Audit New Zealand
Mana Arotake Aotearoa

Model Financial Statements
Crown Service Enterprise
2015/16

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

July 2016

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FOREWORD

I am pleased to introduce our 2016 update to the model financial statements for Crown entities, using the public benefit entity (PBE) accounting standards for Tier 1 and Tier 2 entities. While these model financial statements are designed specifically for Crown entities, PBEs in other sectors may also find the model financial statements useful.

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

Focus

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

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

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

Future updates

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

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

Acknowledgements

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

Stephen Walker
Executive Director
July 2016

ABOUT THE MODEL FINANCIAL STATEMENTS

Objective

The objectives of this model are:

- to guide Crown entities in preparing financial statements that comply with the Tier 1 or Tier 2 PBE accounting standards; and
- to provide an insight into involving good practice in preparing financial statements, by providing an alternative presentation of notes and accounting policies to that in our previous models.

The model financial statements have been prepared using a fictitious non-company Crown entity, Crown Service Enterprise (CSE). CSE is a "public benefit entity" for financial reporting purposes. The model is not intended to provide guidance for those Crown entities that are classified as "for-profit entities" for financial reporting purposes.

Improving disclosures and presentation of financial statements

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

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

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

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

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

Application of materiality to note disclosures

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

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

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

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

Tier 2 concessions

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

Non-exchange and exchange revenue

The PBE accounting standards include standards on exchange revenue (PBE IPSAS 9) and non-exchange revenue (PBE IPSAS 23). The PBE accounting standards include requirements to disclose certain information about exchange and non-exchange revenue and balances. Due to limited guidance in the PBE accounting standards in determining whether a transaction is exchange or non-exchange in nature, it can sometimes be difficult to determine the appropriate standard to apply.

Entities need to exercise their judgement in classifying transactions as either exchange or non-exchange. This classification is most important if the timing of revenue recognition could be materially different between PBE IPSAS 9 and PBE IPSAS 23.

This model does not give prominence to presenting or disclosing transactions as exchange or non-exchange. We consider there is little additional value in primary financial statements labelling revenue and balances as either exchange or non-exchange. However, it is important the underlying revenue recognition materially complies with the PBE accounting standards.

Main updates to the model

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

Page number	**Note number**	**Description of change**
General		Accounting policies that relate specifically to a note have been relocated from the statement of accounting policies to the note to which they relate. Accounting policies within the notes are shaded blue to differentiate the policy from other information within the note. Accounting policies that do not relate specifically to a note (e.g. foreign exchange transactions) remain in the statement of accounting policies (Note 1). Minor changes have been made to policies to improve their readability. The most significant change is to the grant expenditure accounting policy (Note 6), which has been amended to outline the recognition and measurement of discretionary grants with substantive conditions.
General		"Critical accounting estimates and assumptions" and "critical judgements in applying accounting policies" have been relocated from the statement of accounting policies to the note to which they relate. These disclosures have been shaded red and are clearly labelled to differentiate the disclosures from the accounting policies and other information within the note. Some of these disclosures have also been enhanced to provide more useful information on those areas of the financial statements that require judgement by preparers.
General		The previous model included disclosures required by PBE FRS 46: *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*, including a separate note outlining adjustments arising on transition to the new PBE accounting standards. These disclosures have been removed as they are not required to be presented in subsequent financial statements.
11		Statement of comprehensive revenue and expense – Previously "interest revenue" was a separate line item in the statement of comprehensive revenue and expense. There is no requirement for this. We have decided to remove interest revenue from the face of the statement of comprehensive revenue and expense and include it as part of "other revenue". Interest revenue is separately disclosed in Note 2, as required by PBE IPSAS 9.39(b)(iii) and 30.24(b).
16		Statement of cash flows – The reconciliation of net surplus/(deficit) to net cash flow from operating activities has been relocated from the notes to the statement of cash flows. This is to improve the readability of the statement of cash flows by keeping the cash flow information together. "(Increase)/Decrease in prepayments" has been added to the reconciliation as a further example of movements in statement of financial position items.
18	Note 1	Statement of accounting policies – "Standards issued and not yet effective and not early adopted" has been updated to reflect amendments that were issued in 2015, but are not yet effective. We have assessed that the amendments would not affect CSE. However, each Crown entity will need to assess whether the amendments may affect their financial reporting.

Page number	Note number	Description of change
20	Note 2	Revenue – Critical judgements in applying accounting policies – Significant judgement can be required when determining the recognition point for grant revenue where there are conditions attached. We have included disclosure of the significant judgements made in relation to a multi-year grant.
22	Note 3	Personnel costs – The disclosures required by section 152(1) of the Crown Entities Act 2004 relating to board member and employee remuneration have been relocated from separate notes to the personnel costs note.
 23 24	Note 6	Other expenses – The note has been amended as follows: • Critical judgements in applying accounting policies – Significant judgement can be required when determining the recognition point for grant expenditure. We have included disclosure of the significant judgements made in relation to a grant scheme. • Operating leases – We have chosen to locate future minimum lease payments for non-cancellable operating leases in this note. It was previously included in a separate commitments note. The accounting policy for operating leases is also included in this note.
 31 34	Note 13	Property, plant, and equipment – The note has been amended as follows: • Estimating the fair value of land and buildings – We have enhanced this disclosure as it is a key source of estimation uncertainty. This includes quantifying the assumptions listed to provide more useful information to the reader. In addition, a table comparing the carrying value of buildings revalued using depreciated replacement cost and market-based evidence has been included. This is not a GAAP requirement. We have included it as good practice because it provides useful contextual information on the valuation basis of property, plant, and equipment. • Capital commitments – Capital commitments for the acquisition of property, plant, and equipment is now located in this note. It was previously included in a separate commitments note.
 35 36	Note 14	Intangible assets – The note has been amended as follows: • Estimating the useful lives of software assets – Software assets are increasingly significant to public sector entities. We have included disclosure on the estimation uncertainty involved in assessing the useful lives of software assets. • Capital commitments – Capital commitments for the acquisition of intangible assets is now located in this note. It was previously included in a separate commitments note.
44	Note 20	Equity – The capital management disclosure is now located in this note. It was previously in a separate note.

Content

Included in the model are:

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

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

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

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

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

We have included references to specific standards and legislation in the left margin of the model and a subject index on page 50 for easy searching.

Statutory requirements

The model does not include all the information required to be disclosed by the Crown Entities Act 2004 (CEA) in a Crown entity's annual report. In particular, the model does not include the disclosures required by sections:

- 151(1)(a) – Information that is necessary to enable an informed assessment to be made on the Crown entity's operations and performance for the financial year, including an assessment of the Crown entity's progress in relation to its strategic intentions as set out in the most recent statement of intent;
- 151(1)(b) – Statement of performance in accordance with section 153;
- 151(1)(e) – Audit report in accordance with section 156;
- 151(1)(f) – Any new direction given by a Minister in writing under any enactment during the financial year, as well as other such directions that remain current;
- 151(1)(g) – Information on compliance with the obligation to be a good employer (including a Crown entity's equal employment opportunity programme);
- 151(1)(i) – Information required by section 20(3), which relates to the enforcement of certain natural person transactions;
- 151(1)(j) – Information required by section 68(6), which relates to permission to act despite being interested in a matter; and
- 151(1B) – End of year performance information that a Crown entity is required to prepare under section 19A of the Public Finance Act 1989 (PFA).

The model has been prepared for an entity that does not have any subsidiaries. If a Crown entity is a parent of a Crown entity group, the CEA permits that only group financial statements need be prepared.

The model is not intended to provide specific guidance on the statutory reporting requirements for certain types of Crown entities. The model financial statements do not cover the specific statutory reporting requirements of Tertiary Education Institutions and Crown Research Institutes under their applicable legislation.

The model is not intended to provide specific guidance on the statutory reporting requirements of those entities listed in Schedules 4 and 4A of the PFA. Sections 45M to 45OA of the PFA detail those sections of the CEA that apply to Schedules 4 and 4A entities.

Standards not covered by the model

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

- PBE IPSAS 6 (PS) *Consolidated and Separate Financial Statements*;
- PBE IPSAS 7 *Investments in Associates*;
- PBE IPSAS 8 *Interests in Joint Ventures*;
- PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*;
- PBE IPSAS 11 *Construction Contracts*;
- PBE IPSAS 16 *Investment Property*;
- PBE IPSAS 22 *Disclosure of Information About the General Government Sector*;
- PBE IPSAS 26 *Impairment of Cash-Generating Assets*;
- PBE IPSAS 27 *Agriculture*;
- PBE IPSAS 32 *Service Concession Arrangements: Grantor*;
- PBE IFRS 3 *Business Combinations*;
- PBE IAS 12 *Income Taxes*;
- PBE IAS 34 *Interim Financial Reporting*; and
- PBE FRS 45 *Service Concession Arrangements: Operator*.

Standards and amendments issued after 31 May 2016 are not included in the model financial statements.

Abbreviations used in the model

ACC	Accident Compensation Corporation
CEA	Crown Entities Act 2004
GAAP	Generally accepted accounting practice
GST	Goods and services tax
IRD	Inland Revenue Department
PBE	Public benefit entity
RDR	Reduced disclosure regime

CEA s151(1)(d),155

STATEMENT OF RESPONSIBILITY[1]

We are responsible for the preparation of Crown Service Enterprise's financial statements and statement of performance, and for the judgements made in them.

We are responsible for any end of year performance information provided by Crown Service Enterprise under section 19A of the Public Finance Act 1989.

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

In our opinion, these financial statements and statement of performance fairly reflect the financial position and operations of Crown Service Enterprise for the year ended 30 June 2016.

Signed on behalf of the Board:[2]

Board member	**Board member**
19 October 2016	19 October 2016

[1] In addition to the signed statement of responsibility, section 151(3) of the CEA requires the annual report to be dated and signed on behalf of the Board by two members or, in the case of a corporation sole, by the sole member.
[2] Section 155 of the CEA requires the statement of responsibility to be dated and signed on behalf of the Board by two members or, in the case of a corporation sole, by the sole member.

PBE IPSAS 1.21(b)

CROWN SERVICE ENTERPRISE
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2016[3,4,5]

Reference		Notes	Actual 2016 $000	Budget[6] 2016 $000	Actual[7] 2015 $000
PBE IPSAS 1.128	**Revenue[8]**				
	Funding from the Crown		508,552	508,468	498,080
PBE IPSAS 1.98.3	Other revenue		24,960	27,880	20,828
PBE IPSAS 1.99.1(a)	*Total revenue*	2	533,512	536,348	518,908
PBE IPSAS 1.109	**Expenditure**				
	Personnel costs	3	331,814	331,813	325,956
	Depreciation and amortisation expense	13,14	66,803	66,802	63,557
	Capital charge	4	64,160	63,000	52,875
PBE IPSAS 1.99.1(b)	Finance costs	5	2,678	2,676	1,800
	Other expenses	6	49,125	63,943	40,020
PBE IPSAS 1.98.3	*Total expenditure*		514,580	528,234	484,208
PBE IPSAS 1.99.1(f)	**Surplus/(deficit)**		**18,932**	**8,114**	**34,700**
	Other comprehensive revenue and expense				
Good practice[9]	*Item that will be reclassified to surplus/(deficit)*				
PBE IPSAS 1.103.1	Financial assets at fair value through other comprehensive revenue and expense	20	95	0	110
Good practice	*Item that will not be reclassified to surplus/(deficit)*				
PBE IPSAS 1.103.1	Gain on property revaluations	20	73,397	90,000	52,333
PBE IPSAS 1.98.1(b)	*Total other comprehensive revenue and expense*		73,492	90,000	52,443
PBE IPSAS 1.98.1(c)	**Total comprehensive revenue and expense**		**92,424**	**98,114**	**87,143**

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 24.[10]

The accompanying notes form part of these financial statements.

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

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

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

[6] Section 154(3)(c) of the CEA requires the financial statements to "include the forecast financial statements prepared at the start of the financial year, for comparison with the actual financial statements". When an entity makes its approved budget publicly available, PBE IPSAS 1.21 (e) requires a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements.

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

[8] PBE IPSAS 23.106(a) requires, either in the statement of comprehensive revenue and expense or the notes, that entities disclose the amount of revenue from non-exchange transactions by major classes, showing separately: i) taxes, showing separately major classes of taxes; and ii) transfers, showing separately major classes of transfer revenue. As the separate labelling of revenue as exchange or non-exchange in most cases would not be considered material, we have decided to not label revenue as exchange or non-exchange in the model financial statements. We have, however, separately disclosed the major classes of all revenue streams in Note 2.

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

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

PBE IPSAS 1.21(a)

CROWN SERVICE ENTERPRISE
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016[11]

PBE IPSAS 1.90,128		Notes	Actual 2016 $000	Budget 2016 $000	Actual 2015 $000
	Assets				
PBE IPSAS 1.70,76	**Current assets**				
PBE IPSAS 1.88(i)	Cash and cash equivalents	7	75,078	75,042	56,591
PBE IPSAS 1.88(g),(h)	Receivables	8	8,346	6,340	2,530
PBE IPSAS 1.88(d)	Investments	9	3,420	3,400	3,078
PBE IPSAS 1.88(d)	Derivative financial instruments	10	2,900	2,500	1,960
PBE IPSAS 1.88(f)	Inventories	11	942	900	1,245
PBE IPSAS 1.89	Prepayments		1,000	0	1,000
PBE IPSAS 1.88.1(a)	Non-current assets held for sale	12	1,160	0	0
PBE IPSAS 1.89	*Total current assets*		92,846	88,182	66,404
PBE IPSAS 1.70,76	**Non-current assets**				
PBE IPSAS 1.88(d)	Investments	9	7,918	7,910	157,648
PBE IPSAS 1.88(a)	Property, plant, and equipment	13	863,974	865,232	645,171
PBE IPSAS 1.88(c)	Intangible assets	14	10,594	10,500	8,953
PBE IPSAS 1.89	*Total non-current assets*		882,486	883,642	811,772
PBE IPSAS 1.89	**Total assets**		**975,332**	**971,824**	**878,176**
	Liabilities				
PBE IPSAS 1.70,80	**Current liabilities**				
PBE IPSAS 1.88(j),(k)	Payables and deferred revenue	15	45,586	46,450	35,769
PBE IPSAS 1.88(m)	Borrowings	16	9,298	12,000	9,986
PBE IPSAS 1.88(m)	Derivative financial instruments	10	1,740	1,000	2,240
PBE IPSAS 1.89	Employee entitlements	17	42,842	47,517	32,514
PBE IPSAS 1.88(l)	Provisions	18	3,404	4,578	3,189
PBE IPSAS 1.89	*Total current liabilities*		102,870	111,545	83,698
PBE IPSAS 1.70,80	**Non-current liabilities**				
PBE IPSAS 1.88(m)	Borrowings	16	15,638	19,916	21,808
PBE IPSAS 1.89	Employee entitlements	17	44,591	49,257	46,894
PBE IPSAS 1.88(l)	Provisions	18	4,175	8,478	11,162
PBE IPSAS 1.89	*Total non-current liabilities*		64,404	77,651	79,864
PBE IPSAS 1.89	**Total liabilities**		167,274	189,196	163,562
PBE IPSAS 1.89	**Net assets**		**808,058**	**782,628**	**714,614**

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

PBE IPSAS 1.21(a)

CROWN SERVICE ENTERPRISE
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016 (CONTINUED)

Reference		Notes	Actual 2016 $000	Budget 2016 $000	Actual 2015 $000
PBE IPSAS 1.90,128					
PBE IPSAS 1.95	**Equity**				
PBE IPSAS 1.95(a)	Contributed capital[12]	20	201,020	201,020	200,000
PBE IPSAS 1.95(b)	Accumulated surplus/(deficit)	20	116,540	85,148	92,108
PBE IPSAS 1.95(c)	Property revaluation reserves	20	489,891	496,000	421,994
PBE IPSAS 1.95(c)	Financial assets at fair value through other comprehensive revenue and expense reserve	20	607	460	512
PBE IPSAS 1.88(o)	**Total equity**		**808,058**	**782,628**	**714,614**

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 24.

The accompanying notes form part of these financial statements.

[12] If a Crown entity does not have information on the separate amounts for contributed capital and accumulated surplus/deficit, it shall combine them and present a single amount as general funds.

PBE IPSAS 1.21(c)

CROWN SERVICE ENTERPRISE
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

PBE IPSAS 1.128

		Notes	Actual 2016 $000	Budget 2016 $000	Actual 2015 $000
	Balance at 1 July		714,614	683,494	552,353
PBE IPSAS 1.118(a)	Total comprehensive revenue and expense for the year		92,424	98,114	87,143
PBE IPSAS 1.119(a)	*Owner transactions*[13]				
PBE IPSAS 1.119(a)	Capital contribution		1,020	1,020	75,118
PBE IPSAS 1.119(a)	Repayment of capital		0	0	0
	Balance at 30 June	20	**808,058**	**782,628**	**714,614**

PBE IPSAS 1.148.1

Explanations of major variances against budget are provided in Note 24.

The accompanying notes form part of these financial statements.

[13] Disclosure is required only if these transactions took place.

PBE IPSAS 1.21(d)

CROWN SERVICE ENTERPRISE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

		Notes	Actual 2016 $000	Budget 2016 $000	Actual 2015 $000
PBE IPSAS 1.128					
PBE IPSAS 2.18,22,27	**Cash flows from operating activities**				
	Receipts from the Crown		508,552	508,468	498,080
PBE IPSAS 2.40	Interest received		5,070	5,200	4,238
	Receipts from other revenue		18,184	21,480	13,200
	Payments to suppliers[14]		(53,993)	(70,705)	(37,563)
	Payments to employees[14]		(320,499)	(323,813)	(341,760)
PBE IPSAS 2.40	Interest paid		(2,376)	(1,478)	(1,763)
	Payments for capital charge		(64,160)	(63,000)	(52,875)
	GST (net)		(99)	(50)	(55)
	Net cash flow from operating activities		90,679	76,102	81,502
PBE IPSAS 2.18,25	**Cash flows from investing activities**				
	Receipts from sale of property, plant, and equipment[15]		9,809	7,000	694
	Receipts from sale or maturity of investments		177,483	185,000	215,000
	Purchase of property, plant, and equipment[15]		(214,209)	(206,222)	(97,250)
	Purchase of intangible assets		(8,308)	(6,909)	0
	Acquisition of investments		(28,000)	(24,000)	(202,476)
	Net cash flow from investing activities		(63,225)	(45,131)	(84,032)
PBE IPSAS 2.18,26	**Cash flows from financing activities**				
	Capital contribution	20	1,020	1,020	75,118
	Payments of finance leases		(2,128)	(2,200)	(10,431)
	Repayment of loans		(7,859)	(8,749)	(11,412)
	Net cash flow from financing activities		(8,967)	(9,929)	53,275
	Net (decrease)/increase in cash and cash equivalents		18,487	21,042	50,745
	Cash and cash equivalents at the beginning of the year		56,591	54,000	5,846
	Cash and cash equivalents at the end of the year	*7*	*75,078*	*75,042*	*56,591*

PBE IPSAS 2.54 Equipment totalling $3.8m (2015 $nil) was acquired by means of finance leases during the year.

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided in Note 24.

The accompanying notes form part of these financial statements.

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

[15] We consider it good practice to separately disclose cash flows arising from the acquisition and disposal of property, plant, and equipment and intangible assets. Presenting these cash flows separately provides readers of the financial statements with a clearer linkage between the property, plant, and equipment and intangible asset movement schedules and cash flows arising from acquisitions and disposals.

CROWN SERVICE ENTERPRISE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

PBE IPSAS 2.29

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

	Actual 2016 $000	Actual 2015 $000
Net surplus/(deficit)	18,932	34,700
Add/(less) non-cash items		
Depreciation and amortisation expense	66,803	63,557
Donated assets revenue	(295)	(1,682)
Net (gains)/losses on derivative financial instruments	(69)	(752)
Net foreign exchange (gains)/losses	1,868	1,010
Total non-cash items	68,307	62,133
Add/(less) items classified as investing or financing activities		
(Gains)/losses on disposal of property, plant, and equipment	(1,186)	(114)
Total items classified as investing or financing activities	(1,186)	(114)
Add/(less) movements in statement of financial position items		
(Increase)/Decrease in receivables[16]	(5,816)	8,311
(Increase)/Decrease in inventories	303	560
(Increase)/Decrease in prepayments	0	0
Increase/(Decrease) in payables and deferred revenue[17]	8,886	(2,180)
Increase/(Decrease) in provisions	(6,772)	13,499
Increase/(Decrease) in employee entitlements	8,025	(35,407)
Net movements in working capital items	4,626	(15,217)
Net cash flow from operating activities	**90,679**	**81,502**

[16] Any receivables for the sale of property, plant, and equipment will need to be excluded when calculating this movement.
[17] Any payables for capital expenditure will need to be excluded when calculating this increase or decrease.

PBE IPSAS 1.21(f),127

CROWN SERVICE ENTERPRISE
NOTES TO THE FINANCIAL STATEMENTS

Notes index

1 Statement of accounting policies

REPORTING ENTITY

PBE IPSAS 1.150(a),(c),(d)

Crown Service Enterprise (CSE) is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled and operates in New Zealand. The relevant legislation governing CSE's operations includes the Crown Entities Act 2004 and the Crown Service Enterprise Act 2002. CSE's ultimate parent is the New Zealand Crown.[18]

PBE IPSAS 1.150(b)

CSE's primary objective is to provide services to the New Zealand public [*Tier 1 entities shall disclose a description of the nature of the entity's operations and principal activities*]. CSE does not operate to make a financial return.

PBE IPSAS 1.28.2(c)

CSE has designated itself as a public benefit entity (PBE) for financial reporting purposes.

PBE IPSAS 1.63(a),(b),(c)
PBE IPSAS 14.26

The financial statements for CSE are for the year ended 30 June 2016, and were approved by the Board on 19 October 2016.

PBE IPSAS 1.127(a)

BASIS OF PREPARATION

Good practice
PBE IPSAS 1 Appendix B

The financial statements have been prepared on a going concern basis[19], and the accounting policies have been applied consistently throughout the year.

Statement of compliance

PBE IPSAS 1.28.1(a)

The financial statements of CSE have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

PBE IPSAS 1.28.1(a),28.2(a)

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

PBE IPSAS 1.28

These financial statements comply with PBE Standards.

Presentation currency and rounding

PBE IPSAS 1.63(d),(e)

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

PBE IPSAS 3.35,36

Standards issued and not yet effective and not early adopted

In 2015, the External Reporting Board issued *Disclosure Initiative (Amendments to PBE IPSAS 1)*, *2015 Omnibus Amendments to PBE Standards*, and *Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments*. These amendments apply to PBEs with reporting periods beginning on or after 1 January 2016. CSE will apply these amendments in preparing its 30 June 2017 financial statements. CSE expects there will be no effect in applying these amendments.

PBE IPSAS 1.132

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES[20]

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

PBE IPSAS 1.132(c)

Foreign currency transactions

PBE ISPAS 4.24,32

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

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

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

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

1 Statement of accounting policies (continued)

PBE IPSAS 1.132(c)

Goods and services tax

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

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

The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Good practice

Income tax

CSE is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

Good practice

Budget figures

The budget figures are derived from the statement of performance expectations as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Good practice

Cost allocation

CSE has determined the cost of outputs using the cost allocation system outlined below.

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

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

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

PBE IPSAS 1.140

Critical accounting estimates and assumptions[21]

In preparing these financial statements, CSE 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:

- Useful lives and residual values of property, plant, and equipment – refer to Note 13.
- Fair value of land and buildings – refer to Note 13.
- Useful lives of software assets – refer to Note 14.
- Retirement and long service leave – refer to Note 17.

PBE IPSAS 1.137

Critical judgements in applying accounting policies[21]

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

- Other grants received – refer to Note 2.
- Grant expenditure – refer to Note 6.
- Leases classification – refer to Note 16.

[21] The examples provided are not intended to be exhaustive. Entities will need to consider their own circumstances to ensure that the disclosures required by PBE IPSAS 1.137 and PBE IPSAS 1.140 are relevant and complete.

PBE IPSAS 1.108

2 Revenue

PBE IPSAS 23.107(a),(b)

Accounting policy

PBE IPSAS 9.39(a)

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

Funding from the Crown

CSE is primarily funded from the Crown. This funding is restricted in its use for the purpose of CSE meeting the objectives specified in its founding legislation and the scope of the relevant appropriations of the funder.

CSE considers there are no conditions attached to the funding and it is recognised as revenue at the point of entitlement. This is considered to be the start of the appropriation period to which the funding relates.

The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

Other grants received

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

Donated assets

Where a physical asset is gifted to or acquired by CSE for nil consideration or at a subsidised cost, the asset is recognised at fair value. The difference between the consideration provided and fair value of the asset is recognised as revenue. The fair value of donated assets is determined as follows:

- For new assets, fair value is usually determined by reference to the retail price of the same or similar assets at the time the asset was received.
- For used assets, fair value is usually determined by reference to market information for assets of a similar type, condition, and age.

Good practice

Donated services

Certain operations of CSE are reliant on services provided by volunteers. Volunteer services received are not recognised as revenue or expenditure by CSE.[22]

Interest revenue

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

Rental revenue

Lease receipts under an operating sublease are recognised as revenue on a straight-line basis over the lease term.

Sale of publications

Sales of publications are recognised as revenue when the product is sold to the customer.

Provision of services

Services provided to third parties on commercial terms are recognised as revenue in proportion to the stage of completion at balance date.

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Other grants received

CSE must exercise judgement when recognising grant revenue to determine when conditions of the grant contract have been satisfied. In the current year, an $8.0m multi-year grant was awarded that requires the CSE to promote economic activities during the period 1 January 2016 to 31 December 2017. CSE has determined that the funding for the 1 January 2017 to 31 December 2017 period shall not be recognised as an asset or revenue at 30 June 2016 because funding for that period is conditional upon the CSE agreeing with the funder deliverables for that period in November 2016 and reporting satisfactory performance to date for funding received. Funding for the 2016 period of $2.0m not yet received at 30 June 2016 has been recognised as a receivable and revenue as there are no substantive conditions attached to the receipt of this funding.

[22] PBE IPSAS 23.98 permits but not does require donated services to be recognised in the financial statements. PBE IPSAS 23.108 encourages entities to disclose the nature and type of major classes of services in-kind received, including those not recognised.

2 Revenue (continued)

Breakdown of other revenue and further information

		Actual 2016 $000	Actual 2015 $000
	Other revenue includes:		
	Other grants received	11,000	9,610
PBE IPSAS 9.39(b)(iii) & 30.24(b)	Interest revenue	5,226	4,080
PBE IPSAS 23.107(d)	Donated equipment[23]	295	1,682
	Training course fees	3,808	2,502
	Rental revenue from property subleases	1,500	500
PBE IPSAS 1.51,107(c)	Net gain on sale of property, plant, and equipment	1,186	114
PBE IPSAS 30.24(a)(ii)	Net gains on derivative financial instruments	69	752
PBE IPSAS 4.61(a)	Net foreign exchange gains	0	0
	Other revenue	1,876	1,588
	Total other revenue	**24,960**	**20,828**

Asset disposals

PBE IFRS 5.41

During the year, motor vehicles that had reached a predetermined mileage were disposed of. The net gain on motor vehicle disposals was $186,000 (2015 $114,000). Two adjoining properties located at 102 and 104 Roundabout Drive in Taranaki were disposed of during March 2016 at a gain of $1.0m. These properties had been identified as surplus to CSE's requirements and approval from the Board was received to dispose of the properties.[24]

PBE IPSAS 1.127(c)

3 Personnel costs

Accounting policy

PBE IPSAS 1.132(c)

Superannuation schemes

PBE IPSAS 25.55

Defined contribution schemes

Employer contributions to KiwiSaver, the Government Superannuation Fund, and the State Sector Retirement Savings Scheme[25] are accounted for as defined contribution superannuation schemes and are expensed in the surplus or deficit as incurred.

Defined benefit schemes

PBE IPSAS 25. 33(b)(i)

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

PBE IPSAS 25.33(b)(ii)

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme the extent to which the surplus/deficit in the plan will affect future contributions by individual employers, because there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme. Further information on this scheme is disclosed in Note 19.

Breakdown of personnel costs and further information

		Actual 2016 $000	Actual 2015 $000
	Salaries and wages	304,654	342,999
PBE IPSAS 25.57	Defined contribution plan employer contributions	19,547	18,364
	Increase/(decrease) in employee entitlements	7,613	(35,407)
	Total personnel costs	**331,814**	**325,956**

[23] PBE IPSAS 23.107(d) requires disclosure of the nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

[24] If there are a number of asset sales, a general narrative can be provided.

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

3 Personnel costs (continued)

CEA s152(1)(c) [26]

Employee remuneration[27]

	Actual 2016	Actual 2015
Total remuneration paid or payable:		
$100,000 – $109,999	5	6
$110,000 – $119,999	4	3
$120,000 – $129,999	3	2
$130,000 – $139,999	1	0
$140,000 – $149,999	0	1
$150,000 – $159,999	1	1
$160,000 – $169,999	1	0
Total employees	15	13

CEA s152(1)(d)

During the year ended 30 June 2016, 2 (2015 3) employees received compensation and other benefits in relation to cessation totalling $225,000 (2015 $174,000).[28]

CEA s152(1)(a)

Board member remuneration

The total value of remuneration paid or payable to each Board member during the year was:

	Actual 2016 $000	Actual 2015 $000
[Director 1](Chairperson)[29]	70	67
[Director 2]	50	46
[Director 3]	50	46
[Director 4]	50	46
Total Board member remuneration	**220**	**205**

CEA s152(1)(b)

There have been no payments made to committee members appointed by the Board who are not Board members during the financial year.

CEA s152(1)(e)

CSE has provided a deed of indemnity to Directors for certain activities undertaken in the performance of CSE's functions.

CEA s152(1)(f)

CSE has taken out Directors' and Officers' Liability and Professional Indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees.

CEA s152(1)(d)

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

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[26] The disclosures required by section 152 of the CEA shall be made in the annual report. We consider it good practice to include these disclosures in the financial statements section of the annual report.

[27] For the purposes of total remuneration paid or payable, the remuneration includes the following elements: salary, cash allowances, bonuses, incentive payments, and other benefits included in the employee's total remuneration package. For example, superannuation contributions, medical insurance, and motor vehicles.

[28] Where no payments have been made, we consider it good practice to state this fact. Guidance on what payments should be included in this disclosure is included in the Office of the Auditor-General's (OAG) publication *Severance payments: A guide for the public sector*, which is available at the OAG's website **www.oag.govt.nz.**

[29] The actual names of Directors will need to be included in this disclosure.

Good practice

4 Capital charge

PBE IPSAS 1.132(c)

Accounting policy

The capital charge is expensed in the financial year to which the charge relates.

Further information on the capital charge

The capital charge paid to the Crown is calculated based on CSE's taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2016 was 8% (2015 8%).

PBE IPSAS 1.127(c)

5 Finance costs

PBE IPSAS 5.16, 40(a)

Accounting policy

PBE IPSAS 5.14

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

Breakdown of finance costs

Reference		Actual 2016 $000	Actual 2015 $000
PBE IPSAS 30.24(b)	Interest on bank overdraft	0	6
PBE IPSAS 30.24(b)	Interest on secured loans	1,992	1,318
PBE IPSAS 30.24(b)	Interest on finance lease	664	439
PBE IPSAS 19.70	Discount unwind on provisions (Note 18)	22	37
	Total finance costs	**2,678**	**1,800**

PBE IPSAS 1.106

6 Other expenses

Accounting policy

PBE IPSAS 1.132(c)

Grant expenditure

PBE IPSAS 19 IG18.1

Non-discretionary grants are those grants awarded if the grant application meets the specified criteria. They are expensed when an application that meets the specified criteria for the grant has been received. CSE's non-discretionary grants have no substantive conditions that need to be fulfilled to receive the grant.

Discretionary grants are those grants where CSE has no obligation to award the grant on receipt of the grant application. For discretionary grants without substantive conditions, the total committed funding over the life of the grant is expensed when the grant is approved by the Grants Approval Committee and the approval has been communicated to the applicant. Discretionary grants with substantive conditions are expensed at the earlier of the grant payment date or when the grant conditions have been satisfied. Conditions can include either:

- specification of how funding can be spent with a requirement to repay any unspent funds; or
- milestones that must be met to be eligible for funding.

Operating leases

PBE IPSAS 13.8,42,A5

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

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Grant expenditure

During the year, CSE started an "economic development grant assistance scheme". Successful grant applicants are awarded funds to assist their economic initiatives and grant monies are paid in arrears only when satisfactory evidence of the recipient's costs are submitted to CSE. CSE considers that, in substance, the conditions of the grant are satisfied with the incurrence of eligible costs under the grant arrangement and therefore grant expenses for this scheme are recognised on this basis. This requires an estimate at 30 June of costs incurred by recipients' but not yet submitted to CSE.

6 Other expenses (continued)

Breakdown of other expenses and further information[30]

		Actual 2016 $000	Actual 2015 $000
	Fees to auditor		
PBE IPSAS 1.116.1(a)	- fees to Audit New Zealand for audit of financial statements	58	51
PBE IPSAS 1.116.1(b)	- fees to Audit New Zealand for other services[31]	5	0
	Onerous contracts	0	5,122
	Restructuring costs	0	5,829
	Staff travel	1,934	2,054
PBE IPSAS 13.44(c)	Operating lease expense	9,190	8,547
PBE IPSAS 30.24(e)	Provision for uncollectability of receivables	2,490	4,283
PBE IFRS 4 D 17.6.1	ACC Accredited Employers Programme	632	672
PBE IPSAS 31 AG8	Website development expenses	8,240	1,904
	Advertising	4,764	3,151
	Consultancy	5,234	3,915
	Grant expenditure	12,015	1,294
PBE IPSAS 4.61(a)	Net foreign exchange losses, excluding derivatives	1,868	1,010
PBE IPSAS 12.47(d)	Inventories consumed	999	623
	Other expenses	1,696	1,565
	Total other expenses	**49,125**	**40,020**

PBE IPSAS 1.116.2 The fees paid to Audit New Zealand for other services were for an assurance review over the tendering process for procurement of building renovation services.

Operating leases as lessee

PBE IPSAS 13.44(a) The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

		Actual 2016 $000	Actual 2015 $000
PBE IPSAS 13.44(a)(i)	Not later than one year	9,422	9,190
PBE IPSAS 13.44(a)(ii)	Later than one year and not later than five years	27,570	33,025
PBE IPSAS 13.44(a)(iii)	Later than five years	0	0
	Total non-cancellable operating leases	**36,992**	**42,215**

PBE IPSAS 13.44(d) CSE leases two properties, one of which has been sublet due to it being surplus to requirements. Both the lease and the sublease expire on 30 June 2019. CSE has recognised a provision of $2.0m (2015 $4.4m) in respect of this lease (refer Note 18).

PBE IPSAS 13.44(d)(ii) A significant portion of the total non-cancellable operating lease expense relates to the lease of two floors of an office building. The lease expires in May 2019, with an option to vacate the premises at the lease renewal date of May 2017. CSE has assumed that it will not vacate the premises at the lease renewal date. CSE does not have the option to purchase the asset at the end of the lease term.

PBE IPSAS 13.44(d)(iii) There are no restrictions placed on CSE by any of its leasing arrangements.

PBE IPSAS 13.44(b) Total future minimum sublease payments to be received under non-cancellable subleases for office space at balance date are $9.2m (2015 $13.1m).[32]

[30] PBE IPSAS 1.106 requires separate disclosure of the nature and amount of material items of expense or revenue.

[31] PBE IPSAS 1.116.1–116.2 requires fees to each auditor or reviewer for other services performed during the reporting period to be separately disclosed from fees related to the audit or review of the financial statements. An entity shall describe the nature of the other services provided.

[32] If a Crown entity (including those applying the RDR) has material operating leases as a lessor, it must comply with the disclosure requirements of PBE IPSAS 13.69.

7 Cash and cash equivalents

PBE IPSAS 2.57

Accounting policy

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

Breakdown of cash and cash equivalents and further information

PBE IPSAS 2.56

	Actual 2016 $000	Actual 2015 $000
Cash at bank and on hand	6,950	4,735
Term deposits with maturities less than 3 months	68,128	51,856
Total cash and cash equivalents	**75,078**	**56,591**

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

PBE IPSAS 23.106(d)[33]

Cash at bank includes unspent grant funding received of $3.4m (2015 $2.3m) that is subject to restrictions. The restrictions generally specify how the grant is required to be spent in providing specified deliverables of the grant arrangement.

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

PBE IPSAS 1.94(b)

8 Receivables

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 29.45

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

PBE IPSAS 29.72
PBE IPSAS 30 AG5

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

Breakdown of receivables and further information

		Actual 2016 $000	Actual 2015 $000
	Receivables (gross)	10,725	6,645
	Less: provision for uncollectability	(2,379)	(4,115)
	Total receivables	**8,346**	**2,530**
	Total receivables comprises:		
PBE IPSAS 1.88(h)	Receivables from the sale of goods and services (exchange transactions)	1,754	463
PBE IPSAS 1.88(g) PBE IPSAS 23.106(b)	Receivables from grants (non-exchange transactions)	6,592	2,067

PBE IPSAS 30.44(a)

The ageing profile of receivables at year-end is detailed below:

	2016			2015		
	Gross $000	Provision for uncollectability $000	Net $000	Gross $000	Provision for uncollectability $000	Net $000
Not past due	6,021	(725)	5,296	2,248	(980)	1,268
Past due 1-30 days	2,120	(800)	1,320	1,610	(920)	690
Past due 31-60 days	1,120	(625)	495	1,627	(1,325)	302
Past due 61-90 days	1,300	(184)	1,116	950	(710)	240
Past due over 90 days	164	(45)	119	210	(180)	30
Total	**10,725**	**(2,379)**	**8,346**	**6,645**	**(4,115)**	**2,530**

All receivables greater than 30 days in age are considered to be past due.[34]

PBE IPSAS 30.44(b)

Due to the large number of receivables, the assessment for uncollectability is generally performed on a collective basis, based on an analysis of past collection history and write-offs.

PBE IPSAS 30.20

Movements in the provision for uncollectability of receivables are as follows:

	Actual 2016 $000	Actual 2015 $000
Balance at 1 July	4,115	4,054
Additional provisions made during the year	2,490	4,283
Receivables written off during the year	(4,226)	(4,222)
Balance at 30 June	**2,379**	**4,115**

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

PBE IPSAS 1.93

9 Investments

PBE IPSAS 30.25

Accounting policy

Bank term deposits

PBE IPSAS 29.45,48(a)

Bank term deposits are initially measured at the amount invested. Interest is subsequently accrued and added to the investment balance.

Equity investments

PBE IPSAS 29.45

Equity investments are designated at fair value through other comprehensive revenue and expense, which are initially measured at fair value plus transaction costs.

PBE IPSAS 29.48,64(b)

They are subsequently measured at their fair value with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit.

PBE IPSAS 29.64(b)

When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is transferred to the surplus or deficit.

PBE IPSAS 29.70,76,77

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

PBE IPSAS 29.78

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

Breakdown of investments and further information

PBE IPSAS 1.93

	Actual 2016 $000	Actual 2015 $000
Current portion		
Term deposits	3,420	3,078
Total current portion	3,420	3,078
Non-current portion		
Term deposits	6,811	156,636
Equity investments	1,107	1,012
Total non-current portion	7,918	157,648
Total investments	**11,338**	**160,726**

PBE IPSAS 30.29
PBE IPSAS 30 RDR 31.1

The fair value of equity investments is determined by reference to published bid price quotations in an active market.[35]

PBE IPSAS 30.29

The carrying amounts of term deposits with maturities less than 12 months approximate their fair value.

PBE IPSAS 30.29,31

The fair value of term deposits with remaining maturities in excess of 12 months is $6.4m (2015 $153.7m). The fair values are based on discounted cash flows using market quoted interest rates for term deposits with terms to maturity similar to the relevant investments.

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

10 Derivative financial instruments

PBE IPSAS 30.25

Accounting policy

Derivative financial instruments are used to manage exposure to foreign exchange risk arising from CSE's operational activities. CSE does not hold or issue derivative financial instruments for trading purposes. CSE has not adopted hedge accounting.

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

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

PBE IPSAS 1.76,80

A forward foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, the full fair value of forward foreign exchange derivatives are classified as non-current.

Further information on derivative financial instruments

PBE IPSAS 30.41(a)

The notional principal amounts of outstanding forward foreign exchange contracts in NZ$ were $7.7m (2015 $13.3m). The foreign currency principal amounts were US$nil (2015 US$10.0m) and AUS$6.0m (2015 AUS$nil).

PBE IPSAS 30.29,31
PBE IPSAS 30 RDR 31.1

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

PBE IPSAS 12.47(b)

11 Inventories

PBE IPSAS 12.47(a)

Accounting policy

PBE IPSAS 12.15
PBE IPSAS 12.17(a)

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

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

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

PBE IPSAS 12.16

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

PBE IPSAS 12.44

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

Breakdown of inventories and further information

PBE IPSAS 12.47(b)

	Actual 2016 $000	Actual 2015 $000
Non-commercial inventories		
Emergency stock	117	120
Inventories held for the use in the provision of goods and services	203	252
Commercial inventories		
Publications held for sale	622	873
Total inventories	**942**	**1,245**

PBE IPSAS 12.47(e),(f)

The write-down of inventories amounted to $52,000 (2015 $46,000). There have been no reversals of write-downs.[36]

PBE IPSAS 12.47(h)

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

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

12 Non-current assets held for sale

PBE IPSAS 1.132(c)

Accounting policy

PBE IFRS 5.6
PBE IFRS 5.15

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use. The asset is measured at the lower of its carrying amount and fair value less costs to sell.

PBE IFRS 5.20
PBE IFRS 5.21

Write-downs of the asset are recognised in the surplus or deficit. Any increases in fair value (less costs to sell) are recognised in the surplus or deficit up to the level of any impairment losses that have previously been recognised.

PBE IFRS 5.25

A non-current asset is not depreciated or amortised while classified as held for sale.

Breakdown of non-current assets held for sale and further information

PBE IFRS 5.38

	Actual 2016 $000	Actual 2015 $000
Non-current assets held for sale include:		
Land	1,020	0
Buildings	140	0
Total non-current assets held for sale	**1,160**	**0**

PBE IFRS 5.41

CSE owns land and buildings at Round Corner Drive in Taranaki. The Board has agreed to sell the property, as it will provide no future use to CSE. The sale is expected to be completed by October 2016.

PBE IFRS 5.38

The accumulated property revaluation reserve recognised in equity for the Round Corner Drive property at 30 June 2016 is $223,000.

13 Property, plant, and equipment

PBE IPSAS 1.132(c)

Accounting policy

PBE IPSAS 17.88(a)

Property, plant, and equipment consists of five asset classes, which are measured as follows:

- Land, at fair value.
- Buildings, at fair value less accumulated depreciation.
- Leasehold improvements, at cost less accumulated depreciation and impairment losses.
- Furniture and office equipment, at cost less accumulated depreciation and impairment losses.
- Motor vehicles, at cost less accumulated depreciation and impairment losses.

Revaluations

PBE IPSAS 17.44

Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value and at least every three years.[37]

PBE IPSAS 17.56

Land and building revaluation movements are accounted for on a class-of-asset basis.

PBE IPSAS 17.54,55

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

Additions

PBE IPSAS 17.14

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

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

PBE IPSAS 17.26,27

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

PBE IPSAS 17.14

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

PBE IPSAS 17.23,24

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

Disposals

PBE IPSAS 17.57,83,86

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in revaluation reserves in respect of those assets are transferred to the accumulated surplus/(deficit) within equity.

PBE IPSAS 17.88(b),(c)

Depreciation[38]

Depreciation is provided on a straight-line basis on all property, plant, and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of property, plant, and equipment have been estimated as follows:

Buildings (including components)	25 to 60 years	1.6%-4%
Leasehold improvements	10 years	10%
Furniture and office equipment	5 years	20%
Motor vehicles	5 years	20%

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

[37] The maximum revaluation cycle allowable under the Crown accounting policies at the time of publication is five years. It may be appropriate to adopt a shorter revaluation cycle policy.
[38] The useful lives and depreciation rates that have been listed are only illustrative. Each entity will need to set these based on their specific circumstances.

13 Property, plant, and equipment (continued)

Impairment of property, plant, and equipment

PBE IPSAS 26.14

CSE does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Non-cash-generating assets

PBE IPSAS 21.25,26
PBE IPSAS 21.35

Property, plant, and equipment held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value, less costs to sell, and value in use.

PBE IPSAS 21.44-50

Value in use is the present value of an asset's remaining service potential. It is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

PBE IPSAS 21.52,54

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

PBE IPSAS 21.69

The reversal of an impairment loss is recognised in the surplus or deficit.

Critical accounting estimates and assumptions

PBE IPSAS 1.140

Estimating useful lives and residual values of property, plant, and equipment

PBE IPSAS 17.67

At each balance date, the useful lives and residual values of property, plant, and equipment are reviewed. Assessing the appropriateness of useful life and residual value estimates of property, plant, and equipment requires a number of factors to be considered such as the physical condition of the asset, expected period of use of the asset by CSE, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will affect the depreciation expense recognised in the surplus or deficit, and carrying amount of the asset in the statement of financial position. CSE minimises the risk of this estimation uncertainty by:

- physical inspection of assets;
- asset replacement programs;
- review of second-hand market prices for similar assets; and
- analysis of prior asset sales.

CSE has not made significant changes to past assumptions concerning useful lives and residual values.

PBE IPSAS 1.140

Estimating the fair value of land and buildings

PBE IPSAS 17.92[39]

The most recent valuation of land and buildings was performed by an independent registered valuer, R Holt ANZIV of O'Connell Valuers Limited. The valuation is effective as at 30 June 2016.

Land

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

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

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

13 Property, plant, and equipment (continued)

Buildings

Specialised buildings are valued using depreciated replacement cost because no reliable market data is available for such buildings.

Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions include:

- The replacement asset is based on the reproduction cost of the specific assets with adjustments where appropriate for optimisation due to over-design or surplus capacity. There has been no optimisation adjustments for the most recent valuations.
- The replacement cost is derived from recent construction contracts of modern equivalent assets and Property Institute of New Zealand cost information. Construction costs range from $868 to $2,800 per square metre (2015 $835 to $2,650), depending on the nature of the specific asset valued.
- Independent structural engineers have estimated present-value costs of between $8.0m and $10.0m (2015 $9.5m and $11.0m) to strengthen CSE's earthquake-prone buildings. The mid-point of $9.0m (2015 $10.3m) has been deducted from the depreciated replacement cost.
- The remaining useful life of assets is estimated after considering factors such as the condition of the asset, CSE's future maintenance and replacement plans, and experience with similar buildings.
- Straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

Non-specialised buildings (for example, residential buildings) are valued using market-based evidence. Significant assumptions include market rents and capitalisation rates.

- Market rents range from $415 to $532 per spare metre (2015 $400 to $490). An increase (decrease) in market rents would increase (decrease) the fair value of non-specialised buildings.
- Capitalisation rates are market-based rates of return and range from 7.25% to 8% (2015 8.25% to 8.75%). An increase (decrease) in the capitalisation rate would decrease (increase) the fair value of non-specialised buildings.

Valuation basis comparison

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

	Actual 2016 $000	**Actual 2015 $000**
Depreciated replacement cost	94,796	82,731
Market-based evidence	59,125	38,436
Total carrying value of buildings	**153,921**	**121,167**

13 Property, plant, and equipment (continued)

Breakdown of property, plant, and equipment and further information

PBE IPSAS 17.88(d),(e)[40]

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

	Land	Buildings	Furniture and office equipment	Leasehold improve-ments	Motor vehicles	Total
	$000	$000	$000	$000	$000	$000
Cost or valuation						
Balance at 1 July 2014	200,000	95,269	113,376	89,600	134,976	633,221
Additions	45,662	23,825	24,000	10,000	3,000	106,487
Revaluation increase	46,876	2,073	0	0	0	48,949
Disposals	0	0	0	(36,000)	(10,000)	(46,000)
Balance at 30 June 2015/1 July 2015	292,538	121,167	137,376	63,600	127,976	742,657
Additions	136,270	31,990	24,578	22,487	0	215,325
Revaluation increase	69,940	906	0	0	0	70,846
Disposals	(8,497)	0	0	0	(2,000)	(10,497)
Transfer to assets held for sale	(1,020)	(142)	0	0	0	(1,162)
Balance at 30 June 2016	489,231	153,921	161,954	86,087	125,976	1,017,169
Accumulated depreciation and impairment losses						
Balance at 1 July 2014	0	953	41,127	37,320	10,000	89,400
Depreciation expense	0	2,431	9,626	12,311	32,522	56,890
Elimination on disposal	0	0	0	(36,000)	(9,420)	(45,420)
Elimination on revaluation	0	(3,384)	0	0	0	(3,384)
Balance at 30 June 2015/1 July 2015	0	0	50,753	13,631	33,102	97,486
Depreciation expense	0	2,553	10,463	13,476	33,644	60,136
Elimination on disposal	0	0	0	0	(1,874)	(1,874)
Elimination on revaluation	0	(2,551)	0	0	0	(2,551)
Transfer to assets held for sale	0	(2)	0	0	0	(2)
Impairment losses	0	0	0	0	0	0
Reversal of impairment losses	0	0	0	0	0	0
Balance at 30 June 2016	0	0	61,216	27,107	64,872	153,195
Carrying amounts						
At 1 July 2014	200,000	94,316	72,249	52,280	124,976	543,821
At 30 June/1 July 2015	292,538	121,167	86,623	49,969	94,874	645,171
At 30 June 2016	489,231	153,921	100,738	58,980	61,104	863,974

[40] This is just one way of presenting the reconciliation required by PBE IPSAS 17.

13 Property, plant, and equipment (continued)

Restrictions

PBE IPSAS 17.89(a)
PBE IPSAS 23.106(d)

CSE owns a building in Wellington, which is restricted for Government or reserve use. The carrying amount of the building is $10.7m (2015 $9.6m). CSE owns land with a carrying value of $56.3m (2015 $36.9m) that is restricted in its use because of reserve or endowment status. $11.4m (2015 $9.3m) of this land was donated. There are no other restrictions on CSE's property, plant, and equipment.[41]

Finance leases

PBE IPSAS 13.40(a)

The net carrying amount of office equipment held under finance leases is $6.7m (2015 $5.4m). Note 16 provides further information about finance leases.

Work in progress

PBE IPSAS 17.89(b)

Buildings in the course of construction is $2.0m (2015 $nil). No other asset classes have assets in the course of construction.[42]

Capital commitments

PBE IPSAS 17.89(c)

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

	Actual 2016 $000	Actual 2015 $000
Buildings[43]	258	0
Land	60	0
Total capital commitments	**318**	**0**

14 Intangible assets

PBE IPSAS 1.132(c)

Accounting policy

Software acquisition and development

PBE IPSAS 31.34,35

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

PBE IPSAS 31.64,65

Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

PBE IPSAS 31.36,65,67

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are expensed when incurred.

PBE IPSAS 31 AG8

Costs associated with development and maintenance of CSE's website are expensed when incurred.

Amortisation

PBE IPSAS 31.96,117(b)

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

PBE IPSAS 31.117(a)

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

Acquired computer software	3 to 6 years	16.7%-33.3%
Developed computer software	3 to 6 years	16.7%-33.3%

Impairment of intangible assets

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

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

14 Intangible assets (continued)

PBE IPSAS 1.140

Critical accounting estimates and assumptions

Estimating useful lives of software assets

CSE's internally generated software largely comprises an interactive database provided to the public as part of CSE's regulatory functions. Internally generated software has a finite life, which requires CSE to estimate the useful life of the software assets.

In assessing the useful lives of software assets, a number of factors are considered, including:

- the period of time the software is intended to be in use;
- the effect of technological change on systems and platforms; and
- the expected timeframe for the development of replacement systems and platforms.

An incorrect estimate of the useful lives of software assets will affect the amortisation expense recognised in the surplus or deficit, and the carrying amount of the software assets in the statement of financial position.

CSE has estimated a useful life of 6 years for its regulatory platform based on the period of use estimated in its 2012 business case. This useful life is still considered reasonable based on the current performance and use of the software. There are currently no indicators the period of use of the software will be materially different.

Breakdown of intangible assets and further information

PBE IPSAS 31.117(c),(e)

Movements for each class of intangible asset are as follows:[44]

	Acquired software $000	Internally generated software $000	Total $000
Cost			
Balance at 1 July 2014	5,000	15,000	20,000
Additions	0	0	0
Disposals	0	0	0
Balance at 30 June 2015/1 July 2015	5,000	15,000	20,000
Additions	2,077	6,231	8,308
Disposals	0	0	0
Balance at 30 June 2016	7,077	21,231	28,308
Accumulated amortisation and impairment losses			
Balance at 1 July 2014	1,095	3,285	4,380
Amortisation expense	1,667	5,000	6,667
Disposals	0	0	0
Impairment losses	0	0	0
Balance at 30 June 2015/1 July 2015	2,762	8,285	11,047
Amortisation expense	1,667	5,000	6,667
Disposals	0	0	0
Impairment losses	0	0	0
Balance at 30 June 2016	4,429	13,285	17,714
Carrying amounts			
At 1 July 2014	3,905	11,715	15,620
At 30 June/1 July 2015	2,238	6,715	8,953
At 30 June 2016	2,648	7,946	10,594

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

14 Intangible assets (continued)

Restrictions

PBE IPSAS 31.121(d) There are no restrictions over the title of CSE's intangible assets, nor are any intangible assets pledged as security for liabilities.

Capital commitments

PBE IPSAS 31.121(e) The amount of contractual commitments for the acquisition of intangible assets is $1.2m (2015 $nil).

PBE IPSAS 1.93

15 Payables and deferred revenue

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 29.45 Short-term payables are recorded at the amount payable.

Breakdown of payables and deferred revenue

	Actual 2016 $000	Actual 2015 $000
Payables and deferred revenue under exchange transactions		
Creditors	13,524	14,311
Income in advance (course fees)	880	945
Accrued expenses	12,886	6,754
Other	8,795	6,648
PBE IPSAS 1.88(k) *Total payables under exchange transactions*	36,085	27,658
Payables and deferred revenue under non-exchange transactions		
Taxes payable (GST and rates)	6,346	4,075
Grants payable	892	0
PBE IPSAS 23.106(c) Grants received subject to conditions	0	1,124
Other	2,263	1,912
PBE IPSAS 1.88(j) *Total payables under non-exchange transactions*	9,501	7,111
Total payables and deferred revenue	**45,586**	**35,769**

PBE IPSAS 1.93

16 Borrowings

PBE IPSAS 30.25

Accounting policy

PBE IPSAS 29.45
PBE IPSAS 29.49 Borrowings on normal commercial terms are initially recognised at the amount borrowed plus transaction costs. Interest due on the borrowings is subsequently accrued and added to the borrowings balance.

PBE IPSAS 1.80 Borrowings are classified as current liabilities unless CSE has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Finance leases

PBE IPSAS 13.8 A finance lease transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

PBE IPSAS 13.28 At the start of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

PBE IPSAS 13.34 The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

PBE IPSAS 13.36 The amount recognised as an asset is depreciated over its useful life. If there is no reasonable certainty whether CSE will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

16 Borrowings (continued)

PBE IPSAS 1.137

Critical judgements in applying accounting policies

Determining lease classification

Determining whether a lease is a finance lease or an operating lease requires judgement as to whether the lease transfers substantially all the risks and rewards of ownership to CSE.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant, and equipment, whereas for an operating lease no such asset is recognised.

Breakdown of borrowings and further information

		Actual 2016 $000	Actual 2015 $000
PBE IPSAS 1.80	**Current portion**		
	Finance leases	2,312	2,128
	Secured loans	6,986	7,858
	Total current portion	9,298	9,986
PBE IPSAS 1.80	**Non-current portion**		
	Finance leases	5,048	3,578
	Secured loans	10,590	18,230
	Total non-current portion	15,638	21,808
	Total borrowings	**24,936**	**31,794**

Secured loans

PBE IPSAS 30.38 Secured loans are issued at floating rates of interest, with interest rates reset quarterly based on the 90-day bank bill rate plus a margin for credit risk.

PBE IPSAS 1.87(a) Subsequent to balance date, $3.0m of the current portion of secured loans was refinanced. The loans were refinanced for a 3-year period at a floating rate of interest set quarterly at the 90-day bank bill rate plus a margin for credit risk. CSE expects that the remaining amount of the current portion will refinanced on similar terms.

Security

PBE IPSAS 17.89(a) The secured loans are secured by a first-registered mortgage over land and buildings.

PBE IPSAS 17.89(a) Finance lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default.

PBE IPSAS 30.38 *Secured loan covenants*

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

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

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

Fair value

PBE IPSAS 30.29 Due to interest rates on floating rate debt resetting to the market rate every three months, the carrying amounts of secured loans approximates their fair value.

PBE IPSAS 30.29,31 The fair value of finance leases is $7.9m (2015 $6.2m). Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 5.6% to 6.2% (2015 6.4% to 7.3%)

16 Borrowings (continued)

Analysis of finance leases:

		Actual 2016 $000	Actual 2015 $000
PBE IPSAS 13.40(c)	**Minimum lease payments payable:**		
	Not later than one year	2,497	2,324
	Later than one year and not later than five years	5,452	3,910
	Later than five years	0	0
PBE IPSAS 13.40(b)	*Total minimum lease payments*	7,949	6,234
PBE IPSAS 13.40(b)	Future finance charges	(589)	(528)
PBE IPSAS 13.40(b)	*Present value of minimum lease payments*	7,360	5,706
PBE IPSAS 13.40(c)	**Present value of minimum lease payments payable:**		
	Not later than one year	2,312	2,128
	Later than one year and not later than five years	5,048	3,578
	Later than five years	0	0
	Total present value of minimum lease payments	7,360	5,706

Finance leases as lessee

PBE IPSAS 13.40(a) Finance leases have been entered into for various items of office equipment. The net carrying amount of office equipment held under finance leases is $6.7m (2015 $5.4m).

PBE IPSAS 13.40(f)(ii) Finance leases can be renewed at CSE's option, with rents set by reference to current market rates for items of equivalent age and condition. CSE does not have the option to purchase the asset at the end of the lease term.

PBE IPSAS 13.40(f)(iii) CSE is not permitted to pledge the leased assets as security, nor can it sublease the leased equipment without the permission of the lessor. There are no other restrictions placed on CSE by any of the leasing arrangements.

PBE IPSAS 1.93

17 Employee entitlements

PBE IPSAS 1.132(c)

Accounting policy

Short-term employee entitlements

PBE IPSAS 25.13 Employee benefits that are due to be settled within 12 months after the end of the year in which the employee provides the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, and sick leave.

PBE IPSAS 25.20 A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term employee entitlements

PBE IPSAS 25.147-152 Employee benefits that are due to be settled beyond 12 months after the end of year in which the employee provides the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

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

Good practice

Presentation of employee entitlements

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

17 Employee entitlements (continued)

PBE IPSAS 1.140

Critical accounting estimates and assumptions

Measuring retirement and long service leave obligations

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

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

If the discount rate were to differ by 1% from that used, with all other factors held constant, the carrying amount of the retirement and long service leave liability would be an estimated $1.9m higher/lower.

If the salary inflation factor were to differ by 1% from that used, with all other factors held constant, the carrying amount of the retirement and long service leave liability would be an estimated $1.7m higher/lower.

Breakdown of employee entitlements

		Actual 2016 $000	Actual 2015 $000
PBE IPSAS 1.80	**Current portion**		
	Accrued salaries and wages	9,710	9,298
	Annual leave	30,214	20,160
	Sick leave	1,434	2,054
	Retirement and long service leave	1,484	1,002
	Total current portion	42,842	32,514
PBE IPSAS 1.80	**Non-current portion**		
	Retirement and long service leave	44,591	46,894
	Total non-current portion	44,591	46,894
	Total employee entitlements	**87,433**	**79,408**

PBE IPSAS 1.93

18 Provisions

PBE IPSAS 1.132(c)

Accounting policy

General

PBE IPSAS 19.22

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

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

PBE IPSAS 19.53,56,70

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

PBE IPSAS 19.82,83

Restructuring

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

PBE IPSAS 19.76,79

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits or service potential to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

PBE IFRS 4.37(a)

ACC Accredited Employers Programme

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

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

Breakdown of provisions and further information

	Actual 2016 $000	Actual 2015 $000
Current portion (PBE IPSAS 1.80)		
Restructuring	1,913	986
Lease make-good	381	534
Onerous contracts	600	1,189
ACC Accredited Employers Programme	510	480
Total current portion	3,404	3,189
Non-current portion (PBE IPSAS 1.80)		
Restructuring	706	4,521
Lease make-good	1,820	3,222
Onerous contracts	1,439	3,207
ACC Accredited Employers Programme	210	212
Total non-current portion	4,175	11,162
Total provisions	**7,579**	**14,351**

18 Provisions (continued)

PBE IPSAS 19.98

Restructuring provision

CSE's Board approved a detailed and formal restructuring plan, which was announced in May 2015. The restructuring started in June of that year. The restructuring plan and associated payments are expected to be completed by October 2016. The provision represents the estimated cost for redundancy payments arising from the restructure.

PBE IPSAS 19.98

Lease make-good provision

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

CSE has assumed that the option to renew will be exercised in measuring the provision. The cash flows associated with the non-current portion of the lease make good provision are expected to occur in May and June 2019.[45]

Information about CSE's leasing arrangements is disclosed in Note 6.

PBE IPSAS 19.98

Onerous contracts provision

CSE has a non-cancellable lease for office space that is no longer used by CSE due to restructuring. The lease does not expire until 30 June 2019. The building has been sublet for the remaining term of the lease. However, a change in the market conditions has resulted in the rental expense being greater than the rental income received from subleasing. A provision has been recognised for the obligation of the future discounted rental payments net of estimated rental revenue.

ACC Accredited Employers Programme[46]

PBE IFRS 4 D17.7.1(a)

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

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

PBE IFRS 4 D17.7.1(c)

CSE has chosen a stop loss limit of 200% of the industry premium. The stop loss limit means CSE will carry the total cost of all claims up to $750,000 for each year of cover, which runs from 1 April to 31 March. If the claims for a year exceed the stop loss limit, CSE will continue to meet the costs of claims and will be reimbursed by ACC for the costs that exceed the stop loss limit.

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

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

PBE IFRS 4 D17.8A

An independent actuarial valuer, D W Smith BSc FIAA, has calculated CSE's liability, and the valuation is effective as at 30 June 2016. The valuer has attested that he is satisfied as to the nature, sufficiency, and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the valuer's report.

PBE IFRS 4.17.8B(b),(c)

Average inflation has been assumed as 1.62% for the years ending 30 June 2017 and 30 June 2018. A discount rate of 2.37% has been used for the year ending 30 June 2017 and 2.49% for the year ending 30 June 2018.

PBE IFRS 4 D17.6.1(d)

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

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

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

18 Provisions (continued)

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

		Restructuring	Lease make-good	Onerous contracts	ACC Accredited Employers Programme	Total
		$000	$000	$000	$000	$000
Good practice	Balance at 1 July 2014	0	350	0	502	852
Good practice	Additional provisions made	5,829	3,579	5,122	672	15,202
Good practice	Amounts used	(325)	(175)	(758)	(482)	(1,740)
Good practice	Unused amounts reversed	0	0	0	0	0
Good practice	Discount unwind (Note 5)	3	2	32	0	37
PBE IPSAS 19.97(a)	*Balance at 30 June/1 July 2015*	5,507	3,756	4,396	692	14,351
PBE IPSAS 19.97(b)	Additional provisions made	0	0	0	632	632
PBE IPSAS 19.97(c)	Amounts used	(2,894)	(1,558)	(2,370)	(604)	(7,426)
PBE IPSAS 19.97(d)	Unused amounts reversed	0	0	0	0	0
PBE IPSAS 19.97(e)	Discount unwind (Note 5)	6	3	13	0	22
PBE IPSAS 19.97(a)	**Balance at 30 June 2016**	**2,619**	**2,201**	**2,039**	**720**	**7,579**

19 Contingencies

Contingent liabilities

Lawsuit

PBE IPSAS 19.100

CSE has a contingent liability relating to legal action instigated by a former employee. The claimant is seeking $75,000 (2015 $nil) in damages.

Management, in conjunction with the Board, are vigorously defending the charges and are confident that CSE will not be found liable.

Superannuation schemes

PBE IPSAS 25.33(c)[48]

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

As at 31 March 2016, the Scheme had a past service surplus of $20.9m (exclusive of Employer Superannuation Contribution Tax) (2015 $16.2m). This surplus was calculated using a discount rate equal to the expected return on net assets, but otherwise the assumptions and methodology were consistent with the requirements of PBE IPSAS 25.

The actuary of the Scheme has recommended that the employer contributions be suspended with effect from 1 April 2015. Employer contributions were stopped from 1 April 2015.

Contingent assets

PBE IPSAS 19.105

CSE has no contingent assets (2015 $nil).[49]

[47] The disclosure of comparative figures for provisions is not required by PBE IPSAS 19.97. We consider it good practice for Tier 1 entities to disclose the comparative figures for provisions.
[48] PBE IPSAS 25.33(c) requires that, where there is a surplus or deficit in a scheme that may affect the amount of future contributions, an entity must disclose any available information about the surplus or deficit, the basis used to determine the surplus or deficit (the RDR does not require this disclosure), and the implications, if any, for the entity. The past service surplus disclosed in this model is a fictitious amount. Actual figures are required.
[49] Where no contingent assets exist, we consider it good practice to state that fact.

20 Equity

Good practice

Accounting policy

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

- contributed capital;
- accumulated surplus/(deficit);
- property revaluation reserves; and
- financial assets at fair value through other comprehensive revenue and expense reserve.

Property revaluation reserves

PBE IPSAS 1.95(c) These reserves relate to the revaluation of property, plant, and equipment to fair value.

Financial assets at fair value through other comprehensive revenue and expense reserve

PBE IPSAS 1.95(c) This reserve comprises the cumulative net change of financial assets classified as fair value through other comprehensive revenue and expense.

Breakdown of equity and further information

		Actual 2016 $000	Actual 2015 $000
PBE IPSAS 1.119(c)	**Contributed capital**		
	Balance at 1 July	200,000	124,882
	Capital contribution	1,020	75,118
	Repayment of capital	0	0
	Balance at 30 June	201,020	200,000
PBE IPSAS 1.119(c)	**Accumulated surplus/(deficit)**		
	Balance at 1 July	92,108	57,408
PBE IPSAS 17.57	Property revaluation reserve transfer on disposal	5,500	0
	Surplus/(deficit) for the year	18,932	34,700
	Balance at 30 June	116,540	92,108
PBE IPSAS 1.119(c)	**Property revaluation reserves**		
	Balance at 1 July	421,994	369,661
	Revaluations	73,397	52,333
	Transfer to accumulated surplus/(deficit) on disposal	(5,500)	0
	Balance at 30 June	489,891	421,994
Good practice	*Property revaluation reserves consist of:*		
	Land	441,065	376,625
	Buildings	48,826	45,369
	Total property revaluation reserves	489,891	421,994
PBE IPSAS 1.119(c)	**Financial assets at fair value through other comprehensive revenue and expense reserve**		
	Balance at 1 July	512	402
PBE IPSAS 30.24(a)(ii)	Net change in fair value	95	110
PBE IPSAS 30.24(a)(ii)	Transfer to surplus/deficit on disposal	0	0
	Balance at 30 June	607	512
	Total equity	**808,058**	**714,614**

20 Equity (continued)

Capital management

PBE IPSAS 1.148A

CSE's capital is its equity, which comprises accumulated funds and revaluation reserves. Equity is represented by net assets.

CSE is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

CSE has complied with the financial management requirements of the Crown Entities Act 2004 during the year.

CSE manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure that CSE effectively achieves its objectives and purpose, while remaining a going concern.

21 Related party transactions

PBE IPSAS 20.25

CSE is controlled by the Crown.

Good practice

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

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

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

PBE IPSAS 20.27,30,32

Related party transactions required to be disclosed

CSE entered into transactions with other Crown-related entities on non-commercial terms for the sale of inventory. Sales totalled $401,271 (2015 $546,123) and were sold at an average discount of 48% (2015 52%) of market price. No amounts were outstanding at balance date.

CSE purchased internal audit services totalling $76,564 (2015 $nil) from Accountants Limited, an accounting firm of which [*Director 1*] is a Partner. The services were procured without going through a tender process and the contracted hourly rates of the internal audit staff are significantly discounted compared to other recent internal audit service contracts CSE has entered into. An amount of $12,342 is outstanding at 30 June 2016 (2015 nil).

PBE IPSAS 20.34(a)

Key management personnel compensation[50,51]

	Actual 2016	Actual 2015
Board Members		
Remuneration	$220,234	$205,329
Full-time equivalent members	1.25	1.25
Leadership Team		
Remuneration	$1,008,432	$982,552
Full-time equivalent members	6.5	5.5
Total key management personnel remuneration	**$1,228,666**	**$1,187,881**
Total full-time equivalent personnel	**7.75**	**6.75**

Good practice

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

An analysis of Board member remuneration is provided in Note 3.

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

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

22 Financial instruments

PBE IPSAS 30.11

22A Financial instrument categories

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

		Actual 2016 $000	Actual 2015 $000
	Fair value through surplus or deficit – Held for trading[52]		
PBE IPSAS 30.11(a)(ii)	Derivative financial instrument assets	2,900	1,960
PBE IPSAS 30.11(e)(ii)	Derivative financial instrument liabilities	1,740	2,240
PBE IPSAS 30.11(f)	**Financial liabilities measured at amortised cost**		
	Payables (excluding deferred revenue, taxes payable and grants received subject to conditions)	38,360	29,625
	Borrowings – secured loans	17,576	26,088
	Finance leases	7,360	5,706
	Total financial liabilities measured at amortised cost	63,296	61,419
PBE IPSAS 30.11(c)	**Loans and receivables**		
	Cash and cash equivalents	75,078	56,591
	Receivables	8,346	2,530
	Investments – term deposits	10,231	159,714
	Total loans and receivables	93,655	218,835
	Financial assets at fair value through other comprehensive revenue and expense		
PBE IPSAS 30.11(d)	Investments – equity investments	1,107	1,012

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

22B Fair value hierarchy

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

- Quoted market prices (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation techniques using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

PBE IPSAS 30.33(a)

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.[53]

		Valuation technique		
	Total $000	Quoted market price $000	Observable inputs $000	Significant non-observable inputs $000
30 June 2016				
Financial assets				
Derivatives	2,900	0	2,900	0
Equity investments	1,107	1,107	0	0
Financial liabilities				
Derivatives	1,740	0	1,740	0
30 June 2015				
Financial assets				
Derivatives	1,960	0	1,960	0
Equity investments	1,012	1,012	0	0
Financial liabilities				
Derivatives	2,240	0	2,240	0

PBE IPSAS 30.33(b)

There were no transfers between the different levels of the fair value hierarchy.[54]

22C Financial instrument risks

PBE IPSAS 30.38

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

PBE IPSAS 30.40

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. CSE's equity investments are exposed to price risk because they are listed investments. CSE's equity investments are held for strategic purposes as opposed to generating a financial return.

PBE IPSAS 30.47

The equity investments are publicly traded. If the share price at 30 June 2016 had fluctuated by plus or minus 0.5%, the effect would have been to increase/decrease other comprehensive revenue and expense by $5,535 (2015 $5,006).

[53] A tabular format must be used in presenting the value hierarchy quantitative disclosures unless another format is more appropriate.

[54] Significant transfers between the different fair value hierarchy levels must be identified and the reasons for those transfers disclosed. PBE IPSAS 30.33(b) requires transfers into each level to be disclosed and discussed separately from transfers out of each level. Additionally, for measurements included in level 3 of the fair value hierarchy, PBE IPSAS 30.33(c) requires a reconciliation between the opening and closing balances to be presented.

22C Financial instrument risks (continued)

Fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. CSE's exposure to fair value interest rate risk is limited to its bank deposits which are held at fixed rates of interest. CSE does not actively manage its exposure to fair value interest rate risk.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Investments and borrowings issued at variable interest rates expose CSE to cash flow interest rate risk.

CSE's investment policy requires a spread of investment maturity dates to limit exposure to short-term interest rate movements. CSE currently has no variable interest rate investments.

CSE's borrowing policy requires a spread of interest rate repricing dates on borrowings to limit the exposure to short-term interest rate movements. CSE's borrowing policy does not permit the use of interest rate derivatives to manage cash flow interest rate risk.

Sensitivity analysis

PBE IPSAS 30.47

At 30 June 2016, if the 90-day bank bill rate had been 50 basis points higher or lower, with all other variables held constant, the surplus/deficit for the year would have been $88,000 (2015 $130,000) lower/higher. This movement is attributable to increased or decreased interest expense on floating rate loans. The sensitivity is lower in 2016 than in 2015 because of a reduction in outstanding borrowings that has occurred as CSE's loans have matured and been repaid.

Currency risk

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

CSE makes purchases of goods and services overseas that require it to enter into transactions denominated in foreign currencies. CSE also holds small balances of AUD, GBP, and USD at call with international banks in order to settle transactions denominated in foreign currencies when necessary. As a result of these activities, exposure to currency risk arises.

CSE manages foreign currency risks arising from contractual commitments and liabilities by entering into forward foreign exchange contracts to manage the foreign currency risk exposure.

PBE IPSAS 30.47

Sensitivity analysis[55]

At 30 June 2016, if the NZ dollar had weakened/strengthened by 5% against the US dollar with all other variables held constant, the surplus for the year would have been:

- $14,000 (2015 $20,000) lower if the NZ dollar had weakened.
- $15,000 (2015 $22,500) higher if the NZ dollar had strengthened.

This movement is attributable to foreign exchange gains/losses on translation of US dollar denominated creditors and bank balances.

Credit risk

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

PBE IPSAS 30.43(a)

In the normal course of business, CSE is exposed to credit risk from cash and term deposits with banks, receivables, and derivative financial instrument assets. For each of these, the maximum credit exposure is best represented by the carrying amount in the statement of financial position.

CSE reviews the credit quality of customers prior to the granting of credit.

PBE IPSAS 30.43(c)

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

PBE IPSAS 30.43(b),44(c)

CSE holds no collateral or other credit enhancements for financial instruments that give rise to credit risk.

[55] A sensitivity analysis for derivative financial instruments is required when the aggregated fair value of derivatives are significant.

22C Financial instrument risks (continued)

PBE IPSAS 30.43(c)

Credit quality of financial assets

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

	2016 $000	2015 $000
COUNTERPARTIES WITH CREDIT RATINGS		
Cash at bank and term deposits		
AA	40,850	58,130
AA–	44,459	158,175
Total cash at bank and term deposits	85,309	216,305
Derivative financial instrument assets		
AA	2,900	1,960
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Receivables		
Counterparty with no defaults in the past	7,998	2,328
Counterparty with defaults in the past	348	202
Total receivables	8,346	2,530

Liquidity risk

PBE IPSAS 30.46(c)

Management of liquidity risk

Liquidity risk is the risk that CSE will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the ability to close out market positions.

CSE manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

Contractual maturity analysis of financial liabilities, excluding derivatives

PBE IPSAS 30.46(a)

The table below analyses financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate of the instrument at balance date. The amounts disclosed are the undiscounted contractual cash flows.[56]

	Carrying amount $000	Contractual cash flows $000	Less than 6 months $000	6-12 months $000	More than 1 year $000
2016					
Payables (excluding income in advance, taxes payable and grants received subject to conditions)	38,360	38,360	38,360	0	0
Finance leases	7,360	7,949	1,249	1,249	5,451
Secured loans	17,576	21,923	7,986	1,050	12,887
Total	**63,296**	**68,232**	**47,595**	**2,299**	**18,338**
2015					
Payables (excluding income in advance, taxes payable and grants received subject to conditions)	29,625	29,625	29,625	0	0
Finance leases	5,706	6,234	1,162	1,162	3,910
Secured loans	26,088	32,629	8,858	1,043	22,728
Total	**61,419**	**68,488**	**39,645**	**2,205**	**26,638**

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

22C Financial instrument risks (continued)

Contractual maturity analysis of derivative financial liabilities

PBE IPSAS 30.46(b)

The table below analyses derivative financial instrument liabilities that are settled net and all gross settled derivatives[57] into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Liability carrying amount	Asset carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years
2016						
Forward foreign exchange contracts	1,740	2,900				
-outflow			7,690	5,478	2,212	0
-inflow			7,144	5,589	1,555	0
2015						
Forward foreign exchange contracts	2,240	1,960				
-outflow			13,333	10,471	2,862	0
-inflow			14,025	11,547	2,478	0

23 Events after the balance date

PBE IPSAS 14.28,30

There were no significant events after the balance date.

24 Explanation of major variances against budget

PBE IPSAS 1.148.1

Explanations for major variances from CSE's budgeted figures in the statement of performance expectations are as follows:

Statement of comprehensive revenue and expense

Other revenue

Other revenue was less than budgeted by $2.9m, largely because grants received were $2.5m less than expected. Due to prioritisation of Crown deliverables, CSE was unable to apply for promotional funding for certain development initiatives.

Other expenses

Other expenses were less than budgeted by $14.8m mainly due to delays in implementing the "Whole of New Zealand" development initiative. The delay in this initiative is mainly attributable to difficulty in securing consultants for project delivery.

Gain on property revaluations

Property revaluation gains were less than budgeted by $16.6m due to property valuations not moving to the extent anticipated by management as a result of the downturn in the property market during the year.

Statement of financial position

Employee entitlements

Employee entitlements were less than budgeted by $9.3m largely due to management's efforts to encourage the taking of leave and reduce the level of untaken leave, and management assuming that more employees would qualify for retirement and long service leave than that calculated in the actuarial valuation as at 30 June 2016.

Provisions

Provisions were less than budgeted by $5.5m largely due to $3.5m of restructuring, and $1.5m lease make good payments being made earlier than expected.

Statement of cash flows

Payments to suppliers were less than budgeted by $16.7m due to delays in implementing the "Whole of New Zealand" development initiative. Consequently, cash outflows for payments to consultants were less than budgeted.

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

SUBJECT INDEX