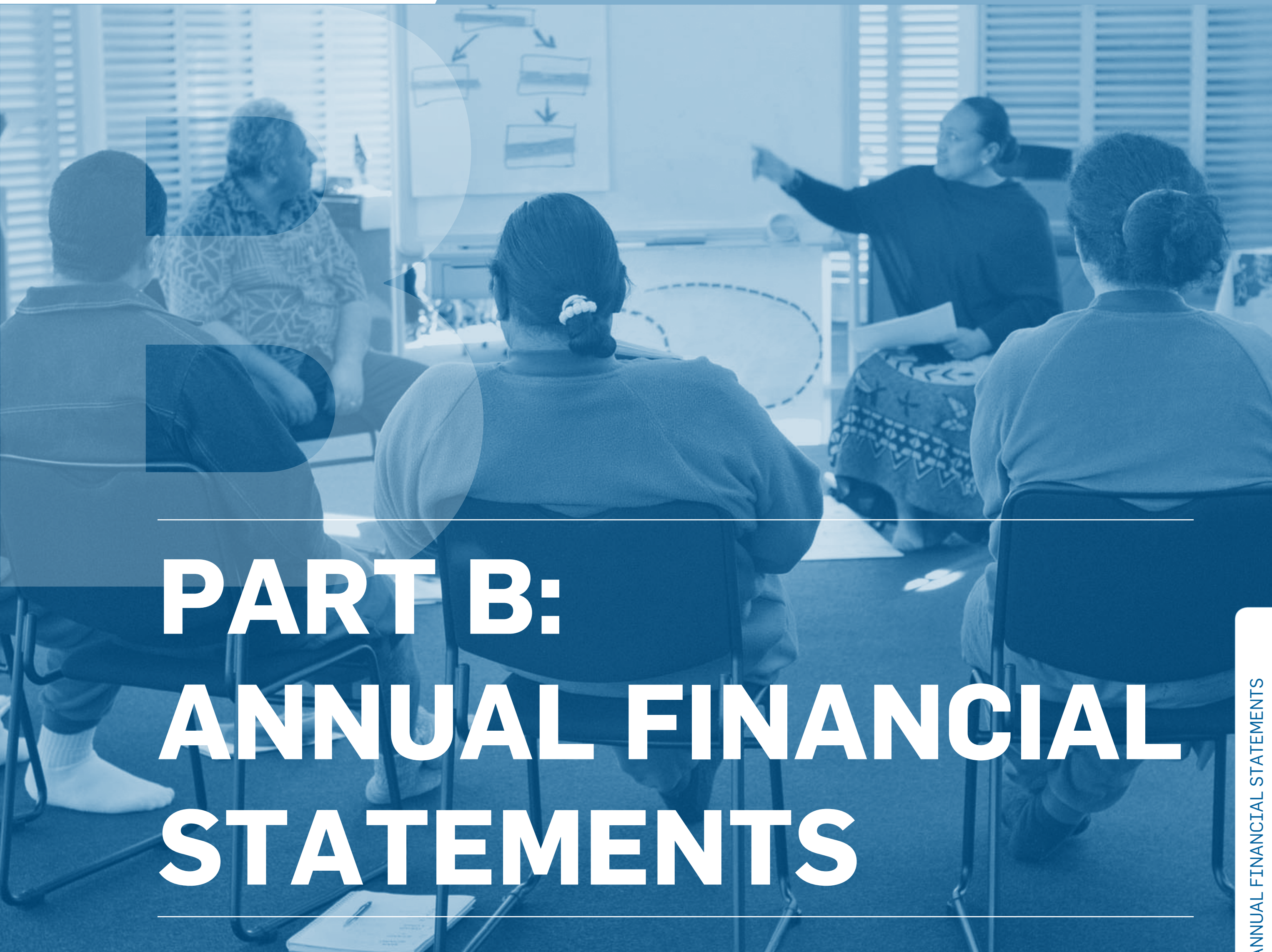

PART B: ANNUAL FINANCIAL STATEMENTS

CONTENTS

STATEMENT OF RESPONSIBILITY

In terms of the Public Finance Act 1989, Section 45C, I am responsible, as Chief Executive of the Department of Corrections, for the preparation of the Department's Financial Statements and Statement of Service Performance and for the judgements made in these statements.

I have the responsibility of establishing, and I have established, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the Department for the year ended 30 June 2009.

Signed

Barry Matthews

Chief Executive

30 September 2009

Countersigned

John Bole

General Manager
Business Information & Planning

30 September 2009

AUDIT REPORT

Audit New Zealand
Mana Arotake Aotearoa

TO THE READERS OF THE DEPARTMENT OF CORRECTIONS' FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2009

The Auditor-General is the auditor of the Department of Corrections (the Department). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit. The audit covers the financial statements and statement of service performance included in the annual report of the Department for the year ended 30 June 2009.

UNQUALIFIED OPINION

In our opinion:

- The financial statements of the Department on pages 47 to 86:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Department's financial position as at 30 June 2009;
    - the results of its operations and cash flows for the year ended on that date;
    - its expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2009; and
    - its unappropriated expenses and capital expenditure for the year ended 30 June 2009.
- The statement of service performance of the Department on pages 88 to 126:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - its standards of delivery performance achieved, as compared with the forecast standards included in the statement of forecast service performance adopted at the start of the financial year; and
    - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses included in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 30 September 2009, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

BASIS OF OPINION

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

RESPONSIBILITIES OF THE CHIEF EXECUTIVE AND THE AUDITOR

The Chief Executive is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Department as at 30 June 2009 and the results of its operations and cash flows for the year ended on that date.

The financial statements must also fairly reflect the expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2009. The financial statements must also fairly reflect the Department's unappropriated expenses and capital expenditure for the year ended on that date.

The statement of service performance must fairly reflect, for each class of outputs, the Department's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year.

The Chief Executive's responsibilities arise from sections 45A and 45B of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45D(2) of the Public Finance Act 1989.

INDEPENDENCE

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out probity assurance assignments in the areas of assurance over a number of tenders, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Department.

Stephen Lucy

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

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements of the Department of Corrections (the Department) for the year ended 30 June 2009 included on the Department's website. The Department's Chief Executive is responsible for the maintenance and integrity of the Department's website. We have not been engaged to report on the integrity of the Department's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements as well as the related audit report dated 30 September 2009 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2009

2008 Actual $000		Notes	2009 Actual $000	2009 Main Estimates $000	2009 Supp. Estimates $000
	REVENUE				
886,003	Crown		933,613	930,778	933,613
7,765	Departmental		8,998	7,929	9,119
33,075	Other	2	32,926	25,998	34,198
17	Dividends		52	–	–
926,860	**Total operating revenue**		**975,589**	**964,705**	**976,930**
	EXPENDITURE				
443,020	Personnel costs	3	459,256	458,466	459,880
232,083	Operating costs	4	246,265	245,774	257,028
117,888	Depreciation and amortisation	5	124,799	126,451	122,378
130,641	Capital charge	6	131,871	134,014	131,244
923,632	**Total output expenses**		**962,191**	**964,705**	**970,530**
3,228	**Net surplus/(deficit)**		**13,398**	**–**	**6,400**

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 86).

STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

For the year ended 30 June 2009

2008 Actual $000		Notes	2009 Actual $000	2009 Main Estimates $000	2009 Supp. Estimates $000
1,730,350	**TAXPAYERS' FUNDS BROUGHT FORWARD AS AT 1 JULY**		**1,799,739**	**1,799,047**	**1,799,739**
	Movements during the year (other than flows to and from the Crown)				
3,228	Add/(deduct) net surplus/(deficit)		13,398	–	6,400
(1,211)	Increase/(decrease) in revaluation reserves	18	245,305	–	–
–	Net write-back or revaluation gains/(Losses) related to previous year	18	2,548	–	–
2,017	**Total recognised revenues and expenses for the period**		**261,251**	**–**	**6,400**
	Adjustment for flows to and from the Crown				
70,600	Add capital contributions from the Crown during the year	18	65,747	(21,094)	65,747
–	Less capital returned to the Crown during the year	18	(83,841)	–	(83,841)
(3,228)	Provision for payment of surplus to the Crown		(13,398)	–	(6,400)
67,372	**Total adjustments for flows to and from the Crown**		**(31,492)**	**(21,094)**	**(24,494)**
1,799,739	**Taxpayers' funds at end of the year**		**2,029,498**	**1,777,953**	**1,781,645**

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 86).

STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

2008 Actual $000		Notes	2009 Actual $000	2009 Main Estimates $000	2009 Supp. Estimates $000
	ASSETS				
	Current assets				
164,761	Cash and cash equivalents	7	146,685	13,576	137,348
1,988	Prepayments	8	3,019	2,125	2,125
5,692	Debtors and other receivables	9	11,279	7,229	5,729
5,911	Inventories	10	6,444	5,600	5,600
1,510	Investments	11	–	–	–
179,862	**Total current assets**		**167,427**	**28,530**	**150,802**
	Non-current assets				
6,926	Investments	11	5,695	9,008	6,926
1,698,464	Physical assets	12	1,941,272	1,803,693	1,697,442
36,363	Intangible assets	13	44,188	37,789	43,700
38,304	Biological assets	14	37,735	38,062	38,304
1,780,057	**Total non-current assets**		**2,028,890**	**1,888,552**	**1,786,372**
1,959,919	**Total assets**		**2,196,317**	**1,917,082**	**1,937,174**
	LIABILITIES				
	Current liabilities				
77,075	Creditors and other payables	15	67,617	77,779	77,779
59,840	Employee entitlements	16	64,608	50,950	60,950
7,745	Provisions	17	8,578	–	–
3,228	Provision for repayment of surplus to the Crown	18	13,398	–	6,400
147,888	**Total current liabilities**		**154,201**	**128,729**	**145,129**
	Non-current liabilities				
12,292	Employee entitlements	16	12,618	10,400	10,400
12,292	**Total non-current liabilities**		**12,618**	**10,400**	**10,400**
160,180	**Total liabilities**		**166,819**	**139,129**	**155,529**
	TAXPAYERS' FUNDS				
1,519,977	General funds	18	1,501,883	1,498,883	1,501,883
279,762	Reserves	18	527,615	279,070	279,762
1,799,739	**Total taxpayers' funds**		**2,029,498**	**1,777,953**	**1,781,645**
1,959,919	**Total liabilities and taxpayers' funds**		**2,196,317**	**1,917,082**	**1,937,174**

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 86).

STATEMENT OF CASH FLOWS

For the year ended 30 June 2009

2008 Actual $000		Notes	2009 Actual $000	2009 Main Estimates $000	2009 Supp. Estimates $000
	CASH FLOWS FROM OPERATING ACTIVITIES				
	Cash provided from:				
	Supply of outputs to				
886,003	Crown revenue		929,885	930,778	933,613
7,725	Departmental revenue		7,582	7,929	9,096
34,163	Other revenue		32,531	25,998	34,184
4,085	Change in GST payable (net)*		(3,858)	–	(6,585)
	Cash disbursed to:				
(426,651)	Personnel		(451,801)	(453,016)	(456,712)
(216,791)	Operating		(258,024)	(249,724)	(268,149)
(130,641)	Capital charge		(131,871)	(134,014)	(131,244)
157,893	**Net cash flows from operating activities**	19	**124,444**	**127,951**	**114,203**
	CASH FLOWS FROM INVESTING ACTIVITIES				
	Cash provided from:				
17	Interest and dividends		28	–	–
430	Sale of investments		1,510	1,600	1,510
1,381	Sale of physical, biological and intangible assets		816	–	–
	Cash disbursed to:				
(98,676)	Purchase of physical and biological assets**		(108,812)	(183,741)	(106,018)
(9,860)	Purchase of intangible assets**		(14,740)	(9,650)	(15,786)
(106,708)	**Net cash flows from investing activities**		**(121,198)**	**(191,791)**	**(120,294)**
	CASH FLOWS FROM FINANCING ACTIVITIES				
	Cash provided from:				
70,600	Capital contribution from the Crown		65,747	(21,094)	65,747
	Cash disbursed to:				
–	Capital returned to the Crown		(83,841)	–	(83,841)
(13,522)	Payment of surplus to the Crown		(3,228)	(7,500)	(3,228)
57,078	**Net cash flows from financing activities**		**(21,322)**	**(28,594)**	**(21,322)**
108,263	**Net increase/(decrease) in cash and cash equivalents held**		**(18,076)**	**(92,434)**	**(27,413)**
56,498	Opening total cash and cash equivalents balances at 1 July		164,761	106,010	164,761
164,761	**Closing cash and cash equivalents balances as of 30 June**		**146,685**	**13,576**	**137,348**

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

** *During the period, the Department acquired no property, plant and equipment by means of finance leases (2008: nil).*

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 86).

STATEMENT OF COMMITMENTS

As at 30 June 2009

2008 Actual $000		2009 Actual $000
	CAPITAL COMMITMENTS	
	Property, plant and equipment	
65,535	Less than one year	126,327
27,036	One to five years	568
25,936	More than five years	–
118,507		**126,895**
	Intangible assets	
–	Less than one year	1,904
–	One to five years	–
–	More than five years	–
–		**1,904**
118,507	**Total capital commitments**	**128,799**
	NON-CANCELLABLE OPERATING LEASE COMMITMENTS	
	Office accommodation	
9,195	Less than one year	9,602
16,376	One to five years	13,200
4,615	More than five years	4,154
30,186		**26,956**
	Office equipment	
325	Less than one year	231
256	One to five years	239
–	More than five years	–
581		**470**
30,767	**Total non-cancellable operating lease commitments**	**27,426**
	COMMITMENTS ARISING FROM OTHER CONTRACTS	
	Offender programmes and services	
22,016	Less than one year	19,192
18,760	One to five years	12,785
–	More than five years	–
40,776		**31,977**
	Information system support and services	
8,500	Less than one year	8,740
7,603	One to five years	4,796
–	More than five years	–
16,103		**13,536**
56,879	**Total commitments arising from other contracts**	**45,513**
206,153	**Total commitments**	**201,738**

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 86).

Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition or construction of property, plant and equipment, and intangible assets that have not been paid for or not recognised as a liability at the balance sheet date.

Non-cancellable operating lease commitments

The Department leases premises at many locations throughout New Zealand. The annual lease rentals are subject to regular reviews, usually ranging from two years to three years. The amounts disclosed above as future commitments are based on current rental rates.

Commitments arising from other contracts

The Department has entered into non-cancellable contracts for computer maintenance, telephone exchange systems, photocopiers, and other contracts for offender programmes and services.

Operating lease commitments – Department as lessor

The Department has operating leases for some of its premises. These premises are fair valued under NZ IAS 16 – *Property, Plant and Equipments* as they are maintained solely to provide rental income. Revenue earned under operating leases are disclosed as board and rents and reported under Note 2 Other Revenue.

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 86).

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

As at 30 June 2009

CONTINGENT LIABILITIES

2008 Actual $000		2009 Actual $000
3,063	Legal proceedings	5,186
782	Personal grievances	904
3,845	**Total contingent liabilities**	**6,090**

Legal proceedings

The Department was defending 32 (2008: 25) legal proceedings claims by prisoners and external parties as at 30 June 2009. They cover a range of areas, including breach of the New Zealand Bill of Rights Act 1990 and breach of contract.

Personal grievances

The Department was also defending 29 (2008: 68) employment related claims made by staff members.

UNQUANTIFIED CLAIMS

The Department is a participating employer in the Defined Benefit Plan Contributors Scheme (the Scheme), managed by the Board of Trustees of the National Provident Fund. The Scheme is a multi-employer defined benefit scheme. If the other participating employers ceased to participate in the Scheme, the Department could be responsible for the entire deficit of the Scheme. Similarly, if a number of employers ceased to participate in the Scheme, the Department could be responsible for an increased share of the deficit.

The Actuary of the Scheme has recommended the employer contribution should remain at two times contributor's contributions until the past service deficit is extinguished and then reduces to the employer contribution rate required to meet the net future service liability after that. The multiplication by two is inclusive of Specified Superannuation Contribution Withholding Tax (SSCWT).

Insufficient information is available to use defined benefit accounting and it is not possible to determine from the terms of the Scheme, the extent to which the deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation.

CONTINGENT ASSETS

The Department does not have any contingent assets as at 30 June 2009 (2008: nil).

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 86).

STATEMENT OF DEPARTMENTAL EXPENDITURE AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For the year ended 30 June 2009

	2009 Expenditure Actual $000	2009 Appropriation Voted** $000
VOTE: CORRECTIONS		
Departmental output expenditure		
Information Services	43,816	43,857
Community-Based Sentences and Orders	130,396	132,488
Custody of Remand Prisoners	137,869	138,163
Escort and Custodial Supervision	10,566	11,306
Custodial Services	515,779	527,316
Prisoner Employment	49,398	51,819
Rehabilitative Programmes and Reintegrative Services	58,638	58,661
Services to New Zealand Parole Board	5,930	6,244
Policy Advice and Development	4,859	5,013
Service Purchase and Monitoring	2,047	2,063
Total departmental output expenditure	**959,298**	**976,930**
Remeasurements*	**2,893**	–
Total departmental expenditure	**962,191**	**976,930**
Capital injections	**65,747**	**65,747**

* *Remeasurements relate to the forestry revaluation gains of $1.256 million (2008: a gain of $3.021 million), the livestock revaluation loss of $2.006 million (2008: a loss of $4.034 million), and the long service and retirement leave valuation loss of $2.143 million (2008: a gain of $0.392 million). As per Section 4(2) of the Public Finance Act, "Expense does not include an expense that results from (a) a remeasurement of an asset or liability".*

** TRANSFERS UNDER SECTION 26A OF THE PUBLIC FINANCE ACT 1989

Appropriation Voted includes adjustments made in the Supplementary Estimates and the following transfers under Section 26A of the Public Finance Act 1989.

	2009 Supp. Estimates $000	2009 Section 26A Transfers $000	2009 Appropriation Voted $000
VOTE: CORRECTIONS			
Appropriations for output expenditure			
Information Services	43,357	500	43,857
Community-Based Sentences and Orders	132,488	–	132,488
Custody of Remand Prisoners	136,363	1,800	138,163
Escort and Custodial Supervision	11,106	200	11,306
Custodial Services	531,961	(4,645)	527,316
Prisoner Employment	49,909	1,910	51,819
Rehabilitative Programmes and Reintegrative Services	58,661	–	58,661
Services to New Zealand Parole Board	6,144	100	6,244
Policy Advice and Development	4,963	50	5,013
Service Purchase and Monitoring	1,978	85	2,063
Total appropriation for output expenditure	**976,930**	–	**976,930**

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 86).

STATEMENT OF UNAPPROPRIATED EXPENDITURE

For the year ended 30 June 2009

2008 Unappropriated Expenditure $000		2009 Actual Expenditure $000	2009 Appropriation Voted $000	2009 Unappropriated Expenditure $000
	VOTE: CORRECTIONS			
	Appropriations for output expenditure			
194	Information Services	43,816	43,857	–
584	Community-Based Sentences and Orders	130,396	132,488	–
591	Custody of Remand Prisoners	137,869	138,163	–
–	Escort and Custodial Supervision	10,566	11,306	–
–	Custodial Services	515,779	527,316	–
84	Prisoner Employment	49,398	51,819	–
273	Rehabilitative Programmes and Reintegrative Services	58,638	58,661	–
–	Services to New Zealand Parole Board	5,930	6,244	–
–	Policy Advice and Development	4,859	5,013	–
–	Service Purchase and Monitoring	2,047	2,063	–
1,726	**Total**	**959,298**	**976,930**	**–**

There was no unappropriated expenditure for the year ended 30 June 2009.

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 86).

STATEMENT OF TRUST MONIES

For the year ended 30 June 2009

	As at 1 July 2008 $000	Contribution $000	Distribution $000	As at 30 June 2009 $000
Prison Trust Accounts	1,266	15,339	(15,160)	1,445
	1,266	**15,339**	**(15,160)**	**1,445**

These accounts represent amounts held at each prison on behalf of prisoners for purchases while in prison, prisoner earnings and receipt/withdrawal of prisoner funds.

Trust monies are not included in the Department's reported bank balances. Trust monies are held on behalf of the prisoners in bank accounts maintained by the prisons (one bank account per prison).

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 26 (page 86).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2009

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The Department of Corrections is a government department as defined by Section 2 of the Public Finance Act 1989.

These are the financial statements of the Department of Corrections prepared pursuant to Section 45B of the Public Finance Act 1989.

The Department of Corrections has reported the Crown activities and trust monies which it administers.

Under the New Zealand International Financial Reporting Standards (NZ IFRS), the Department of Corrections is classified as a Public Benefit Entity. This has affected the selection of accounting policies required or permitted under the NZ IFRS.

The financial statements of the Department of Corrections are for the year ended 30 June 2009. The financial statements were authorised for issue by the Chief Executive of the Department of Corrections on 30 September 2009.

BASIS OF PREPARATION

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

STANDARDS AND INTERPRETATION ISSUED AND NOT YET ADOPTED

Standards, amendments or interpretations issued, but not yet effective, that have not been early adopted, and which are relevant to the Department, include:

New Zealand International Accounting Standard 1 (NZ IAS 1) Presentation of Financial Statements (*revised 2007*) replaces NZ IAS 1 Presentation of Financial Statements (*issued 2004*) and is effective for reporting periods beginning on or after 1 January 2009.

The revised standard requires information in financial statements to be aggregated on the basis of shared characteristic and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from transactions with the Crown in its capacity as 'owner' separately from 'non-owner' changes. The revised standard gives the Department the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Department expects it will apply the revised standard for the first time for the year ended 30 June 2010 and is yet to decide whether it will prepare a single statement of comprehensive income or a separate income statement followed by a statement of comprehensive income.

REPORTING PERIOD

The reporting period covers the 12 months from 1 July 2008 to 30 June 2009. Comparative figures for the year ended 30 June 2008 are provided.

MEASUREMENT SYSTEM

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

The financial statements have been prepared on an historical cost basis, modified by the revaluation of certain non-current assets.

ACCOUNTING POLICIES

The following accounting policies, which materially affect the measurement of financial results and financial position, have been applied.

The Department does not qualify for differential reporting exemptions.

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

REVENUE

Revenue – Crown

The Department derives revenue through the provision of outputs to the Crown. Such revenue is recognised at the fair value of the consideration received or receivable when earned.

Revenue – External Sales and Services

The Department derives revenue from the sale of goods and services to third parties. Revenue is recognised in the Statement of Financial Performance when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised:

- where there are significant uncertainties regarding recovery of the consideration due, associated goods or possible return of goods;
- where there is continuing management involvement with goods;
- where the amount of revenue cannot be measured reliably;
- where it is not probable that the economic benefits associated with the transaction will flow to the Department; and
- where the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Revenue – Interest

Revenue from interest is recognised using the effective interest method, using the effective interest rate.

Revenue – Dividends

Revenue from dividends is recognised when the shareholder's right to receive payment is established.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation are provided on a straight-line basis on all physical and intangible assets, other than freehold land, forestry and assets under construction, over their estimated economic useful lives. There is no allowance for residual values, except for 'motor vehicles – other', which have a residual value of 20 percent of cost. Revalued assets are depreciated or amortised on their revalued amount on a straight-line basis over their remaining useful lives.

Depreciation

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

Buildings		
Buildings – concrete	50 years	(2%)
Buildings – wood	25 years	(4%)
Buildings – fit-outs	3 to 20 years	(33.3% to 5%)
Hut complexes – concrete	50 years	(2%)
Hut complexes – wood	25 years	(4%)
Hut fit-outs	3 to 20 years	(33.3% to 5%)
Leasehold Improvements		
Leasehold improvements	10 years	(10%)
Plant and Equipment		
Plant and machinery	10 years	(10%)
Office equipment	5 years	(20%)
Tools and equipment	5 years	(20%)
Furniture and Fittings		
Furniture and fittings – office	5 years	(20%)
Furniture and fittings – prisoner	3 years	(33.3%)
Computer Hardware		
Information technology – network	5 years	(20%)
Information technology – specialised	3 to 10 years	(33.3% to 10%)
Information technology – PC based	3 years	(33.3%)
Motor Vehicles		
Motor vehicles – heavy duty	8 years	(12.5%)
Motor vehicles – other	5 years	(20%)

The useful life of buildings is reassessed following any revaluation.

Where the fixed term of a lease is for less than 10 years, excluding rights of renewal, leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

Amortisation

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

Computer Software		
Information technology – network	5 years	(20%)
Information technology – specialised	3 to 10 years	(33.3% to 10%)
Information technology – PC based	3 years	(33.3%)

OPERATING LEASES

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

CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash held in bank accounts.

DEBTORS AND OTHER RECEIVABLES

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less impairment changes.

Impairment of a receivable is established when there is objective evidence that the Department will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance. Overdue receivables that are renegotiated are reclassified as current (ie not past due).

INVENTORIES

Inventories held for distribution, or consumption in the provision of services, that are not issued on a commercial basis are measured at the lower of cost (calculated using the weighted average method) and current replacement cost. Where inventories are acquired at no cost, or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

The replacement cost of the economic benefits or service potential of inventory held for distribution reflects any obsolescence or any other impairment.

Inventories held for sale or use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the weighted average cost method.

The write-down from cost to current replacement cost or net realisable value is recognised in the Statement of Financial Performance in the period when the write-down occurs.

ASSETS HELD FOR SALE

Assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of assets held for sale are recognised in the Statement of Financial Performance.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

PHYSICAL ASSETS

Land and buildings are stated at fair value as determined by an independent registered valuer. Fair value is determined using market-based evidence, except for prison buildings, which are valued at optimised depreciated replacement cost. Land and buildings are revalued at least every two years. Additions between revaluations are recorded at cost. The two-year cycle is subject to a reasonableness test on an annual basis to ensure it does not result in material differences in fair value.

The results of revaluing land and buildings are credited or debited to the asset revaluation reserve. Where a revaluation would result in a debit balance within an asset class in the revaluation reserve, the debit balance will be expensed in the Statement of Financial Performance.

All other physical assets, or groups of assets forming part of a network, which are material in aggregate, costing more than $3,000 (GST exclusive) or deemed as valuable and/or attractive are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the Statement of Financial Performance.

Discontinued operations, disposals, transfers and assets held for sale are shown at fair value prior to being sold or disposed.

Additions

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

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Financial Performance. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to general funds.

Subsequent Costs

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

INTANGIBLE ASSETS

Intangible assets with finite lives are recorded at cost less any amortisation and impairment losses. Amortisation is charged to the Statement of Financial Performance on a straight-line basis over the useful life of the asset.

Intangible assets, or groups of intangible assets forming part of a network, which are material in aggregate, costing more than $3,000 (GST exclusive) or deemed as valuable and/or attractive are capitalised and recorded at cost. Any write-down of an item to its recoverable amount is recognised in the Statement of Financial Performance.

The disposals and assets held for sale are shown at fair value prior to being sold or disposed.

Intangible assets are tested for impairment where an indicator arises.

Software Acquisition and Development

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

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by the Department, are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

BIOLOGICAL ASSETS

The Department recognises biological assets or agricultural produce when, and only when:

- the Department controls the assets as a result of past events;
- it is probable that future economic benefits associated with the asset will flow to the Department; and
- the fair value or cost of the asset can be measured reliably.

Biological assets managed for harvesting into agricultural produce are recorded at fair value less point of sale costs, with any realised gains or losses reported in the Statement of Financial Performance.

The Department's valuations incorporate any material point of sale costs in the valuation.

The Department's biological assets are forests and livestock.

Forests

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the Statement of Financial Performance.

The costs to maintain the forestry assets are included in the Statement of Financial Performance.

Livestock

Livestock assets are recorded at fair value less point of sale costs.

Gains and losses due to changes in the per head value of the livestock at balance date are taken to the Statement of Financial Performance.

Gains and losses due to changes in livestock numbers are taken directly to the Statement of Financial Performance.

Any material differences in fair value are taken to Statement of Financial Performance.

INVESTMENTS

Investments are classified as financial assets at fair value through profit or loss.

Investments are recognised initially at cost being the fair value of consideration given. All investments are subsequently carried at fair value. Any changes in fair value are recognised in the Statement of Financial Performance in the period in which they arise.

Fair value for investments are determined as follows:

- listed shares are valued at the quoted price at the close of business on the balance date; and
- non-listed shares are recognised at initial cost of investment and adjusted for performance of the business since that date.

Investments arise from the Department's dealings with companies in the farming industry.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have indefinite useful lives are not subject to amortisation and are tested annually for impairment. An intangible asset that is not yet available for use at the balance sheet date is tested for impairment annually.

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

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

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

For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the Statement of Financial Performance.

The Department accounts for reversals on a class basis. A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation reserve. However, to the extent that an impairment loss on the same class of asset was previously recognised in the Statement of Financial Performance, a reversal of that impairment loss is also recognised in the Statement of Financial Performance.

EMPLOYEE ENTITLEMENTS

Short-term employee entitlements

Employee entitlements which the Department expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

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

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

The Department recognises a liability and an expense for performance payments where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis based on the present value of expected future entitlements.

The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows. A discount rate of 3.49 percent to 6.35 percent (2008: 6.42 percent to 7.09 percent), and a future salary growth rate of 3.0 percent (2008: 3.0 percent) were used. The discount rates are based on the weighted average of government interest rates for stock with terms to maturity similar to those of the relevant liabilities.

SUPERANNUATION SCHEMES

Defined Contribution Schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Statement of Financial Performance as incurred.

Defined Benefit Schemes

The Department is a participating employer in the Defined Benefit Plan Contributors Scheme (the Scheme), managed by the Board of Trustees of the National Provident Fund. The Scheme is a multi-employer defined benefit scheme. Insufficient information is available to use defined benefit accounting and it is not possible to determine from the terms of the Scheme, the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme.

Termination Benefits

Termination benefits are recognised in the Statement of Financial Performance only when there is a demonstrable commitment either to terminate employment prior to normal employment date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid. Other termination benefits are reported at the present value of the estimated future cash outflows.

ONEROUS CONTRACTS

Where the benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligation under the contract, a provision is recognised. The provision is stated at the present value of the future net cash outflows expected to be incurred in respect of the contract.

PROVISIONS

The Department recognises a provision for future expenditure of an 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 will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures 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 a finance cost.

ACC Partnership Programme

The Department belongs to the ACC Partnership Programme whereby the Department accepts the management and financial responsibility of work-related illnesses and accidents of employees. Under the ACC Partnership Programme, the Department is effectively providing accident insurance to employees and this is accounted for as an insurance contract. The value of this liability represents the expected future payments in relation to accidents and illnesses occurring up to the Statement of Financial Position date for which the Department has responsibility under the terms of the Partnership Programme.

The liability for claims reported prior to balance date has been determined by assuming that the future experience for each current claim is consistent with historical claim information since the commencement of the programme. The liability for injuries or illnesses that have occurred up to balance date, but not yet reported or not enough reported, has been determined by reference to historical information of the time it takes to report injury or illness.

The liability is measured at the present value of the expected future payments to be made in respect of employee injuries and claims up to the reporting date using actuarial techniques.

COMMITMENTS

Future expenses and liabilities to be incurred on capital and operating contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations. Commitments relating to employment contracts are not disclosed.

CONTINGENT LIABILITIES

Contingent liabilities are disclosed at the point at which the contingency is evident and for each class of contingent liability at the balance sheet date, a brief description of the nature of the contingent liability is provided.

Contingent liabilities are not disclosed if the possibility of an outflow of resources embodying economic resources is remote.

TAXPAYERS' FUNDS

Taxpayers' Funds is the Crown's net investment in the Department and is measured as the difference between total assets and total liabilities.

Taxpayers' Funds is disaggregated and classified as general funds and revaluation reserves.

STATEMENT OF CASH FLOWS

Operating activities include cash received from all income sources of the Department and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise capital injections by, or repayment of capital to, the Crown.

FOREIGN CURRENCY

Foreign currency transactions are converted into New Zealand dollars at the exchange rate at the date of the transaction.

FINANCIAL INSTRUMENTS

The Department is party to financial instruments as part of its normal operations. These financial instruments include bank accounts; debtors and other receivables; creditors and other payables; and investments. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Statement of Financial Performance.

Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

TAXATION

Income Tax

Government departments are exempt from income tax in terms of the Income Tax Act 2004. Accordingly, no charge for income tax has been provided for.

Goods and Services Tax (GST)

The Statement of Financial Position is exclusive of GST except for creditors and other payables and debtors and other receivables, which are GST inclusive. All other financial statements are GST exclusive. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST payable to, or recoverable from, the Inland Revenue Department at balance date is included in creditors and other payables and debtors and other receivables.

Commitments and contingent liabilities are disclosed exclusive of GST. The movement in GST paid or received is recognised as a separate cash flow line item.

BUDGET FIGURES

The budget figures are those presented in the 2008/09 Main and Supplementary Estimates.

CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing these financial statements, the Department has made estimates, assumptions and critical judgements in applying accounting policies concerning the future. These estimates, assumptions, and critical judgements in applying accounting policies may differ from the subsequent actual results. Estimates, assumptions and critical judgements in applying accounting policies are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

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

Property, plant and equipment useful lives and residual values

At each revaluation, the useful lives and residual values of the Departments' land and buildings are reviewed. Assessing the appropriateness of useful lives and residual values of land and buildings requires consideration of a number of factors such as the physical condition of land and buildings, expected period of use of land and buildings by the Department, and expected proceeds from the disposal of land and buildings.

Reassessment of the useful lives or residual values will impact on the depreciable amount of land and buildings, therefore impacting on the depreciation expense recognised in the Statement of Financial Performance, and the carrying amount of land and buildings in the Statement of Financial Position.

As part of revaluation of land and buildings at 30 June 2009, the useful lives of buildings were reassessed as:

Buildings	2009 Useful lives	2010 Useful lives
Buildings – commercial	50 years	75 years
Buildings – concrete	50 years	50 to 65 years

The carrying amounts of property, plant and equipment are disclosed in note 12.

Employee entitlements – retiring and long service leave

Note 16 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

NOTES

The notes that accompany the financial statements form part of the financial statements.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies since the date of the last audited financial statements.

COST ACCOUNTING POLICIES

The Department has determined the costs of outputs using the cost allocation system outlined below.

COST ALLOCATION

Salaries and related costs of service delivery divisions are charged to outputs on the basis of activity analysis. Activities that are directly related to individual outputs are regarded as direct costs and charged accordingly.

All other costs of service delivery divisions and total costs of support groups are regarded as indirect costs to outputs and are allocated to outputs on the basis of measurement of resource consumption or activity analysis.

CHANGES IN COST ACCOUNTING POLICIES

There have been no changes in cost accounting policies, since the date of the last audited financial statements.

NOTE 2: OTHER REVENUE

2008 Actual $000		2009 Actual $000	2009 Main Estimates $000	2009 Supp. Estimates $000
30,078	External revenue – sale of goods	30,006	23,709	32,053
451	External revenue – services	515	–	–
1,643	Board and rents	1,706	1,500	1,500
204	Profit on sale of assets	–	–	–
699	Miscellaneous	699	789	645
33,075	**Total other revenue**	**32,926**	**25,998**	**34,198**

NOTE 3: PERSONNEL COSTS

2008 Actual $000		2009 Actual $000	2009 Main Estimates $000	2009 Supp. Estimates $000
423,463	Salaries and wages	446,221	440,477	441,891
578	Government Superannuation Fund (GSF) contribution expense	527	550	550
6,738	State Sector Retirement Savings Scheme and Kiwisaver employer contribution	7,414	7,379	7,379
5,220	Annual leave	5,884	2,270	2,270
1,493	Retirement and long service leave	4,542	7,790	7,790
5,355	Common leave	(5,355)	–	–
173	Sick leave	23	–	–
443,020	**Total personnel costs**	**459,256**	**458,466**	**459,880**

Personnel costs incorporates employee entitlements excluding Fringe Benefit Tax which is reported as an operating cost.

The increase in provision for long service leave of $5.355 million due to changes in common leave provisions announced by Cabinet during May 2008, has been rescinded by Cabinet during February 2009.

The retiring and long service leave includes a remeasurement loss of $2.143 million (2008: a loss of $0.392 million) due to a change in discount rates between 30 June 2008 and 30 June 2009.

NOTE 4: OPERATING COSTS

2008 Actual $000		2009 Actual $000	2009 Main Estimates $000	2009 Supp. Estimates $000
13,416	Operating lease rentals	15,319	13,649	17,600
284	Audit fees for financial statements' audit	297	302	318
18	Audit fees for NZ IFRS transition	–	–	–
133	Fees to auditors for other services	70	27	–
51,012	Facilities maintenance	63,045	54,770	54,462
72,443	Offender management costs	43,147	77,952	45,395
11,004	Computer costs	11,121	16,596	10,379
15,342	Contract management	22,282	11,078	22,152
37,247	Administration	32,048	36,614	39,921
83	Receivables written off during period	106	5	(13)
866	ACC Partnership Programme	1,636	–	3,950
8,561	Inventory expenses	9,353	–	10,702
19,499	Other operating costs	45,091	34,781	52,162
294	Biological assets revaluation	1,013	–	–
–	Investment revaluation	1,231	–	–
1,881	Net loss on sale or disposal of physical assets	506	–	–
232,083	**Total operating costs**	**246,265**	**245,774**	**257,028**

The fees to auditors for other services were for assurance engagements over the review of:

- procurement practices;
- the tendering process for prisoner transport; and
- the internal quality assurance and probity review for double bunking.

Contract management represents contracts with First Security Guard Service 2008 Limited, Chubb New Zealand Limited (until December 2008) and the New Zealand Prisoners' Aid and Rehabilitation Society Incorporated.

NOTE 5: DEPRECIATION AND AMORTISATION

2008 Actual $000		2009 Actual $000	2009 Main Estimates $000	2009 Supp. Estimates $000
	DEPRECIATION			
92,564	Buildings	99,874	102,149	98,728
1,381	Leasehold improvements	1,816	1,452	1,583
3,904	Plant and equipment	4,257	4,000	4,123
1,689	Furniture and fittings	1,680	1,850	1,606
4,648	Computer hardware	4,704	2,500	3,999
3,693	Motor vehicles	3,808	4,200	3,889
107,879	**Depreciation charge**	**116,139**	**116,151**	**113,928**
	AMORTISATION			
10,009	Computer software	8,660	10,300	8,450
10,009	**Amortisation charge**	**8,660**	**10,300**	**8,450**
117,888	**Total depreciation and amortisation charge**	**124,799**	**126,451**	**122,378**

NOTE 6: CAPITAL CHARGE

The Department pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year.

The capital charge rate for the year ended 30 June 2009 was 7.5 percent (2008: 7.5 percent) per annum.

NOTE 7: CASH AND CASH EQUIVALENTS

2008 Actual $000		2009 Actual $000
164,761	Cash and bank balances	146,685
164,761	**Total cash and cash equivalents**	**146,685**

The Department is required to maintain a positive balance in New Zealand dollar bank accounts at all times.
The Department has three departmental bank accounts with Westpac New Zealand Limited.

NOTE 8: PREPAYMENTS

2008 Actual $000		2009 Actual $000
	Current portion	
1,988	Prepayments	3,019
	Non-current portion	
–	Prepayments	–
1,988	**Total prepayments**	**3,019**

The Department classifies prepayments that are expected to be realised within 12 months as current.

NOTE 9: DEBTORS AND OTHER RECEIVABLES

2008 Actual $000		2009 Actual $000
	Current portion	
–	Debtor Crown	3,728
–	**Crown debtors**	**3,728**
3,343	Trade debtors – external	3,771
273	Employee advances	238
(145)	Less provision for doubtful debts	(95)
3,471	**Trade debtors – external and employees**	**3,914**
2,221	Trade debtors – other government entities	3,637
2,221	**Trade debtors – other government entities**	**3,637**
	Non-current portion	
–	Trade debtors - external	–
5,692	**Total debtors and other receivables**	**11,279**

The carrying value of trade debtors approximates their fair value.

The Crown debtor relates to $3.728 million funding provided for the 2008 Bargaining Round subject to approval from the Minister of Finance.

The Department does not make loans to employees other than minor salary/travel advances and salary overpayments. There were no loans outstanding to related parties.

There is minimal credit risk with respect to receivables outside the Department, as the Department has a spread of external customers. The Department's terms of credit are that payment is due on the 20th of the month following the date of invoice. No further extension of credit is permitted.

The Department classifies debtors as current that are expected to be realised within 12 months, other than those debtors which are considered doubtful. The impairment of these debtors is based on the uncollectability of the amounts outstanding.

As at 30 June 2008 and 2009, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

	2008			2009		
	$000 Gross	$000 Impairment	$000 Net	$000 Gross	$000 Impairment	$000 Net
Not past due	5,013	(79)	**4,934**	8,955	–	**8,955**
Past due 1-30 days	359	–	**359**	2,013	–	**2,013**
Past due 31-60 days	85	(6)	**79**	121	–	**121**
Past due 61-90 days	2	(1)	**1**	205	(22)	**183**
Past due > 91 days	378	(59)	**319**	80	(73)	**7**
	5,837	**(145)**	**5,692**	**11,374**	**(95)**	**11,279**

The provision for doubtful debts has been calculated based on expected losses for the Department's pool of debtors. Expected losses have been determined based on analysis of the Department's losses in previous periods, and review of specific debtors.

Those specific debtors that are insolvent are fully provided for. As at 30 June 2009 the Department has identified no debtors (2008: Nil) that are insolvent.

Movements in the provision for doubtful debts are as follows:

2008 Actual $000		2009 Actual $000
52	Balance at 1 July	145
93	Change in provisions made during the year	(48)
–	Receivables written off during period	(2)
145	**Balance at 30 June**	**95**

NOTE 10: INVENTORIES

2008 Actual $000		2009 Actual $000
4,184	Inventory held for the use in the provision of goods and services	4,563
1,727	Finished goods	1,881
5,911	**Total inventories**	**6,444**

The Department's inventory consists of supplies that are available for purchase by prisoners using funds out of their trust accounts, operational supplies and inventory held for use in prisoner employment.

No inventories are pledged as security for liabilities.

The Department classifies inventories as current that are expected to be realised within 12 months.

NOTE 11: INVESTMENTS

2008 Actual $000		2009 Actual $000
	Current portion	
1,510	Investments	–
	Non-current portion	
6,926	Investments	5,695
8,436	**Total investments**	**5,695**

Investments arise from the Department's dealings with companies in the farming industry. These investments are classified as financial instruments and valued at fair value through profit and loss.

The Department classifies investments that are expected to be realised within 12 months as current.

NOTE 12: PHYSICAL ASSETS

Freehold land and buildings were valued at fair value as at 30 June 2009 by an independent registered valuer, Darroch Valuations. This valuation was certified by K Stewart FPINZ FNZIV.

The land holdings of the Department are subject to general Treaty of Waitangi claims. No reduction in value has been recognised in these financial statements but there may be restrictions on the Department disposing of the holdings except under Treaty claims procedures.

The Department classifies physical assets expected to be sold in the next 12 months as assets held for sale.

The Department constructs prison buildings that are classified as assets under construction as a physical asset and are transferred to completed assets at the in-service date.

The Department reports transfers and disposals together for presentation purposes only.

The Department currently holds residential properties that were purchased in the 1960s. The core intention of holding these properties was to entice staff to move to rural areas and work at the Department's prisons. The rental income that is received from these properties is incidental, as opposed to being held for rental income or capital gains. The Department is currently reviewing the future intention and strategic purpose of these assets, with the view to potentially selling these properties. The current net book/market value of these properties is $4.368 million (2008: $3.185 million).

	Land	Buildings	Leasehold Improvements	Plant & Equipment	Furniture & Fittings	Computer Hardware	Motor Vehicles	Total Physical Assets
	$000	$000	$000	$000	$000	$000	$000	$000
Cost or valuation								
Balance 1 July 2007	141,067	1,164,468	11,856	34,115	8,925	32,142	36,824	1,429,397
Additions	791	391,563	3,008	9,115	3,120	9,601	5,207	422,405
Revaluation increase/(decrease)	–	–	–	–	–	–	–	–
Assets held for sale	–	–	–	–	–	–	–	–
Disposals/transfers	239	(252)	(1,743)	(2,565)	(465)	(79)	(2,772)	(7,637)
Cost or valuation at 30 June 2008	**142,097**	**1,555,779**	**13,121**	**40,665**	**11,580**	**41,664**	**39,259**	**1,844,165**
Add: Movements								
Additions	1,401	19,887	1,616	2,651	720	5,519	4,366	36,160
Revaluation increase/(decrease)	71,892	(18,216)	–	–	–	–	–	53,676
Assets held for sale	–	–	–	–	–	–	–	–
Disposals/transfers	(14)	9,529	(110)	(1,785)	(403)	(2,715)	(2,278)	2,224
Cost or valuation at 30 June 2009	**215,376**	**1,566,979**	**14,627**	**41,531**	**11,897**	**44,468**	**41,347**	**1,936,225**
Accumulated depreciation and impairment losses								
Balance 1 July 2007	–	–	(6,223)	(21,460)	(6,088)	(24,897)	(21,032)	(79,700)
Depreciation expense	–	(92,564)	(1,381)	(3,904)	(1,689)	(4,648)	(3,693)	(107,879)
Disposals/transfers	–	9	1,745	2,149	462	85	1,920	6,370
Revaluation increase/(decrease)	–	–	–	–	–	–	–	–
Assets held for sale	–	–	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–	–	–
Accumulated depreciation and impairment losses at 30 June 2008	–	**(92,555)**	**(5,859)**	**(23,215)**	**(7,315)**	**(29,460)**	**(22,805)**	**(181,209)**
Add: Movements								
Depreciation expense	–	(99,874)	(1,816)	(4,257)	(1,680)	(4,704)	(3,808)	(116,139)
Disposals/transfers	–	461	460	1,914	371	486	1,668	5,360
Revaluation increase/(decrease)	–	191,629	–	–	–	–	–	191,629

	Land $000	Buildings $000	Leasehold Improvements $000	Plant & Equipment $000	Furniture & Fittings $000	Computer Hardware $000	Motor Vehicles $000	Total Physical Assets $000
Assets held for sale	–	–	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–	–	–
Accumulated depreciation and impairment losses at 30 June 2009	–	(339)	(7,215)	(25,558)	(8,624)	(33,678)	(24,945)	(100,359)
Carry amounts per asset class								
At 30 June 2008	142,097	1,463,224	7,262	17,450	4,265	12,204	16,454	1,662,956
At 30 June 2009	215,376	1,566,640	7,412	15,973	3,273	10,790	16,402	1,835,866
Add: assets under construction								
At 30 June 2008								35,508
At 30 June 2009								105,406
Total carrying amounts								
At 30 June 2008								1,698,464
At 30 June 2009								1,941,272

NOTE 13: INTANGIBLE ASSETS

	Acquired Software $000	Internally Generated Software $000	Total Intangible Assets $000
Cost or valuation			
Balance 1 July 2007	29,159	44,746	73,905
Additions	2,975	7,473	10,448
Disposals/transfers	(171)	(6,374)	(6,545)
Cost or valuation at 30 June 2008	**31,963**	**45,845**	**77,808**
Add: movements			
Additions	551	2,947	3,498
Disposals/transfers	(541)	7,104	6,563
Cost or valuation at 30 June 2009	**31,973**	**55,896**	**87,869**
Accumulated depreciation and impairment losses			
Balance 1 July 2007	(20,839)	(21,997)	(42,836)
Amortisation expense	(3,513)	(6,496)	(10,009)
Disposals/transfers	37	5,184	5,221
Impairment losses	–	–	–
Accumulated depreciation and impairment losses at 30 June 2008	**(24,315)**	**(23,309)**	**(47,624)**
Add: Movements			
Amortisation expense	(2,848)	(5,812)	(8,660)
Disposals/transfers	294	(40)	254
Impairment losses	–	–	–
Accumulated depreciation and impairment losses at 30 June 2009	**(26,869)**	**(29,161)**	**(56,030)**
Carrying amounts			
At 30 June 2008	**7,648**	**22,536**	**30,184**
At 30 June 2009	**5,104**	**26,735**	**31,839**
Add: Assets under construction			
At 30 June 2008	**2,556**	**3,623**	**6,179**
At 30 June 2009	**4,668**	**7,681**	**12,349**
Total carrying amounts			
At 30 June 2008	**10,204**	**26,159**	**36,363**
At 30 June 2009	**9,772**	**34,416**	**44,188**

The Department builds and maintains internally generated software. They are classified as assets under construction and capitalised at the in-service date.

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

NOTE 14: BIOLOGICAL ASSETS

	2009 Forests $000	2009 Livestock $000	2009 Total Biological Assets $000
Cost or valuation			
Balance 1 July 2007	29,396	8,448	37,844
Purchases	–	127	127
Gains/(losses) arising from changes in fair value less estimated point of sale costs	(811)	9,307	8,496
Less sales/harvest	(2,212)	(5,951)	(8,163)
Cost or valuation at 30 June 2008	**26,373**	**11,931**	**38,304**
Add: Movements			
Purchases	–	221	221
Gains/(losses) arising from changes in fair value less estimated point of sale costs	4,355	3,128	7,483
Less sales/harvest	(2,691)	(5,582)	(8,273)
Cost or valuation at 30 June 2009	**28,037**	**9,698**	**37,735**
Carrying amounts			
At 30 June 2008	**26,373**	**11,931**	**38,304**
At 30 June 2009	**28,037**	**9,698**	**37,735**

There are no restrictions over the title of the Department's biological assets, nor are any biological assets pledged as security for liabilities.

FORESTS

The Tongariro forest land is owned by the Crown. The Department manages the forest as part of its prisoner employment training programme. The Tongariro forest area is as follows:

Forest	Legal description	Legal area
Tongariro	Land rated as commercial forest	4,512.29 ha
	Land rated as reserve	1,332.40 ha
	Total legal area	**5,844.69 ha**

The valuation of forests was undertaken by an independent registered valuer, PF Olsen and Company Limited, on 30 June 2009. T Vos, registered forestry consultant (NZIF), completed this valuation.

The forest valuation was determined using the expectation value approach adopting the following valuation assumptions:

- a discount rate of 7.0 percent (2008: 7.0 percent) has been applied to post-tax cash flows;
- land values, improvements, protection or amenity planting have been excluded;
- the tree crop has been valued on a liquidation basis;
- an inflation rate of 3.0 percent (2008: 3.0 percent) has been applied;
- annual and forest operations costs are based on current industry costs for similar forests; and
- log prices are derived from average prices published by the Ministry of Agriculture and Forestry.

LIVESTOCK

The Department farms sheep, cattle, deer and pigs at various locations in both the North and South Islands. At 30 June 2009, livestock on hand comprised 16,753 sheep (2008:16,238); 1,848 beef cattle (2008:1,782); 4,296 dairy cattle (2008: 4,275); 2,610 deer (2008:2,626) and 5,950 pigs (2008: 5,872).

The valuation of livestock is valued based on the active market price and was undertaken by various independent livestock valuers.

FINANCIAL RISK MANAGEMENT STRATEGIES

The Department is not materially exposed to financial risks arising from changes in commodity prices. The Department reviews its outlook for timber and livestock prices regularly in considering the need for active financial risk management.

NOTE 15: CREDITORS AND OTHER PAYABLES

2008 Actual $000		2009 Actual $000
	Current portion	
23,454	Trade creditors	18,867
45,043	Accrued expenses	44,030
8,578	GST payable	4,720
77,075	**Total current portion**	**67,617**
	Non-current portion	
–	Trade creditors	–
77,075	**Total creditors and other payables**	**67,617**

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and payables approximates their fair value.

The Department classifies creditors and other payables that are expected to be settled within 12 months as current.

NOTE 16: EMPLOYEE ENTITLEMENTS

2008 Actual $000		2009 Actual $000
	Current liabilities	
16,000	Retirement and long service leave	18,400
39,170	Annual leave	45,055
1,130	Sick leave	1,153
3,540	Common leave provisions	–
59,840	**Total current portion**	**64,608**
	Non-current liabilities	
10,477	Retirement and long service leave	12,618
1,815	Common leave provisions	–
12,292	**Total non-current portion**	**12,618**
72,132	**Total provision for employee entitlements**	**77,226**

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

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

The Department classifies employee entitlements as current that:

- are expected to be settled within 12 months after the balance date; and
- the Department does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

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

The revaluation of long service leave and retirement leave as at 30 June 2009 was conducted by an independent valuer, G R Lee (BSc FIA), a member of the New Zealand Society of Actuaries, of Aon New Zealand. Aon New Zealand revalues the Department's non-current employment entitlements on a quarterly basis.

The major assumptions used in the 30 June 2009 valuation are that future salary growth rates are 3.0 percent (2008: 3.0 percent) per annum and discount rates ranged from 3.49 percent to 6.35 percent (2008: 6.42 percent to 7.09 percent) per annum.

In determining the appropriate discount rates, the valuer used the weighted averages of returns on government stock of different terms to maturity that match, as closely to possible, the estimated future cash outflows. The salary growth assumption is consistent with the results of the Aon Economists' Survey.

NOTE 17: PROVISIONS

2008 Total Provisions Actual $000		2009 Procurement Actual $000	2009 Restructures Actual $000	2009 Employee Accidents Actual $000	2009 Total Provisions Actual $000
	Current provisions				
6,184	Balance at 1 July	546	1,512	5,687	7,745
10,406	Additional provisions made during the year	–	–	5,172	5,172
(8,845)	Charged against provision for the year	(546)	(1,512)	(2,281)	(4,339)
7,745	**Current provisions**	–	–	**8,578**	**8,578**
–	**Non-current provisions**	–	–	–	–
7,745	**Total provisions**	–	–	**8,578**	**8,578**

EMPLOYEE ACCIDENTS

The provision relates to the estimated future cost of work-related accident claims and ACC charges.

Estimation of ACC Partnership Programme Outstanding Claims Liability and ACC Levies:

2008 Actual $000		2009 Actual $000
	Estimated future claims	
1,250	Incurred but not reported claims (IBNR)	1,332
507	Reopened claims	772
787	Open claims	1,962
2,544	**Total future claims**	**4,066**
	Associated expenses	
180	Claims management expenses reserve	305
180	**Total expenses**	**305**
2,724	**Total outstanding claims liability**	**4,371**
	ACC levies	
2,963	ACC levies payable	4,207
2,963	**Total ACC levies**	**4,207**
5,687	**Total outstanding claims liability and ACC levies**	**8,578**

LIABILITY VALUATION

An external independent actuarial valuer, Neil Christie (FIAA) from Melville Jessup Weaver (Fellow of the NZ Society of Actuaries) has calculated the Department's liability and the valuation is effective 30 June 2009. The valuer has attested 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 actuarial valuer's report. The key assumptions used in determining the value of outstanding claims are detailed in the paragraphs below.

The Department manages its exposure arising from the programme by promoting a safe and healthy working environment by:

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

The stop loss cover level has been at 150.0 percent of the standard levy and no high cost claims cover was taken. Since the 2007/08 cover period, the stop loss has been set at the minimum percentage of the standard levy with High Cost Claims Cover of $1 million.

A 10.0 percent workplace safety management discount applied for the whole period until the 2009/10 cover year, for which a 15.0 percent discount applies.

Inflation has been assumed within the range of 2.6 percent and 4.2 percent and a discount rate in the range of 6.10 percent to 6.23 percent has been used for future years.

The IBNR provision is calculated for each cover period based on the liable earnings, the risk rating of the employer group and the period since the start of the cover year. The new IBNR provision is 74.0 percent of the open claim case estimates.

The reopened provision allows for the costs of the claims currently closed that may reopen in the future and is based on ACC factors applied to the Department's actual claims experience.

The claims management provision to allow for the future cost of managing claims uses the ACC standard basis of 7.5 percent of the total liability.

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

The value of the liability is not material for the Department's financial statements therefore, any changes in assumptions will not have a material impact on the financial statements.

NOTE 18: TAXPAYERS' FUNDS

Taxpayers' Funds comprise General Funds and Revaluation Reserves.

GENERAL FUNDS

2008 Actual $000		2009 Actual $000	2009 Main Estimates $000	2009 Supp. Estimates $000
1,449,377	**General funds at 1 July**	**1,519,977**	**1,519,977**	**1,519,977**
3,228	Net operating surplus/(deficit)	13,398	–	6,400
70,600	Capital contribution from the Crown	65,747	(21,094)	65,747
–	Capital returned to the Crown	(83,841)	–	(83,841)
73,828		**(4,696)**	**(21,094)**	**(11,694)**
(3,228)	Provision for repayment of surplus to the Crown	(13,398)	–	(6,400)
1,519,977	**General funds at 30 June**	**1,501,883**	**1,498,883**	**1,501,883**

The net operating surplus from the delivery of outputs must be repaid by 31 October each year.

REVALUATION RESERVES

2008 Total Actual $000		2009 Asset Revaluation Reserve $000	2009 Fair Value Through Equity Reserve $000	2009 Total Actual $000
280,973	**Revaluation reserves at 1 July**	**277,495**	**2,267**	**279,762**
(1,211)	Revaluation gains/(losses) for the current period	245,305	–	245,305
–	Net write-back of revaluation gains/(losses) related to previous year	2,548	–	2, 548
(1,211)	**Total movement in revaluation reserves**	**247,853**	**2,267**	**247,853**
279,762	**Revaluation reserves at 30 June**	**525,348**	**2,267**	**527,615**

The Department has no restricted reserves.

ASSET REVALUATION RESERVE

2008 Total Actual $000		2009 Land $000	2009 Buildings $000	2009 Total Actual $000
278,528	**Asset revaluation reserves at 1 July**	**65,488**	**212,007**	**277,495**
(1,033)	Revaluation gains/(losses) for the current period	71,892	173,413	245,305
–	Net write-back of revaluation gains/(losses) related to previous year	–	2,548	2, 548
(1,033)	**Total movement in asset revaluation reserves**	**71,892**	**175,961**	**247,853**
277,495	**Asset revaluation reserves at 30 June**	**137,380**	**387,968**	**525,348**

FAIR VALUE THROUGH EQUITY RESERVE

2008 Actual $000		2009 Actual $000
2,445	**Fair value through equity reserve at 1 July**	**2,267**
(178)	Revaluation gains/ (losses) for the current period	–
(178)	**Total movement in fair value through equity reserve**	**–**
2,267	**Fair value through equity reserve at 30 June**	**2,267**

NOTE 19: RECONCILIATION OF NET SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2009

2008 Actual $000		2009 Actual $000	2009 Main Estimates $000	2009 Supp. Estimates $000
3,228	**NET SURPLUS/(DEFICIT)**	**13,398**	**–**	**6,400**
	Add/(less) non-cash items			
117,888	Depreciation and amortisation	124,799	126,451	122,378
–	Impairment charges	–	–	–
5,696	Inc/(dec) in non-current employee entitlements	(3,189)	–	–
176	Inc/(dec) in other non-cash items	58	–	–
123,760	**Total non-cash items**	**121,668**	**126,451**	**122,378**
	Working capital movements			
1,169	(Inc)/dec in debtors and other receivables	(5,645)	–	–
(69)	(Inc)/dec in inventories	(533)	–	311
(345)	(Inc)/dec in prepayments	(1,031)	(500)	(174)
20,090	Inc/(dec) in creditors and other payables	(15,313)	–	(14,746)
1,561	Inc/(dec) in provisions	833	500	34
6,545	Inc/(dec) in current employee entitlements	8,345	1,500	–
28,951	**Working capital movements – net**	**(13,344)**	**1,500**	**(14,575)**
	Add/(less) items classified as investing or financing activities			
(17)	Dividends	(28)	–	–
294	Biological assets revaluation loss	1,013	–	–
–	Investments revaluation loss	1,231	–	–
–	Net loss/(gain) on sale or disposal of investments	(156)	–	–
1,677	Net loss/(gain) on sale or disposal of physical assets	662	–	–
1,954	**Total investing activity items**	**2,722**	**–**	**–**
157,893	**Net cash flow from operating activities**	**124,444**	**127,951**	**114,203**

NOTE 20: CONTINGENCIES

Contingent liabilities and assets are separately disclosed in the Statement of Contingent Liabilities and Assets.

NOTE 21: RELATED PARTY DISCLOSURE

The Department is a wholly owned entity of the Crown. The Government significantly influences the roles of the Department as well as being its major source of revenue.

The Department enters into numerous transactions with other government departments, Crown agencies and state-owned enterprises on an 'arm's length' basis. Where those parties are acting in the course of their normal dealings with the Department, related party disclosures have not been made for transactions of this nature.

Apart from those transactions described above, the Department has not entered into any related party transactions.

As no related party transactions occurred, the personnel compensation relating to key management personnel is not disclosed as part of the related party disclosure note. Remuneration applicable to key management personnel is disclosed as part of the Key Management Personnel note. The Department has determined key management personnel as the Chief Executive and the Executive Management Team.

NOTE 22: KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel include the Chief Executive and eight General Managers (2008: eight General Managers).

2008 Actual $000		2009 Actual $000
2,271	Salary and other short term benefits	2,516
–	Post employment benefits	–
66	Other long-term benefits	22
–	Termination benefits	–
2,337	**Total key management personnel compensation**	**2,538**

NOTE 23: POST-BALANCE DATE EVENTS

There were no post-balance date events that required adjustment to the financial statements.

NOTE 24: FINANCIAL INSTRUMENTS

The Department is party to financial instrument arrangements as part of its everyday operations. These include instruments such as bank balances, investments, accounts receivable and trade creditors.

FAIR VALUE

The fair value of financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

MARKET RISK

Price Risk

Price risk is the risk that the fair value of future cashflows of a financial instrument will fluctuate as a result of changes in market prices. The Department is exposed to price risk on its investments. The price risk is nominal as the investments are held by the Department as a result of dealings with the farming industry and, as such, are not expected to be traded and are not used to support any cashflows.

CURRENCY RISK

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

The Department does not enter into forward foreign exchange contracts, as it engages in few overseas transactions, and is therefore only nominally susceptible to foreign exchange risks.

INTEREST RATE RISK

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

Under Section 46 of the Public Finance Act 1989 the Department cannot raise a loan without Ministerial approval and no such loans have been raised. Accordingly, the Department has no interest bearing financial instruments and therefore has no exposure to interest rate risk.

CREDIT RISK

Credit risk is the risk that a third party will default on its obligations to the Department, causing the Department to incur a loss. In the normal course of business, the Department incurs credit risk from trade debtors, transactions with financial institutions and the New Zealand Debt Management Office (NZDMO).

The Department is only permitted to deposit funds with Westpac New Zealand Limited, or with the NZDMO, as these entities have high credit ratings. For other financial instruments, the Department does not have significant concentrations of credit risk.

The Department's maximum credit risk exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalent (note 7), prepayments (note 8), debtors and other receivables (note 9) presented in the Statement of Financial Position. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

LIQUIDITY RISK

Liquidity risk is the risk that the Department will encounter difficulty raising liquid funds to meet commitments as they fall due.

Management of Liquidity Risk

In meeting its liquidity requirements, the Department closely monitors its forecast cash requirements with expected cash draw downs from the NZDMO. The Department maintains a target level of available cash to meet liquidity requirements.

Contractual Maturity Analysis of Financial Liabilities

The table below analyses the Department's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

2008 Actual $000		2009 Actual $000
	Creditors and other payables (note 15)	
68,497	Less than one year	62,497
–	Between one and five years	–
–	More than five years	–
68,497		**62,497**

The liability for the repayment of surplus to the Crown is not a financial liability as defined by NZ IAS 32 – *Financial Instruments Presentation*, as the obligation to pay arises from statute.

SENSITIVITY ANALYSIS

As NZ IFRS 7: *Statement of Cash Flows* does not prescribe the format for presenting sensitivity analysis, the Department has chosen to make the following disclosures.

Cash and Cash Equivalents

No cash or cash equivalents earn interest, nor are they held in any term deposits.

Bank Overdraft

The Department has no bank overdraft.

Secured Loans

The Department has no secured loans.

Derivatives – held for Trading and Hedge Accounting

The Department has no derivatives held for trading and does not engage in hedge accounting.

Creditors and Other Payables

The Department holds no creditors or other payables that are affected by foreign exchange rate movements.

Categories Of Financial Instruments

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

2008 Actual $000		2009 Actual $000
	FINANCIAL ASSETS	
	Cash and receivables	
164,761	Cash and cash equivalents (note 7)	146,685
5,692	Debtors and other receivables (note 9)	11,279
170,453	**Total cash and receivables**	**157,964**
	Fair value through equity	
8,436	Investments (note 11)	5,695
8,436	**Total investments**	**5,695**
178,889	**Total financial assets**	**163,659**
	FINANCIAL LIABILITIES	
	Financial liabilities	
68,497	Creditors and other payables (note 15)	62,497
68,497	**Total financial liabilities**	**62,497**

NOTE 25: CAPITAL MANAGEMENT

The Department's capital is its equity (or taxpayers' funds), which comprise general funds and revaluation reserves. Taxpayers' funds are represented by net assets.

The Public Finance Act 1989 (The Act) requires the Department to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Taxpayers' funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

The Department has in place asset management plans for major classes of assets detailing renewal and maintenance programmes.

The Act requires the Department to make adequate and effective provision in its long-term capital expenditure and that the Department acts in accordance with financial delegations from Cabinet to the Chief Executive through the Responsible Minister. The Act also requires that the Department complies with the requirements of the State Sector Act 1988, Treasury Instructions and any other legislation governing its operations when incurring any capital expenditure.

The objective of managing the Department's Taxpayers' funds is to ensure the Department effectively achieves its goals and objectives for which it has been established, whilst remaining a going concern.

NOTE 26: MAJOR BUDGET VARIATIONS

STATEMENT OF FINANCIAL PERFORMANCE, STATEMENT OF FINANCIAL POSITION, STATEMENT OF CASH FLOWS AND STATEMENT OF DEPARTMENTAL EXPENDITURE AND APPROPRIATIONS

Explanations for major variances from the 2008/09 Main and Supplementary Estimates are as follows:

The increase in Revenue Crown compared to 2008/09 Main Estimates relates to funding for 2008/09 collective bargaining and related wage pressures for Community Probation and Psychological Services.

The closing taxpayers' funds as at 30 June 2009 are higher compared with both the Main and Supplementary Estimates mainly due to an increase in revaluation reserves for land and buildings of $245.3 million.

The increase in cash compared to the Main and Supplementary Estimates is due to a revised spending profile on some of the Department's infrastructure and higher than anticipated net cash flow from operating activities.

Physical assets are higher compared with the Supplementary Estimates mainly due to revaluation gains from land and buildings at 30 June 2009. Intangible assets are higher than the Main Estimates mainly due to commission of major new software projects during 2008/09 such as the Unauthorised Use of Cell Phones Project and the SAP Accounting System upgrade.

The increase in debtors and other receivables compared to the Main and Supplementary Estimates is mainly due to the $3.7 million due from the Crown. As at 30 June 2009, the Department is yet to draw down the funding under the approved bargaining round for 2008, pending approval from the Minister of Finance.

Creditors and other payables are significantly lower than both Main and Supplementary Estimates. The variance is mainly due to the classification of provisions in creditors and other payables in both the Main and Supplementary Estimates.

The increase in employee entitlements compared to the Main and Supplementary Estimates is due to the following reasons:

- higher annual leave provision due to the Department's compliance with the Holidays Act which increased the average hourly rate for annual leave;
- new negotiated contractual entitlements for Prison Service staff working on Public Holidays. The agreement was back-dated to 1 January 2008; and
- higher employee entitlements for long service and retiring leave due to significant changes in discount rates during 2008/09.