000's)	NET BOOK VALUE DEC 13 ($000's)
UNIVERSITY & GROUP													
Land at Valuation	100,085	–	100,085	–	–	–	–	(10,795)	–	–	89,290	–	89,290
Buildings at Valuation	286,937	–	286,937	59,878	(14,721)	535	(17,596)	48,168	17,061	(42,920)	337,341	–	337,341
Infrastructure Assets	23,352	(959)	22,393	1,077	–	–	(961)	–	–	–	24,429	(1,920)	22,509
Plant & Equipment at Cost	110,178	(74,934)	35,241	7,576	(4,544)	4,508	(8,215)	–	–	–	113,210	(78,641)	34,569
Leased Equipment at Cost	11,055	(7,355)	3,700	–	(5)	5	(2,467)	–	–	–	11,050	(9,817)	1,233
Library (Current Collection) at Cost	84,581	(60,989)	23,593	3,437	(1,111)	1,111	(5,667)	–	–	–	86,907	(65,546)	21,361
Library (Permanent Collection) / Other Collections at Valuation	43,335	–	43,335	45	(726)	–	–	2,354	–	–	45,008	–	45,008
Intangible Assets – Software	18,584	(13,036)	5,548	210	–	–	(2,041)	–	–	–	18,794	(15,077)	3,717
TOTAL UNIVERSITY PROPERTY PLANT & EQUIPMENT AND INTANGIBLES	**678,107**	**(157,273)**	**520,832**	**72,222**	**(21,107)**	**6,159**	**(36,947)**	**39,727**	**17,061**	**(42,920)**	**726,028**	**(171,001)**	**555,027**

8 / Property Plant and Equipment and Intangibles (continued)

As a result of the merger with the Christchurch College of Education, the University occupies land and buildings at Solway Ave, Christchurch. The Crown has legal title of the land and a portion of the buildings. However, the University has 'in substance' ownership of the land and buildings and reports these assets as if owned by the University.

The University has a 99 year lease of this land and buildings at a peppercorn rent, subject to the rights of renewal being exercised.

There are no restrictions over the title of the University's Property Plant and Equipment or Intangibles, nor are any pledged as security for liabilities. See the accounting policies for further critical accounting assumptions regarding Land and Buildings.

Included in the "Library/Other Collections at Valuation" line item are the University's Art Work Collections, Medal Collection and Logie Collection.

The Logie Collection was revalued 25 September 2012 by James Ede of Charles Ede Limited.

The Medal Collection was revalued 18 December 2013 by R J Watt and Associates, independent valuers.

The Art Collection was revalued 31 December 2010 by Neil Roberts, independent valuer.

The Library Permanent Collection, included in the Library/Other Collections at Valuation category, was revalued at 30 December 2013 by Basil J Roberts, registered Plant and Machinery Valuer of Jones Lang LaSalle Limited.

Land and Buildings were revalued at 31 December 2013 by Chris Barraclough, Registered Valuer of CBRE, Christchurch.

Infrastructure Assets at Valuation have been established as a separate category within Plant, Property and Equipment, and revalued by AECOM New Zealand Limited as at 1 December 2011.

9 / Investments

	2013 University & Group Actuals ($000's)	*2012 University & Group Actuals ($000's)*	*2013 University Actuals ($000's)*	*2012 University Actuals ($000's)*	*2013 University Budget ($000's)*
Investment Category					
Investments at Cost, less any Impairment					
Investment in Canterprise Limited	–	–	–	450	150
Investments at Fair Value through other Comprehensive Income					
Investment in South African Large Telescope (SALT)	725	918	725	918	968
Investment in New Zealand Synchrotron Group Limited	20	142	20	142	383
TOTAL INVESTMENTS	**745**	**1,060**	**745**	**1,510**	**1,501**

Canterprise Limited is registered under the Companies Act 1993 and is a wholly owned subsidiary of the University of Canterbury.

Canterprise Limited is a non trading entity which owns the University's residual interest in intellectual property.

During the year, the University's investment in Canterprise Limited was written down to $nil.

The South African Large Telescope Foundation is a collaboration of various universities and research organisations, to design, construct and operate a 10 metre telescope for the advancement of science and the promotion of astronomy and astrophysics.

The New Zealand Synchrotron Group Limited is made up of seven universities and currently four Crown Research Institutes.

The New Zealand Synchrotron Group Limited invests as a shareholder in Australian Synchrotron Holding Company, and in return receives access rights to usage of the Synchrotron Instrument.

The University also has investments of minimal or nil value as follows:

Name	**Percentage Held**
Canterprise Nominees Limited	100%
Canterprise Trustees (No.2)	100%
Canterprise Trustees Arcactive Limited	100%
Entre Limited	100%
UC International College Limited	100%
Geospatial Research Centre (NZ) Limited	30%
Kiwi Innovation Network Limited	11%
Powerhouse Ventures Limited	13%
Stratified Concrete Technologies Limited	15%
Structural Timber Innovation Company Limited	7%
Te Tapuae O Rehua Limited	17%
WQI Limited	3%

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)

10 / Term Receivable and Other Non Current Assets

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
Insurance – Term Receivable	–	–	–	–	13,000
Campus Living Villages – Term Receivable	1,641	1,533	1,641	1,533	1,687
	1,641	1,533	1,641	1,533	14,687
Other non current assets					
Reversionary interest	5,078	6,743	5,078	6,743	4,337
	5,078	6,743	5,078	6,743	4,337

Campus Living Villages – Term Receivable

In December 2005, the University entered into a 35 year arrangement to lease the student accommodation facilities to Campus Living Villages (CLV) for $35 million.

A portion of revenue was received in advance ($28 million) for the current facilities and is being spread over the term of the lease on a straight line basis (Note 11).

The term receivable represents the present value of the amount still owing by CLV. This amount will increase over the term of the lease until payments are made by CLV.

Reversionary Interest

In line with the CLV lease agreement, additional buildings have been constructed at Campus Living's cost. Ownership of these buildings will revert to the University at the end of the lease.

The reversionary interest represents the value of the University's interest in these buildings, which will generally increase over time, dependant on the discount rate used and the valuation of the buildings, and is valued on a present value basis.

The increase in the discount rate in 2013, which is based on the 10 year government bond yield, has resulted in the reduction of the reversionary interest in the buildings for the year.

11 / Funds Received in Advance

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
Current Funds Received in Advance					
Student Fees	5,425	5,400	5,425	5,400	6,839
Insurance Receipts	–	619	–	619	–
Research Income	14,175	13,265	14,175	13,265	9,858
Future minimum operating lease revenue not later than one year	868	868	868	868	868
Other	2,229	2,155	2,229	2,155	1,406
	22,697	22,307	22,697	22,307	18,971
Term – Funds Received in Advance					
Future minimum operating lease revenue:					
Later than one year and not later than five years	3,471	3,470	3,471	3,470	3,472
Later than five years	20,354	21,183	20,354	21,183	20,179
	23,825	24,653	23,825	24,653	23,651
TOTAL FUNDS RECEIVED IN ADVANCE	**46,522**	**46,960**	**46,522**	**46,960**	**42,622**

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
12 / Accounts Payable					
Trade Payables	13,931	3,908	13,931	3,908	5,763
Other Payables	17,778	17,291	17,784	17,987	8,801
TOTAL ACCOUNTS PAYABLE	**31,709**	**21,199**	**31,715**	**21,895**	**14,564**

Trade Payables and Other Payables are non–interest bearing and are normally settled on 30–day terms, therefore their carrying value approximates to their fair value.

13 / Loans and Leases

Current Loans and Leases					
Sonoda Gakuen Corporation of Japan Loan	32	32	32	32	32
Finance Leases	1,000	2,000	1,000	2,000	1,000
	1,032	2,032	1,032	2,032	1,032
Non current Loans and Leases					
Sonoda Gakuen Corporation of Japan Loan	928	960	928	960	928
Finance Leases	–	1,000	–	1,000	–
	928	1,960	928	1,960	928
TOTAL LOANS AND LEASES	**1,960**	**3,992**	**1,960**	**3,992**	**1,960**

The University operates a purchasing card facility and had a credit limit of $11 million as at 31 December 2013 (31 December 2012: $11 million).

Sonoda Gakuen Corporation of Japan advanced $1.6 million in March 1992 to assist with the funding of the construction of the Sonoda Christchurch Campus.

The loan is for a term of 50 years at an interest rate of 3% per annum.

The carrying amount for loans and leases approximates their fair value.

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
ANALYSIS OF LOAN AND LEASE LIABILITIES					
Analysis of Loan Liabilities					
Within one year	32	32	32	32	32
One – five years	128	128	128	128	128
Greater than five years	800	832	800	832	800
	960	992	960	992	960
ANALYSIS OF FINANCE LEASE LIABILITIES					
Total minimum lease payments that are payable					
Within one year	1,025	2,147	1,025	2,147	1,024
One – five years	–	1,025	–	1,025	–
Total minimum lease payments	1,025	3,172	1,025	3,172	1,024
Future finance charges	(25)	(172)	(25)	(172)	(24)
Present value of minimum lease payments	1,000	3,000	1,000	3,000	1,000
Present value of minimum lease payments that are payable					
Within one year	1,000	2,000	1,000	2,000	1,000
One – five years	–	1,000	–	1,000	–
Total	1,000	3,000	1,000	3,000	1,000

The University has entered into finance leases for various items of equipment.

The finance leases can be renewed at the University's option but given the type of equipment leased it is more likely a new lease would be entered into for different equipment.

The finance lease for the NeSI High Performance Computer is lease to own.

There are no restrictions placed on the University by any of the finance leasing arrangements.

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
14 / Philanthropic Bond					
Philanthropic Bond – Current	2,000	2,000	2,000	2,000	2,000
Philanthropic Bond – Long Term	47,978	48,010	47,978	48,010	48,010
Capitalised bond issue costs	(705)	(824)	(705)	(824)	–
	47,273	47,186	47,273	47,186	48,010
	49,273	49,186	49,273	49,186	50,010

In 2009, the University successfully launched a $50 million, 10 year, fixed rate, unsubordinated, unsecured Bond at an interest rate of 7.25% per annum fixed for five years, reset for a further five years at a 1.75% margin over the then prevailing five year swap rate. The issue was fully subscribed at an issue price of $1 per Bond with a maturity date of 15 December 2019.

The Bond is a philanthropic bond which gives the bond holder the ability to donate either the principal or interest or both throughout the 10 year period of the bond.

Principal donated will be irrevocable, but donations of interest are revocable by the bond holder interest period to interest period.

Any donations received by the Philanthropic Bond Trust must be used for advancing and promoting the University's capital works programme.

On 29 November 2012, an amendment to the Bond Deed was made to limit the amount of donations, immediately payable to UC Foundation, within a rolling 12 month period at $2 million.

This portion of the Bond is regarded as a Current Liability and disclosed separately on the face of the Statement of Financial Position.

Capitalised bond issue costs

Expenses incurred in the issue of the 10 year Fixed Rate Unsubordinated Unsecured Philanthropic Bond were capitalised and are being amortised over the period of the bond.

Bond Covenants

The Bond trust deed requires the University to ensure that the following financial covenant ratios are achieved during the year:

- Secured debt will not exceed 5% of the aggregate of debt plus equity
- Debt will not exceed 25% of the aggregate of debt plus equity

Ministry of Education Borrowing Covenants

A letter was received from the Ministry of Education on 2 December 2013 stating that the existing interim covenants will be extended to 1 January 2015.

The covenants require that UC maintains a minimum cash level of $25 million at the end of every month, and provides TEC with all papers from Council, Audit and Risk Committee and Finance, Planning and Resourcing Committee meetings.

All Bond covenants and related MOE borrowing covenants were complied with for the 2013 year.

Fair value of the bonds as at 31 December 2013 was $50.9 million (31 December 2012: $51.0 million). The fair values of the bonds are determined by reference to the quoted market price on the NZDX at 31 December.

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
15 / Employee Entitlements					
Sick Leave	671	824	671	824	802
Annual Leave	5,977	7,492	5,977	7,492	8,863
Long Service Leave	1,414	1,577	1,414	1,577	1,561
Earthquake Leave[1]	–	3,724	–	3,724	–
Special Leave	750	–	750	–	–
Retirement Leave	23,083	25,427	23,083	25,427	25,705
Total	31,895	39,044	31,895	39,044	36,931
Redundancy Provision[2]	433	1,090	433	1,090	–
Total Employee Entitlements	32,328	40,134	32,328	40,134	36,931
Made up of:					
Current	9,685	14,784	9,685	14,784	11,549
Non Current	22,643	25,350	22,643	25,350	25,382
Total	32,328	40,134	32,328	40,134	36,931

[1]Earthquake Leave – University & Group

Earthquake Leave Opening Balance	3,724	4,014
Provision made	–	–
Amounts used	(336)	(290)
Provision released	(3,388)	–
Earthquake Leave Closing Balance	–	3,724

The Earthquake Leave provision was created to support staff post-earthquake, to attend to personal earthquake-related matters such as dealing with EQC, insurance companies and other external agencies.

[2]Redundancy Provision – University & Group

Redundancy Provision Opening Balance	1,090	1,104
Provision made	433	1,125
Amounts used	(1,090)	(1,139)
Redundancy Provision Closing Balance	433	1,090

The Redundancy Provision was created for confirmed redundancies at year end.

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)

16 / Other Financial Assets and Liabilities

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
Other Financial Assets/Term Deposits					
Short-term deposits with maturities over 3 months but less than 12 months from date of acquisition	5,299	57,665	5,299	57,665	–
Long-term deposits with maturities greater than 12 months from date of inception	17,500	–	17,500	–	–
	22,799	57,665	22,799	57,665	–
Other Financial Liabilities					
Derivative Financial Instrument Liabilities					
Foreign Currency Derivative	–	–	–	–	–
Interest Rate Swap Derivative	1,552	4,785	1,552	4,785	3,032
	1,552	4,785	1,552	4,785	3,032

17 / Financial Instruments

The accounting policies for financial instruments have been applied to the line items below:

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
FINANCIAL ASSETS					
Loans and Receivables					
Cash and Cash Equivalents	65,648	17,688	65,583	17,629	36,643
Receivables	15,313	8,779	15,313	8,779	32,393
Other Financial Assets	22,799	57,665	22,799	57,665	–
Term Receivable	1,641	1,533	1,641	1,533	14,687
Total Loans and Receivables	105,401	85,665	105,336	85,606	83,723
Fair value through other Comprehensive Income					
Investments	745	1,060	745	1,510	1,501
Total fair value through other Comprehensive Income	745	1,060	745	1,510	1,501
FINANCIAL LIABILITIES					
Financial Liabilities at amortised cost					
Accounts payable	31,709	21,199	31,715	21,895	14,564
Sonoda Gakuen Corporation of Japan Loan	960	992	960	992	960
Philanthropic Bond	49,273	49,186	49,273	49,186	50,010
Total Financial Liabilities at Amortised Cost	81,942	71,377	81,948	72,073	65,534
Fair value through other Comprehensive Income					
Foreign Currency Derivative	7	–	7	–	–
Interest Rate Swap Derivative	1,553	4,785	1,553	4,785	3,032
Total fair value through other Comprehensive Income	**1,560**	**4,785**	**1,560**	**4,785**	**3,032**

The carrying amount of both short and long-term deposits approximates their fair value.

Short-term deposits maturing over three months but less than 12 months from date of acquisition are all at fixed rates. The weighted average rate secured as at 31 December 2013 is 3.85% per annum (31 December 2012 is 4.23% per annum).

Long-term deposits maturing over three months and remaining duration is more than 12 months from date of acquisition are all at fixed rates. The weighted average interest rate as at 31 December 2013 is 4.49%. There were no long-term deposits with maturities greater than 12 months from date of acquisition at 31 December 2012.

The University has a series of policies to manage the risks associated with financial instruments in line with statutory and Council guidelines. The University is risk averse and seeks to minimise exposure from its treasury activities.

FAIR VALUE HIERARCHY DISCLOSURES

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

- Quoted market price — financial instruments with quoted prices for identical instruments in active markets.
- Valuation techniques using observable inputs — financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs — financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value on the statement of financial position:

	Total ($000's)	*Quoted market price ($000's)*	*Observable inputs ($000's)*	*Significant non–observable inputs ($000's)*
31 December 2013 – University & Group				
Financial Assets				
Investments	745	–	–	745
Financial Liabilities				
Derivative Financial Instruments	(1,560)	–	(1,560)	–
TOTAL	(815)	–	(1,560)	745
31 December 2012 – University & Group				
Financial Assets				
Investments	1,060	–	–	1,060
Financial Liabilities				
Derivative Financial Instruments	(4,785)	–	(4,785)	–
TOTAL	(3,725)	–	(4,785)	1,060

Price Risk

The equity investments that are held by the University are reflected within the financial statements either at cost, less impairment, or at fair value. It is deemed that there is limited price risk since, at balance date, no events had occurred to counter the view that their fair values were significantly different to their respective capitalisation figures.

Foreign Exchange Risk

For exposure to foreign currency movements refer to the table below. This shows the effect of a 10% increase or decrease in exchange rates.

	2013 University & Group Actuals (NZ$000's)	*2012 University & Group Actuals (NZ$000's)*	*2013 University Actuals (NZ$000's)*	*2012 University Actuals (NZ$000's)*
Currency impact USD				
Surplus or deficit — strengthening in NZ$ (i)	(1)	(83)	(1)	(83)
Surplus or deficit — weakening in NZ$ (i)	1	102	1	102
Equity — strengthening in NZ$ (ii)	(223)	–	(223)	–
Equity — weakening in NZ$ (ii)	272	–	272	–
Currency impact EUR				
Surplus or deficit — strengthening in NZ$ (iii)	(49)	–	(49)	–
Surplus or deficit — weakening in NZ$ (iii)	59	–	59	–
Equity — strengthening in NZ$ (iv)	(36)	–	(36)	–
Equity — weakening in NZ$ (iv)	44	–	44	–
Currency impact AUD				
Surplus or deficit — strengthening in NZ$ (v)	(4)	(4)	(4)	(4)
Surplus or deficit — weakening in NZ$ (v)	5	5	5	5

(i) This is attributable to the exposure outstanding on USD bank balances at year end.

(ii) This is principally as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

(iii) This is attributable to the exposure to outstanding EUR bank balances at year end.

(iv) This is principally as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

(v) This is attributable to the exposure to outstanding AUD bank balances at year end.

The University's sensitivity to foreign currency has decreased during the current year due to a decrease in foreign currency account balances and a decrease in foreign currency forward contracts.

Forward Foreign Currency Exchange Contracts

It is the policy of the University to enter into forward foreign currency exchange contracts to cover specific foreign currency payments.

As at 31 December 2013, the aggregate amount of unrealised gains under forward foreign exchange contracts deferred in the hedging reserve relating to the exposure on these anticipated future transactions is $7,136 (31 December 2012: $nil).

Cash flow Interest Rate Risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Cash and Cash Equivalents and short-term investments issued at variable interest rates create exposure to cash flow interest rate risk.

Fair Value Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Financial instruments which potentially subject the University to concentrations of interest rate risk consist principally of Cash and Cash Equivalents, Loans and Leases.

Although overall interest rate risk has been reduced due to the utilisation of fixed interest rates for both borrowing and investment in deposits, this does expose the University to a degree of "fair value interest rate risk" should market conditions move significantly in an adverse direction.

Note 13 and Note 14 provide an analysis in relation to these financial instruments.

Interest Rate Swap Contracts

Under an interest rate swap contract, the University agrees to exchange the difference between floating and fixed rate interest amounts calculated on an agreed notional principal amount. This contract enables the University to mitigate future cash flow exposures on the interest rate reset (December 2014) of the issued fixed rate bond debt.

The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at 31 December.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at 31 December.

Cash flow hedges

Outstanding pay fixed receive floating contracts

	Average contracted fixed interest rate		Notional principal amount		Fair value of hedge	
University & Group	2013 %	2012 %	2013 NZD ($000's)	2012 NZD ($000's)	2013 NZD ($000's)	2012 NZD ($000's)
Less than 1 year	–	–	–	–	–	–
1 to 2 years	–	–	–	–	–	–
2 to 5 years	–	–	–	–	–	–
5 years+	5.95	5.95	50,000	50,000	(1,552)	(4,785)
			50,000	50,000	(1,552)	(4,785)

The interest rate swap will settle on a quarterly basis from December 2014. The floating rate on the interest rate swap is the floating rate in New Zealand.

The University will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts that exchange floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges.

The University uses these swaps to reduce its exposure to cash flow interest rate risk resulting from resetting the fixed interest rates on bond borrowings. The interest payments on the bond are made half yearly and the interest payments on the interest rate swaps are made quarterly. All amounts deferred in equity are recognised in the net surplus or deficit over the period that the reset fixed interest payments on debt impact surplus or deficit.

Interest Rate Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at 31 December.

For floating rate liabilities and assets, the analysis is prepared assuming the exposure outstanding at 31 December was outstanding for the whole year.

For interest rate swap contracts the analysis is prepared assuming that the interest rate swap contracts are revalued to fair value at 31 December, and that the 31 December contracts were in place for the whole year.

A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable possible change in interest rates.

At 31 December, if interest rates had been 50 basis points higher/(lower) and all other variables were held constant, the following would occur:

	2013 University & Group Actuals (NZ$000's)	*2012 University & Group Actuals (NZ$000's)*	*2013 University Actuals (NZ$000's)*	*2012 University Actuals (NZ$000's)*
Surplus/Equity				
Surplus/Equity — increase (i)	632	551	632	551
Surplus/Equity — (decrease) (i)	(632)	(551)	(632)	(551)
Other Equity Reserves				
Other Equity Reserves — increase (ii)	1,083	1,176	1,083	1,176
Other Equity Reserves — (decrease) (ii)	(1,121)	(1,229)	(1,121)	(1,229)

(i) This is mainly attributable to the University's exposure to interest rates on its cash deposits.

(ii) This is as a result of the University's exposure to interest rates on interest rate swaps designated as cash flow hedges.

Credit Risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss.

The University is subject to an element of credit risk principally within Receivables, Cash and Cash Equivalents and Term deposits.

To mitigate risk, the University's treasury management framework is adhered to. Cash, Cash Equivalents and Term deposits are diversified through placements with a number of different New Zealand financial institutions. Credit exposure is further reduced by monitoring individual weightings.

Due to the large number of individual trade debtors, the concentration of credit risk with respect to Trade Receivables is greatly reduced. There is some exposure to a small group of insurance companies but they have sound credit ratings.

The University's exposure to credit risk is reflected by the carrying amount in the Statement of Financial Position for cash and cash equivalents, receivables, term deposits, and forward foreign exchange contract assets.

Credit Quality of Financial Assets

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

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
Counterparties with Credit ratings					
Cash at Bank and term deposits:					
AA	–	–	–	–	–
AA– (ANZ, BNZ, Westpac, ASB)	88,447	75,353	88,382	75,294	36,643
A+ Kiwibank	–	–	–	–	–
Total Cash At Bank And Term Deposits and Other Receivables	88,447	75,353	88,382	75,294	36,643
Counterparties without Credit Ratings					
Existing counterparty with no defaults in the past	15,313	8,779	15,313	8,779	32,393
Total Counterparties without Credit Ratings	15,313	8,779	15,313	8,779	32,393

Liquidity Risk

Liquidity risk is the risk that the University will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The maturity profiles of the University's interest bearing financial instruments and investments are disclosed in Notes 13, 14 and 16 respectively.

Liquidity ratio measurement analysis and forecasting is undertaken in order that liquidity risk is reduced.

Contractual maturity analysis of financial liabilities, excluding derivatives

The table opposite analyses financial liabilities (excluding derivatives) into relevant maturity groupings based on the period remaining to the contractual maturity date as at 31 December.

Future interest payments on floating rate debt are based on the floating rate applicable to the instruments at 31 December.

The amounts disclosed are the contractual undiscounted cash flows.

	Carrying Amount ($000's)	Contractual cash flows ($000's)	Less than 1 year ($000's)	1–2 years ($000's)	2–3 years ($000's)	More than 3 years ($000's)
University & Group December 2013						
Accounts Payable	31,709	31,709	31,709	–	–	–
Sonoda Gakuen Corporation of Japan Loan	960	1,407	61	60	59	1,227
Philanthropic Bond	49,273	68,139	3,626	3,626	3,626	57,261
Total	**81,942**	**101,255**	**35,395**	**3,686**	**3,685**	**58,488**
University December 2013						
Accounts Payable	31,715	31,715	31,715	–	–	–
Sonoda Gakuen Corporation of Japan Loan	960	1,407	61	60	59	1,227
Philanthropic Bond	49,273	68,139	3,626	3,626	3,626	57,261
Total	**81,948**	**101,261**	**35,401**	**3,686**	**3,685**	**58,488**
University December 2012						
Accounts Payable	21,199	21,199	21,199	–	–	–
Sonoda Gakuen Corporation of Japan Loan	992	1,469	62	61	60	1,286
Philanthropic Bond	50,010	71,764	3,626	3,626	3,626	60,887
Total	**72,201**	**94,432**	**24,886**	**3,687**	**3,686**	**62,173**
University December 2012						
Accounts Payable	21,895	21,895	21,895	–	–	–
Sonoda Gakuen Corporation of Japan Loan	992	1,469	62	61	60	1,286
Philanthropic Bond	50,010	71,764	3,626	3,626	3,626	60,887
Total	**72,897**	**95,128**	**25,582**	**3,687**	**3,686**	**62,173**

Contractual maturity analysis of derivative financial liabilities

The table below analyses derivative financial liabilities into those that are settled net and those that will be settled on a gross basis into their relevant maturity groupings based on their remaining period from 31 December to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Liability Carrying Amount ($000's)	*Contractual cash flows ($000's)*	*Less than 1 year ($000's)*	*1–2 years ($000's)*	*2–3 years ($000's)*	*More than 3 years ($000's)*
University & Group December 2013						
Net settled derivatives	1,552	1,848	–	852	509	487
University & Group December 2012						
Net settled derivatives	4,785	5,506	–	–	1,456	4,050

Contractual maturity analysis of financial assets

The table below analyses financial assets into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date.

	Carrying Amount ($000's)	*Contractual cash flows ($000's)*	*Less than 1 year ($000's)*	*1–2 years ($000's)*	*2–3 years ($000's)*	*More than 3 years ($000's)*
University & Group December 2013						
Cash and Cash Equivalents	65,648	65,648	65,648	–	–	–
Receivables	15,313	15,313	15,313	–	–	–
Other Financial Assets	22,799	22,799	5,299	17,500	–	–
Term Receivable	1,641	7,000	–	–	–	7,000
Total	105,401	110,760	86,260	17,500	–	7,000
University December 2013						
Cash and Cash Equivalents	65,583	65,583	65,583	–	–	–
Receivables	15,313	15,313	15,313	–	–	–
Other Financial Assets	22,799	22,799	5,299	17,500	–	–
Term Receivable	1,641	7,000	–	–	–	7,000
Total	105,336	110,695	86,195	17,500	–	7,000

	Carrying Amount ($000's)	Contractual cash flows ($000's)	Less than 1 year ($000's)	1–2 years ($000's)	2–3 years ($000's)	More than 3 years ($000's)
University & Group December 2012						
Cash and Cash Equivalents	17,688	17,688	17,688	–	–	–
Receivables	8,779	8,779	8,779	–	–	–
Other Financial Assets / Short-Term Deposits	57,665	57,665	57,665	–	–	–
Term Receivable	1,533	7,000	–	–	–	7,000
Total	85,665	91,132	84,132	–	–	7,000
University December 2012						
Cash and Cash Equivalents	17,629	17,629	17,629	–	–	–
Receivables	8,779	8,779	8,779	–	–	–
Other Financial Assets / Short-Term Deposits	57,665	57,665	57,665	–	–	–
Term Receivable	1,533	7,000	–	–	–	7,000
Total	85,606	91,073	84,073	–	–	7,000

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
18 / Equity					
General Equity					
Balance as at 1 January	401,376	467,726	401,068	467,889	472,336
Net Surplus / (Deficit) for the year	76,328	(66,600)	76,562	(67,071)	(10,199)
Contributions from the Crown	10,000	–	10,000	–	–
Transfer (from) / to General Equity — Te Pourewa Settlement Reserve	(17,500)	–	(17,500)	–	–
Transfer (from) / to General Equity — Student Services Levy Capital Reserve	(800)	250	(800)	250	–
Transfer from revaluation reserve on retirement of assets	1,090	–	1,090	–	–
Balance as at 31 December	470,494	401,376	470,421	401,068	462,137
General Equity — Te Pourewa Settlement Reserve					
Balance as at 1 January	–	–	–	–	–
Transfer from General Equity	17,500	–	17,500	–	–
Balance as at 31 December	17,500	–	17,500	–	–
General Equity — Student Services Levy Capital Reserve					
Balance as at 1 January	(250)	1,472	(250)	1,472	–
Current year allocation of Levy	2,239	1,449	2,239	1,449	–
Current year usage	(1,439)	(3,171)	(1,439)	(3,171)	–
Balance as at 31 December	550	(250)	550	(250)	–
Cashflow Hedge Reserve					
Balance as at 1 January	(4,785)	(3,032)	(4,785)	(3,032)	(3,032)
Fair Value Movement in Derivatives	3,225	(1,753)	3,225	(1,753)	–
Balance as at 31 December	(1,560)	(4,785)	(1,560)	(4,785)	(3,032)
Fair Value through Other Comprehensive Income Reserve:					
Balance as at 1 January	(993)	(818)	(993)	(818)	–
Adjustment to South African Large Telescope (SALT)	(192)	(51)	(192)	(51)	–
Adjustment to New Zealand Synchrotron Group Limited valuation	(123)	(124)	(123)	(124)	–
Write-off Fair Value through Other Comprehensive Income Reserve to Net Surplus / (Deficit)	1,308	–	1,308	–	–
Balance as at 31 December	–	(993)	–	(993)	–
Revaluation Reserves					
Balance as at 1 January	126,752	120,835	126,752	120,835	123,735
Transfers to General Equity on Library/Collections	(1,090)	–	(1,090)	–	–
Revaluations and Impairment	(8,441)	5,917	(8,441)	5,917	–
Balance as at 31 December	117,221	126,752	117,221	126,752	123,735
Revaluation Reserves consists of:					
Buildings	–	–	–	–	–
Infrastructure Assets	16,016	16,016	16,016	16,016	16,016
Land	64,735	75,531	64,735	75,531	72,206
Library / Collections	36,470	35,205	36,470	35,205	35,513
Total	117,221	126,752	117,221	126,752	123,735

	2013 University & Group Actuals ($000's)	2012 University & Group Actuals ($000's)	2013 University Actuals ($000's)	2012 University Actuals ($000's)	2013 University Budget ($000's)
19 / Reconciliation of Net Surplus with Net Cash from Operating Activities					
OPERATING ACTIVITIES					
Net Surplus / (Deficit)	76,328	(66,600)	76,562	(67,071)	(10,199)
Add (less) non-cash items:					
Depreciation, Amortisation and Impairment	36,947	53,320	36,946	53,320	35,996
Share of Loss of Associate	–	112	–	–	–
Donated Assets	47	270	47	270	–
Dividend Received from Arcactive Trustees Limited	–	–	(684)	–	–
Movement in Reversionary Interest	1,665	(2,418)	1,665	(2,418)	(297)
Movement in Long Term Revenue Owing	(108)	(100)	(108)	(100)	(1,153)
Movement in Total Employee Entitlements	(7,806)	1,635	(7,806)	1,635	4,264
Unrealised Foreign Exchange Variations	20	102	20	102	–
Increase in Revaluation of Buildings	(65,229)	(34,256)	(65,229)	(34,256)	–
Increase in Impairment of Buildings	42,920	107,707	42,920	107,707	–
Ilam Homestead Revaluation Loss	3,666	–	3,666	–	–
Add (less) movements in other working capital items:					
Accounts Payable	9,546	6,933	9,553	6,942	(5,050)
Revenue in Advance	390	(642)	390	(642)	402
Accounts Receivable and Prepayments	(8,177)	19,278	(8,189)	19,278	1,343
Inventories	46	207	46	207	(182)
Add (less) items classified as Investing / Financing Activities:					
Net Loss on Disposal included in Investing Activities	14,862	2,203	14,862	2,203	–
Movement in Lease Revenue in Advance	(828)	(829)	(828)	(829)	(867)
Movement in Library Serials Prepayment	(1,980)	(2,697)	(1,980)	(2,697)	(306)
Movement in Fixed Asset Related Payables / Accruals	(8,000)	(1,742)	(8,000)	(1,742)	–
Insurance Receipts related to PPE	(70,737)	(37,809)	(70,737)	(37,809)	–
Write down investment in Canterprise Limited	–	–	450	–	–
Philanthropic Bond Principal Donations	32	–	32	–	–
Adjustments to Fair Value through Other Comprehensive Income Reserve to Net Surplus / (Deficit)	1,308	175	1,308	175	–
Gain on Sale of Associate - Arcactive Limited	–	(583)	–	–	–
NET CASH PROVIDED BY OPERATING ACTIVITIES	**24,912**	**44,264**	**24,906**	**44,273**	**23,952**

20 / Related Party Transactions

Significant transactions with government-related entities

The Government is a major source of revenue. In 2013, the Government announced a funding envelope of up to $260 million for certain construction projects on the University Campus to be paid over the next five years. In the year to 31 December 2013, UC received $10 million as a capital contribution. See Note 25.

UC has received funding and grants from the Tertiary Education Commission totalling $144.2 million (2012 $145.4 million) to provide education and research services for the year ended 31 December 2013.

UC has also received research funding from the Crown and related entities of $15.9 million (2012 $16.1 million).

UC also leases, at a peppercorn rate, Land and Buildings at Solway Ave, Christchurch, legally owned by the Crown.

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

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

The University is exempt from paying income tax.

The University purchases goods and services from entities related to the Crown and it also provides services to entities related to the Crown of $10.1 million (2012 $10.3 million).

The purchase of goods and services to government-related entities for the year ended 31 December 2013 have all been conducted on an arm's length basis. The purchases included electricity from Meridian Energy Limited, air travel from Air New Zealand, Audit Fees to Audit New Zealand and postal services from New Zealand Post.

The provision of services to government-related entities mainly related to the provision of educational courses.

Transactions with Key Management Personnel

There were two University Council members who were also Directors of Canterprise Limited during 2013. Directors' Fees paid were $nil (December 2012: $nil).

Senior Management

The compensation of Councillors and senior management, being the key management personnel of the University, is as follows:

	2013 University Actuals ($000's)	*2012 University Actuals ($000's)*
Short-Term Employment Benefits	4,442	4,268
Termination Benefits	–	180
Post Employment Benefits	–	–
	4,442	4,448

The following transactions occurred between the University and the interested parties during the 12 months to December 2013. All goods and services supplied by these companies/organisations were on normal commercial terms in the ordinary course of business.

Dr Rod Carr, University Vice-Chancellor, is a Board Member of the Canterbury Employers Chamber of Commerce. The University paid $15,185 (December 2012: $7,423) to the Canterbury Employers Chamber of Commerce during the period.

Dr Rod Carr, was a Trustee for the Christchurch Earthquake Appeal Trust. The University received $nil during the period (December 2012: $25,000).

Dr Rod Carr is also a member of Universities New Zealand, Vice Chancellors' Committee. During the year the University paid Universities New Zealand $281,342 (December 2012: $157,565).

Dr Rod Carr is a Director of Te Tapuae o Rehua Limited. During the year, the University made payments to Te Tapuae o Rehua Limited of $75,696 (December 2012: $115,581). The University also received $2,633,995 (December 2012: $3,962,823) from Te Tapuae o Rehua during the year. The University has a balance of $1,007,481 (December 2012: $1,139,305l) for accounts receivable at year end.

Professor Ian Town resigned from his role as Deputy Vice-Chancellor during the year. While employed by the University, Professor Ian Town was also a Director of the NZ Brain Research Institute. During the year the University paid the NZ Brain Research Institute $101,727 (December 2012: $57,728). The University received $nil (December 2012: $12,994) from NZ Brain Research Institute.

Professor Ian Town was also a member of the Christ's College Board of Governors. During the year the University paid $1,500 (December 2012: $1,500) to Christ's College.

Dr John Wood, University Chancellor, and Dr Rod Carr are Board Members of the University of Canterbury Foundation. During the period the Foundation donated $1,995,393 (December 2012: $1,527,407) to the University. At year end the University has a balance of $1,487,753 (December 2012: $nil) for accounts payable to the University of Canterbury Foundation. The 2013 year end balance is the result of funds paid into the University's bank account in error by a third party at year end. The balance was paid to the University of Canterbury Foundation at the earliest opportunity in 2014.

Dr John Wood, Chancellor, Bruce Gemmell and Tony Hall, University Council Members, are all Lincoln University Council Members. During the year the University paid $82,248 (December 2012: $115,660) to Lincoln University.

Dr John Wood is also a Member of the Canterbury Museum Trust Board. During the year the University paid $609 (December 2012: $1,620) to the Canterbury Museum.

Erin Jackson, University Council Member, is a Board Member of the University Bookshop. During the year the University purchased $24,283 (December 2012: $31,534) of goods from the University Bookshop. The University has a balance of $1,652 (December 2012: $nil) for accounts payable at year end. The University received $31,619 (December 2012: $28,533) from the University Bookshop during 2013 and has a balance of $933 (December 2012: $4,458) for accounts receivable from the University Bookshop at year end.

Erin Jackson was President of the University of Canterbury Students' Association during the year. The University made payments to University of Canterbury Students Association during the year of $2,089,010 (December 2012: $1,794,344). The University has a balance of $1,175 (December 2012: $nil) for accounts payable to the University of Canterbury Students Association at year end.

Erin Jackson is also a Trustee for the Volunteer Army Foundation. During the year the University paid $1,000 (December 2012: $5,000) to the Volunteer Army Foundation.

Sue McCormack, University Council Member, is a Director of Mortlock McCormack Law Limited and during the year the University paid $5,043 (December 2012: $1,308) to Mortlock McCormack Law Limited.

Catherine Drayton, University Council Member, was a Director of Meridian Energy Limited until 1 May 2012. During the year, the University paid Meridian Energy Limited $3,989,760 (31 December 2012: $4,594,731) for the supply of electricity.

Catherine Drayton is a Director of Ngāi Tahu Holdings Corporation Limited and during the year the University paid $34,091 (December 2012: $nil) to Te Runanga o Ngāi Tahu. The University has a balance of $4,504 (December 2012: $nil) for accounts payable at year end. During the year the University received $178,491 (December 2012: $52,706) from Te Runanga o Ngāi Tahu and has a balance of $15,638 (December 2012: $nil) for accounts receivable from Te Runanga o Ngāi Tahu.

Catherine Drayton is a Director of Christchurch International Airport Limited and during the year the University paid Christchurch Airport $36,461 (December 2012: $26,453).

Catherine Drayton also became the Chair for the Canterbury Earthquake Recovery Authority (CERA) Audit and Risk Committee during 2012. The University received $26,562 from CERA during the year (December 2012: $13,330).

During the year Catherine Drayton joined the Board of the New Zealand Institute of Chartered Accountants (NZICA) as a Non Executive Director. The University made payments to NZICA of $20,234 (December 2012: $21,400) during the year.

Catherine Drayton also became a Director of BECA Group Limited during 2013. The University made payments of $781,468 (December 2012: $937,518) to Beca Group Limited and its subsidiaries during the year.

Peter Ballantyne, University Council Member, was a Board Member of Canterbury District Health Board (CDHB) until 8 December 2013. During the period the University paid CDHB $43,997 (December 2012: $76,151). The University has a balance of $148 (December 2012: $460) for accounts payable at year end to CDHB.

Dr Duncan Webb, University Council Member during 2013, is also a Partner in Lane Neave, Lawyers. During the year the University paid $76,370 to Lane Neave. The University has a balance of $9,016 for accounts payable at year end.

Tony Hall, University Council Member, is a Director of Core Education Limited. During the year the University paid $90 (December 2012: $78) to Core Education Limited.

David Ivory, University Council Member, has a management contract with St Thomas of Canterbury College. During the year the University paid $1,325 (December 2012: $525) to St Thomas of Canterbury College.

Professor Jan Evans-Freeman, Senior Management Team Member and Pro Vice-Chancellor Engineering, was a Director of Industrial Research Limited (IRL) now known as Callaghan Innovation, until 31 January 2013. The University paid Callaghan Innovation $92,310 (December 2012: $23,087) during the year. The University received $717,860 during 2013 (December 2012: $568,249) and has a balance of $348,772 (December 2012: $56,358) for accounts receivable from Callaghan Innovation at year end.

Professor Jan Evans-Freeman is also a Director of Transpower New Zealand Limited. The University invoiced Transpower New Zealand Limited $72,025 during 2013 (December 2012: $47,628) and has an accounts receivable balance of $57,500 (December 2012: $11,500) at year end from Transpower New Zealand Limited.

Professor Jan Evans-Freeman was a Board Member of Structural Timber Innovation Company (STIC) until 30 June 2013. During the period the University has paid $46,872 to STIC (December 2012: $94,298).

Professor Steve Weaver, Senior Management Team Member and Deputy Vice-Chancellor, Research, is a Director of the Institute of Geological & Nuclear Sciences Limited (GNS). The University paid $59,269 (December 2012: $32,684) to GNS during the period. The University received $2,180,687 from GNS during 2013 (December 2012: $2,217,939) and has a balance of $nil for accounts receivable from GNS at 31 December 2013 (December 2012: $361,430).

Professor Steve Weaver was on the Executive Committee of the Canterbury Medical Research Foundation during the year. The University paid $90,100 (December 2012: $117,143) to the Foundation.

Paul O'Flaherty, Senior Management Team Member, is a member of the Burnside High School Board of Trustees. During the year the University paid $4,883 (December 2012: $4,424) to Burnside High School.

Warren Poh, University Council Member, is an employee of Hawkins Contruction Limited. During the year the University paid $72,517,104 (December 2012: $34,629,213) to Hawkins Construction Limited. The University has a balance of $9,149,883 (December 2012: $nil) for accounts payable at year end.

Additional related party disclosures

Bruce Gemmell, University Council Member, is a partner with Ernst & Young, who are currently providing technical support to the Ministry of Education in reviewing the business cases proposals to the Government by the University.

Mr Gemmell is not involved in any of the technical support being provided by Ernst & Young and his potential conflict of interest in this area has been declared to Council.

Dr Duncan Webb, University Council Member, is assisting the University in presenting its case in seeking leave to appeal to the Supreme Court in the matter discussed in the Statement of Contingencies through his association with Lane Neave. This potential conflict of interest has been declared to Council.

Related Party Transactions	2013 University Actuals ($000's)	2012 University Actuals ($000's)
During the year to 31 December 2013 the University had the following inter-group transactions with its subsidiaries:		
Payable to Canterprise Limited	9	10
Payable to Trustees Arcactive Limited	–	684
Payments from the University of Canterbury to Canterprise Limited	–	5
Payments to University of Canterbury from Canterprise Limited	90	90
Payments to University of Canterbury from Entre Limited	–	7
Dividend Received from Trustees Arcactive Limited	684	–

In addition to the above transactions that Canterprise Limited had with the University, Canterprise had a number of transactions with its subsidiaries in 2012 before ownership was transferred to the University.

These were all conducted on an arms length basis.

Note all related party transaction figures are stated exclusive of GST.

21 / Early Childhood Education

The purpose of this note is to meet the disclosure requirements of the Ministry of Education for operators of funded childcare facilities. The University operates three childcare facilities — the Early Childhood Learning Centre, Te Ao Tamariki and the Sheila Walker Unit.

	2013 University Actuals ($000's)	2012 University Actuals ($000's)
Early Childhood Learning Centre		
Statement of Financial Performance		
OPERATING INCOME		
Government Grant — Child Funded Hours	674	458
Other Income	328	270
TOTAL OPERATING INCOME	**1,002**	**728**
OPERATING EXPENDITURE		
Personnel Expenses	570	557
Site & Property Costs	50	54
General / Operating Expenditure	15	17
Depreciation	1	1
TOTAL OPERATING EXPENDITURE	**636**	**629**
NET SURPLUS / (DEFICIT) FOR THE YEAR	**366**	**99**

The support grants were mainly utilised for staff development, and equipment and maintenance resources.

	2013 University Actuals ($000's)	2012 University Actuals ($000's)
Te Ao Tamariki		
Statement of Financial Performance		
OPERATING INCOME		
Government Grant — Child Funded Hours	184	378
Other Income	70	220
TOTAL OPERATING INCOME	**254**	**598**
OPERATING EXPENDITURE		
Personnel Expenses	338	505
Site & Property Costs	48	61
General / Operating Expenditure	6	17
TOTAL OPERATING EXPENDITURE	**392**	**583**
NET SURPLUS / (DEFICIT) FOR THE YEAR	**(138)**	**15**

The support grants were mainly utilised for staff development, and equipment and maintenance resources.

The Sheila Walker Unit		
Statement of Financial Performance		
OPERATING INCOME		
Government Grant — Child Funded Hours	–	176
Other Income	85	139
TOTAL OPERATING INCOME	85	315
OPERATING EXPENDITURE		
Personnel Expenses	371	378
Site & Property Costs	–	4
General / Operating Expenditure	–	4
TOTAL OPERATING EXPENDITURE	371	386
NET SURPLUS / (DEFICIT) FOR THE YEAR	(286)	(71)

The support grants were mainly utilised for staff development, equipment and maintenance resources.

22 / Capital Management

UC's capital is its equity, which comprises general funds, and property revaluations and fair value through comprehensive income reserves. Equity is represented by net assets.

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

UC manages its revenue, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interests of the community.

UC's equity is largely managed as a by-product of managing revenues, expenses, assets, liabilities investments and general financial dealings.

The objective of managing UC's equity is to ensure that it effectively and efficiently achieves the goals and objectives for which the University was established, while remaining financially viable.

In 2009, UC issued a $50 million, 10 year, fixed rate, unsubordinated, unsecured Bond (refer Note 14) to assist with capital investment.

As set out in Note 25, the Government announced a commitment to provide financial support of up to $260 million to assist UC in a $357 million investment in new facilities for its Science and Engineering colleges. The balance of funding will be drawn in part from insurance settlements, and in part from its own resources, coupled with careful management of its capital programme, deferring investment to future years wherever operationally possible without damaging the potential for recovery.

23 / Events After Balance Date

There have been no significant events after the balance date.

24 / Effects of the Canterbury Earthquakes

Challenge

Although occurring three years ago, the effects of the Canterbury earthquakes continue to present current significant challenges to UC's finances and operations. These challenges include the severe damage to buildings and other assets, with a consequential effect on enrolled student numbers and operational efficiency.

The decline in UC's student numbers has led to a corresponding reduction in operating revenue. UC's activities and its commitment to education and research are such that related expenditure cannot be similarly reduced to the same degree or at the same rate. The resulting net reduction in operating cash flow leaves less money for reinvestment in UC's teaching and research infrastructure.

UC is also managing unprecedented logistical challenges in decanting its staff from their work spaces while the buildings are remediated, storing their chattels and equipment, and then returning them to their original building or amalgamating their activities with complementary disciplines to get effective use of available space in the campus.

The overall effect is to rapidly reduce UC's financial resources, which without significant additional capital contribution or external revenues will be exhausted within two to three years. This continues to be a concern of Council and of management, where cash management indicators are reviewed monthly.

Concentrate

UC's response includes the massive remediation programme of strengthening and making safe the building stock, coupled with accelerated investment in improved building specifications to gain additional long-term benefits. The costs being incurred are equally large, being funded in part from UC's own cash resources and from the insurers, who continue to provide regular payments.

At the forefront of UC's management of these issues are close supervision of building costs and tight capital asset budgets and reporting; cash management strategies, including re-phasing of construction plans with concession to wider operational requirements; and review of existing academic and service operations for efficiencies and value for money.

Connect

UC Council and management have been working very closely with UC's Colleges and Service Units, its insurers, its construction teams, TEC and the Ministry of Education, and accessing both local input through CERA and wider national resources. The aim is to take positive forward steps in returning a fully operational and reinvigorated university to the network of tertiary education and research provision in New Zealand.

In particular, UC's response also includes the negotiation of the co-investment by the Government in new and improved teaching facilities for the colleges of Science and Engineering (this is further discussed in Note 25 below).

Nature of Assets Affected

Land

The UC site has not been specifically assessed for land damage, although certain areas (mostly around the Avon River from the UCSA building down to the recreation centre) have been the subject of further investigation by Geotech engineers, with no significant results. Geotech reviews are also being performed as part of any remediation project.

Buildings

Some buildings have had major structural damage resulting from the September 2010 and February 2011 earthquakes. Since then, UC has demolished three buildings and is demolishing a fourth, and has begun the process of remediation of its damaged buildings, with several now completed and reoccupied.

The first steps in the full operational restoration of the campus are being taken: UC was able to reopen the James Hight building and library in time for the 2013 academic year, the History and Law buildings are planned to be ready for reoccupation in early 2014, and the Registry is expected to be completed by the middle of 2014.

A structural review of the 40 most significant buildings was completed in May 2013, which indicated no significant additional remediation required for those buildings – although the costs of the remediation has been estimated as increasing significantly (see below). There remains a small number of buildings where further assessment is being made, and where the decision to remediate or to demolish and rebuild is yet to be made.

Estimated Costs to Repair Damage

UC has had structural engineers on site since the initial earthquake on 4 September 2010, and a significant extent of its property has been subject to detailed structural review and re-review.

The current estimate of the total cost to repair the damage, completed in December 2013, is $483 million (31 December 2012: $390 million). This estimate was based on engineering reports, structural reviews, and assessment of costs by qualified and experienced quantity surveyors who are working daily with the detail of the remediation programme. The 31 December 2012 estimate was provided by Rawlinsons, who were engaged by UC's insurers, while that for 31 December 2013 was prepared by Davis Ogilvie and Partners Limited, who were engaged by UC.

The difference in estimates represents the inherent uncertainty in making these assessments:

- the degree of cracking across the approximate 200,000m^2 of concrete structures across campus;
- the availability of detailed engineering reports and the degree these are informed by invasive testing; and
- the changing quantification of damage estimates when the remediation and strip out work is commenced, which can expose a greater degree of damage than first thought.

The estimate of damage is based on reinstatement to 34% of the building code and, as noted above, remains subject to considerable potential variability and, consequently, the cost of repair estimated in these financial statements could increase.

The inherent uncertainty in the damage estimates is manifested in the continued increases in the assessed amounts. UC has written down many of its buildings to $nil and, as a consequence, any increase in assessed remediation cost for those buildings has no effect — there can be no further reduction in Net Book Value (NBV). For 31 December 2013, the University increased its damage assessment by $93 million, but only recorded an increase in impairment of $43 million, reflecting the allocation of the increase in impairment to buildings already with $nil NBV, the reduction of existing buildings to $nil NBV, and the exclusion from the impairment calculation of those buldings now remediated. UC estimates, on this basis, that any further increase in damage assessment will demonstrate a similar pattern. Building impairment to date is estimated at $483 million, but only $270 million has been shown as an impairment cost, for the reasons outlined. On this basis, UC estimates that for every $100 million increase in remediation assessment, between 45% and 55% ($45 million and $55 million) will be required to be expensed. As the remediation programme progresses and assessments become more accurate, UC also considers that the effect of any increase in the remediation assessment will attenuate.

Valuation of Buildings

Due to the rapidly moving construction environment in Canterbury, UC engaged CBRE to undertake a valuation of its land and buildings as at 31 December 2013, outside of the normal three year cycle. Until the revaluation reserves have been replenished, UC expects to undertake annual revaluations as all movements will flow through the Surplus / Deficit, and are material to the financial result for the year.

As the damage incurred from the earthquakes was not factored into this valuation, UC adjusted the carrying value of buildings as at 31 December 2013 to reflect the estimated cost of repairing the buildings back to the state that existed prior to the earthquakes. This impairment does not reflect the full cost of making buildings compliant with the new building code and does not reflect likely costs recoverable under insurance.

UC has accounted for impairments to all damaged buildings at a value equal to each building's estimated damage per Davis Ogilvie and Partners Limited (unless the estimated damage repair cost is more than NBV in which case the building is impaired to $nil) less remediation work completed.

	December 2013 ($000's)	*December 2012 ($000's)*
Fair Value of buildings as at 1 January	286,937	343,064
Building Additions	59,878	32,150
Depreciation, Amortisation and Adjustments	(17,596)	(14,826)
	329,219	360,388
Increase in valuation of buildings	68,895	34,256
Ilam Homestead Revaluation Loss	(3,666)	–
Write off of Science Lecture Theatres and Commerce Building and Te Pourewa	(14,187)	–
Increase in impairment of buildings	(42,920)	(107,707)
Fair Value of buildings as at balance date	337,341	286,937

All building revaluation reserves were depleted in 2011. Accordingly, all further impairment of buildings in excess of the revaluation is included in the net surplus.

The further write down of the science lecture theatres is because they are being demolished to make way for the Regional Science and Innovation Centre as part of the co-investment of the Government in UC's reconfiguration plans. Council concluded that, on the basis of available structural assessments, the Commerce building is likely to be demolished and replaced as being uneconomic to repair.

Expenditure to 31 December 2013 of $60.2 million (31 December 2012: $50.6 million) relating to the costs of remediating the damage caused by the earthquake is included in work in progress. Once repairs on each building have been completed and the building is substantially complete and in use, these costs will be capitalised.

Expenditure which results in an increase in service potential has been capitalised.

Insurance reimbursements included in Revenue	*December 2013 ($000's)*	*December 2012 ($000's)*
Insurance reimbursements	78,887	41,023

Insurance reimbursements have been recognised in these financial statements on the basis of claimable expenditure incurred for the year. The total recognised to date since the first earthquake in September 2010 is $179.5 million.

The basis of insurance reimbursements recognition, on claimable expenses incurred, is considered the most reliable estimate of revenue, but does not reflect the total value of the UC's insurance claim. There is potential for significantly more material damage and business interruption claims.

UC remains in negotiation with its insurers, and a substantial proportion of the remediation work remains to be done. UC considers that any additional recovery cannot be reliably estimated.

The insurers are aware that submitted claims are interim claims only, and UC has been receiving progress payments from insurers on a regular basis, based on actual spend to date. These payments are made on a "non-specific basis", meaning that payment does not constitute acceptance by the insurers of a specific claim.

UC uses the forensic accounting and claims services of Marsh Risk Consulting to verify all claimed items prior to submission to the insurers. As a result, UC is confident that any expenditure to date in relation to material damage and business interruption (less insurance excess) will be successfully claimable from the insurers. UC continues to work closely and constructively with its insurers.

Additional Earthquake related costs included Operating Expenditure

As time passes, the differentiation between costs relating exclusively to the impact of the earthquakes and the additional costs relating to the re-engineering of the UC campus becomes blurred, although a fair estimate can be made of the continuing impact of the earthquakes on UC's finances.

The following is a summary of the increased costs of working included in Operating Expenditure under Personnel Expenses, Site & Property Expenses, and General/Operating Expenditure:

Additional Costs	2013 University Actuals ($000's)	2012 University Actuals ($000's)
Consultancy and Outsourcing	629	876
Commerce Building and Te Pourewa remediation write offs	–	2,588
Direct Academic Costs	3	8
Earthquake Provision Used	–	(290)
Equipment Rentals	17	32
Insurance	–	703
Promotional Activity	–	2
Repairs and Maintenance	24	198
Scholarships & Prizes	238	1,423
Travel and Conference Costs	–	(12)
Other	231	2,085
Total Additional Costs	1,142	7,613

25 / Going Concern

The issue

In recent years the University Council has had cause to review its going concern status when preparing its financial statements. This continues to be the case, but there has been significant improvement in the University's fortunes since 2012. While the consequences of the Canterbury earthquakes continue to present significant challenges to UC's financial position and performance, these are being methodically addressed and mitigated by Council and management actions.

The main matters that the University continues to address are:

- student numbers — UC experienced a further overall reduction in student numbers for the 2013 academic year, significantly in both domestic and full fee returning students, which was not anticipated, and substantially below pre-earthquake student numbers, although indicators are now of a recrudescence in numbers; and
- earthquake costs — the additional costs of working and lost revenue continue to add to UC's existing operating deficits, and with the costs of UC's co-investment in the remediation and rebuild of the campus, UC's cash reserves continue to require careful management even with the expected cash flows following on from the successful negotiation of significant Government financial support.

Action by Council and Government support

Since 2011, UC has pursued a programme of action to minimise costs (e.g. with staff reductions and minimal salary cost increases), to maximise revenues (e.g. increased marketing effort and scholarships to attract students), and to optimise its operations wherever possible (e.g. review of course offerings), and will continue to push in 2014 for cost savings in academic and service departments alike. The budget process for 2014 reflected continued focus on deficit management and UC is embarked on a path of recovery with a goal of breaking even in its core business by 31 December 2017. Council has budgeted for a small increase in student numbers for 2014, although the position will not be clear until mid-March 2014.

UC has also been working closely with TEC and the Government in developing individual business case proposals in respect of the two main projects of the Regional Science and Innovation Centre (RSIC) and Canterbury Engineering the Future (CETF), as well as for the Whole of Institution. These business cases were accepted by the Government at the end of October 2013, when the Prime Minister announced a funding package of up to $260 million in the form of capital contributions by the Crown to support UC in its rebuilding programme, tied to the development of RSIC and CETF, including an immediate payment to UC of $10 million. This gave substance to the indicated continuing Government support received by the Council in late 2012, and which includes the additional SAC guarantee up to 2017, while the University returns its student numbers to at least pre-earthquake levels.

The funding package is subject to further negotiation, and further reports, business case submissions and plans are required prior to further funding being provided. However, the acceptance of the plans submitted to Government, while still requiring careful cash flow and investment management to be maintained, has provided much-needed security and focus in the rebuild of the campus. As a result, Council's cash flow concerns as at 31 December 2012 have been alleviated.

Insurance

UC continues to maintain a positive and open relationship with its insurers, with a free exchange of information and robust negotiation.

The insurance position remains similar to prior years, which reflects the long-term engagement of the University with its insurers over the term of the rebuild, which could have several years to run:

- material damage insurance proceeds are tied to actual costs incurred for repairs, meaning that there is no "windfall" involved with proceeds from insurers;
- UC's business interruption insurance (BI) only covers the period for two years (loss of revenue) and three years (additional costs of working) post-earthquake. At the time of adopting these financial statements, both these periods are at an end, but the impact of the earthquakes on student numbers, for example, is being experienced over a much longer period as the "pipeline" effect works its way through the years;
- there has been no direct compensation to UC for any loss in student-related revenue, although the Government has extended the SAC guarantee to the end of 2017 (to be reviewed at the end of 2015); and
- the business interruption claim is not settled, and continues to be subject to extended negotiation because of the complexities involved.

Finance and capital management

In the current environment banks continue to be cautious in advancing funds to UC, although the support committed by the government has made UC's position stronger. The bondholders and Trustee are also looking for evidence to ensure security for their investment.

Altering the capital programme, such as by prolonging the rebuild, or delaying or cancelling capital spending, or substantially reducing operations are alternatives to managing this issue that are within UC's control. However, these options present risks to UC's reputation and ability to attract and retain students and staff, and maintain its full course programme offering, which may also in turn affect overall financial viability. UC has limited recourse to assets not needed to deliver its research and teaching and has no entitlement or obligation to settle its insurance claim for cash.

The timing of capital injections by the Crown into UC is critical, particularly in the later stages of RSIC and CETF. These are timed to be complete by the end of 2017/early 2018, but because of the intensity of capital costs in 2015 and 2016 cash flow management, and the availability of funds, will be crucial over the whole period of the build.

UC is a going concern

As noted above, there are many uncertainties and proposals in hand, and a lot of work to do around the engagement with Government and continued progress with the rebuild.

However, the Government support, together with the Council's own actions noted above, has created reasonable certainty of cash flows for the time being. The Council is able to conclude from this that the going concern assumption remains an appropriate basis for the preparation of UC's financial statements.

26 / Explanations of Major Variances against the 2013 Budget

Statement of Comprehensive Income

Government Grant — the $1.4m favourable variance against budget relates to additional income recognised for the Ministry of Education contracts for teacher development. This was due to a combination of 1) a portion of the 2012 contract income being brought to account in 2013 as a result of a delayed start and 2) the awarding of additional contract income over that which was budgeted for 2013.

Performance Based Research Funding (PBRF) — income is $1.9m lower than budget due to the updated Quality Evaluation assessment that resulted in a decrease due to a reduced number of staff eligible for assessment. This component accounts for 60% of the funding stream so has a significant impact.

Student Tuition Fees Domestic Fee Paying — fees are $3.4m lower than budget, with student numbers (EFTS) 5.3% lower than the budget anticipated, and 7.7% lower than those achieved in 2012.

Student Tuition Fees Full Fee Paying — fees are $1.8m lower than budget, with student numbers (EFTS) 9.2% lower than the budget anticipated, and 4.5% lower than those achieved in 2012.

Student Services Levy — income is $0.7m lower than budget due to lower student numbers as indicated in the above variance explanations.

Research income — this is $1.2m higher as a result of additional grants won above those expected. The increase is largely offset by the additional costs associated with this extra research.

Interest income — higher cash balances have resulted in higher interest against budget of $2.1m. The 2013 opening cash balance was $15.4m higher than had been budgeted for. That coupled with the timing of capital and operating spend has kept this balance higher all year. In addition to this, interest has been earned on the $17.5m insurance settlement proceeds for Te Pourewa, which do not form part of the cash balance given their extended maturity date.

Insurance Reimbursements — receipts are $78.9m favourable as the insurance recoveries are not included in the budget. The $78.9m recognised represents the agreed remediation spend for the year, along with the Te Pourewa insurance settlement funds.

Increase in Valuation of Buildings — the value of the buildings increased by a net of $65.2m in the 2013 building revaluation exercise (this includes the Homestead loss, discussed below). Due to previous write downs being debited against the reporting result future increases will be credited against the operating result to the same value of those write downs. Revaluations are not budgeted for given the uncertainty around predicting the movements that far out.

Personnel expenses — costs are $9.8m favourable, with $7.5m of this relating to movements in employee entitlements (the main variances being a $2.7m movement in the actuarially valued employee entitlements; the write off of the earthquake leave entitlement, as the entitlement period had lapsed, which has been replaced with a provision for special leave at a much lower value — net reduction of $2.7m; and the remaining balance representing the reduction in other leave entitlements through use). The balance of the variance results from savings in staff costs, predominantly academic, driven by lower student numbers than anticipated.

Site & Property Expenses — costs are $0.8m lower than budget. Successful negotiations of the buying group with Meridian led to a reduction in electricity costs of $1.3m.

This combined with lower coal costs due to lower consumption and lower Emissions Trading Scheme rates. External rental costs have been higher however, due to the cost of accommodating the College of Business and Law off site while the buildings were remediated.

General / Operating Expenditure — while this appears to be significantly over budget this is due to the write downs / write offs and demolition costs of several buildings that have not been budgeted for. These were $19.7m. Excluding these one-offs, the actual spend would have been $73.0m which is favourable to budget by $2.9m. This favourable variance is across most expenditure types with the larger ones being Travel, Conference and Staff Development costs; Software; Telecommunications; Equipment and Maintenance. These large favourable variances were partially offset by unfavourable variances in Scholarships; and Outsourcing and Consultancy costs, mainly with respect to UC Futures business case work.

Depreciation, Amortisation and Impairment — costs are $1.0m higher than budget due to the increased depreciation on buildings as a result of the 2012 end of year revaluation exercise increasing the overall buildings values by $34.2m, hence increasing the value to be depreciated.

Increase in Impairment of Buildings — this movement is assessed for each reporting period. The complexities associated with this exercise prevent us from being able to budget with any reasonability.

Ilam Homestead Revaluation Loss — this property was revalued on a different basis to other UC buildings due to the intended future commercial use. As such, this revaluation movement has been presented separately in the accounts. The significant decrease in value is due to the earthquake remediation works taking this particular building to 100% of the NBS. However, from a market value point of view it does not value up to the amount spent.

Other Comprehensive Income

Movements in Revaluation Reserves Relating to Library Permanent Collections — the Library Permanent Collection was revalued at the end of 2013. Due to the difficulty in estimating any revaluation movements, particularly at the time the budget is set, no revaluation movements are factored into the budgeted results.

Movements in Revaluation Reserves Relating to Land Valuations — land was revalued at the end of 2013. Due to the difficulty in estimating any revaluation movements, particularly at the time the budget is set, no revaluation movements are factored into the budgeted results. The Land valuation reduced due to the increase in the selldown period used in the valuation methodology which reflects the volume of sections being released in the Christchurch region.

Statement of Financial Position

Cash and Other Financial Assets / Short-Term Deposits — a favourable variance of $34.2m has arisen due in part to the higher than budgeted opening balance but has also been a factor of favourable variances in both the operating and capital spend. The high Accounts Payables balance also shows that the timing of payment is a contributing factor with some significant construction related invoices paid in January.

Receivables — the $17.1m unfavourable balance is due to the budget being set based on a different methodology for accounting for the recognition of Insurance Recoveries, which had an original budget of $24.0m. As at December, the Insurance Recoveries receivable was $7.4m resulting in a difference of $16.6m.

Prepayments — the $1.7m unfavourable variance to budget relates to a lower than budgeted value for 'Other' prepayments, which are smaller sundry balances spread across UC. The main prepaid balances of Library items and the Insurance premium are close to budget.

Funds Received In Advance — a $3.7m higher balance relates primarily to Income received in advance and relating to Research Grants.

Accounts Payable — the $17.1m higher balance than budget reflects the level of construction related invoices payable at year end. Payments were owing for November and December work as at the end of the year.

Current Provisions — Employee Entitlements — the $1.9m lower balance is due to the higher use of annual leave, than anticipated, as indicated under Personnel Expenses above but offset by a provision for 'special leave' for leave required resulting from earthquake-related activities which had not been budgeted for.

Property, Plant and Equipment; Intangible Assets; and Capital Work-in-progress — the favourable variance against budget is due to a number of factors. The increase in the buildings value as part of the end-of-year revaluation exercise of $65.2m; unbudgeted earthquake remediation expenditure of $64.2m; additional impairment taken to account in 2013, including the Ilam Homestead revaluation loss, of $46.5m; the net impact of late 2012 entries not taken into account in the budget process around revaluations, impairments and Library collection write-downs of $36.8m; other building write downs for Commerce, Science Lecture Theatres and Te Pourewa $19.7m; other downwards movements resulting from 2013 revaluation exercises of $8.4m; and the underspend against budget for the business as usual capital spend of $3.7m.

Investments — the $0.8m unfavourable variance against budget is made up of the $0.5m write down of the remaining value in the Canterprise subsidiary and additional write downs in the investments in Synchrotron and South African Large Telescope (SALT).

Other Financial Assets / Long-Term Deposits — the $17.5m favourable variance against budget is due to the investment of the funds received in settlement for the Te Pourewa building. These were not known about at the time of setting the budget.

Term Receivable — the $13.0m unfavourable variance against budget is due to the budget being set based on a different methodology for accounting for the recognition of Insurance Recoveries (also see Receivables). The $13.0m represented the non current portion of the receivable factored into the budget.

Other Financial Liabilities — the $1.5m favourable variance relates to the movement in the Interest Rate Swap Derivative as a result of increasing interest rates.

Term Provisions — Employee Entitlements — the $2.7m favourable variance relates principally to movements in the actuarially valued employee entitlements due to an increase in the short to medium term discount rates, used in the calculation, and the reduction in staffing numbers.

Revaluation Reserves — see Movements in Revaluation Reserves under Other Comprehensive Income above. These movements are not budgeted for due to the difficulty in predicting any changes that far out from the valuation process.

27 / Presentation of Results

UC has taken the opportunity to further explain its operating results in a separate disclosure on the face of the Statement of Comprehensive Income. This supplementary disclosure is not intended to replace the reported surplus, but to provide context for the exceptional financial impact of the post-earthquake environment and UC's plans for the rebuilding of its campus. UC has separated out what it considers to be its base operating financial result, separately identifying the major costs relating both to the demolition and write-off of building stock and the specific income and expenditure clearly identifiable as being a direct effect of the earthquakes.

The comparative supplementary disclosure includes additional analysis relevant to the 2012 result in relation to additonal depreciation of $2.2 million following a change in depreciation rates for its library current collection, and $17.8 million in respect of obsolescence of its library current collection.

This year, UC has also separately disclosed reserves relating to the Te Pourewa insurance settlement and the student services levy capital reserve both as components of General Equity. This separate disclosure provides visibility to these important commitments by UC.

28 / Interim Financial Statements

UC published unaudited interim six monthly financial statements to 30 June 2013 on 28 August 2013. These interim financial statements included estimates in relation to the impairment of its buildings arising from the earthquakes.

At 30 June 2013, the indication was that there had been no change to the estimate of impairment of $390 million, which was calculated for the 31 December 2012 audited financial statements. Since then, a further reassessment of the damage to UC's buildings has been performed and the impairment estimate increased to $483 million. Further details of the revised assessment are provided in Note 24.