PART B: ANNUAL FINANCIAL STATEMENTS

CONTENTS

STATEMENT OF RESPONSIBILITY

In terms of the Public Finance Act 1989, I am responsible, as Chief Executive of the Department of Corrections, for the preparation of the Department's financial statements and the judgements made in the process of producing those statements.

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

In my opinion, these financial statements fairly reflect the financial position and operations of the Department for the year ended 30 June 2008.

Signed

Barry Matthews

Chief Executive

30 September 2008

Countersigned

John Bole

General Manager
Business Information & Planning

30 September 2008

AUDIT REPORT

TO THE READERS OF THE DEPARTMENT OF CORRECTIONS' FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

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 on his behalf. 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 2008.

Unqualified Opinion

In our opinion:

- The financial statements of the Department on pages 43 to 88:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Department's financial position as at 30 June 2008; and
    - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Department on pages 89 to 152:
  - 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 outlined 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 outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 30 September 2008, 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

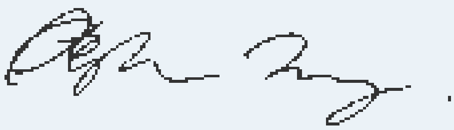
The Chief Executive is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Department as at 30 June 2008 and the results of its operations and cash flows 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 assignments in the areas of probity assurance over a number of tenders and a review of aspects of the Department's budgeting, which are compatible with those independence requirements.

Other than the audit and these assignments, we have no relationship with or interests in the Department.



S B 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 2008 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 2008 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 2008

30/06/07 Actual $000		Notes	30/06/08 Actual $000	30/06/08 Main Estimates $000	30/06/08 Supp. Estimates $000
	REVENUE				
742,619	Crown		886,003	862,022	886,003
7,469	Departmental		7,765	6,169	8,829
29,034	Other	2	33,075	25,998	31,098
53	Dividends		17	–	–
2	Interest		–	–	–
779,177	**Total operating revenue**		**926,860**	**894,189**	**925,930**
	EXPENDITURE				
378,186	Personnel costs	3	443,020	449,612	439,316
207,486	Operating costs	4	232,083	212,440	233,635
77,318	Depreciation and amortisation	5	117,888	111,304	119,050
103,286	Capital charge	6	130,641	120,833	133,929
766,276	**Total output expenses**		**923,632**	**894,189**	**925,930**
12,901	**Net surplus/(deficit)**		**3,228**	–	–

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

For information on major variances against budget refer to Note 27 (page 82).

STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

For The Year Ended 30 June 2008

30/06/07 Actual $000		Notes	30/06/08 Actual $000	30/06/08 Main Estimates $000	30/06/08 Supp. Estimates $000
1,274,138	**TAXPAYERS' FUNDS BROUGHT FORWARD AS AT 1 JULY**		**1,730,350**	**1,665,820**	**1,730,350**
	Movements during the year (other than flows to and from the Crown)				
12,901	Add/(deduct) net surplus/(deficit)		3,228	–	–
190,151	Increase/(decrease) in revaluation reserves	19	(1,211)	–	(1,903)
203,052	**Total recognised revenues and expenses for the period**		**2,017**	**–**	**(1,903)**
	Adjustment for flows to and from the Crown				
266,682	Add capital contributions from the Crown during the year	19	70,600	58,600	70,600
(13,522)	Provision for payment of surplus to the Crown		(3,228)	–	–
253,160	**Total adjustments for flows to and from the Crown**		**67,372**	**58,600**	**70,600**
1,730,350	**Taxpayers' funds at end of the year**		**1,799,739**	**1,724,420**	**1,799,047**

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

For information on major variances against budget refer to Note 27 (page 82).

STATEMENT OF FINANCIAL POSITION

As At 30 June 2008

30/06/07 Actual $000		Notes	30/06/08 Actual $000	30/06/08 Main Estimates $000	30/06/08 Supp. Estimates $000
	ASSETS				
	Current Assets				
56,498	Cash and cash equivalents	7	164,761	14,023	98,510
1,643	Prepayments	8	1,988	625	1,625
7,037	Debtors and receivables	9	5,692	4,684	7,229
5,842	Inventories	10	5,911	5,600	5,600
484	Assets held for sale	11	–	–	–
–	Investments held for sale	12	1,510	–	–
71,504	**Total current assets**		**179,862**	**24,932**	**112,964**
	Non-current assets				
9,008	Investments	12	6,926	9,973	9,008
1,727,161	Physical assets	13	1,698,464	1,765,333	1,737,703
37,856	Intangible assets	14	36,363	31,293	38,439
37,844	Biological assets	15	38,304	40,502	38,062
1,811,869	**Total non-current assets**		**1,780,057**	**1,847,101**	**1,823,212**
1,883,373	**Total assets**		**1,959,919**	**1,872,033**	**1,936,176**
	LIABILITIES				
	Current liabilities				
73,426	Creditors and payables	16	77,075	88,500	70,000
49,474	Employee benefit liabilities	17	59,840	42,950	49,450
6,184	Provisions	18	7,745	4,263	7,279
13,522	Provision for repayment of surplus to the Crown		3,228	–	–
142,606	**Total current liabilities**		**147,888**	**135,713**	**126,729**
	Non-current liabilities				
10,417	Employee benefit liabilities	17	12,292	11,900	10,400
10,417	**Total non-current liabilities**		**12,292**	**11,900**	**10,400**
153,023	**Total liabilities**		**160,180**	**147,613**	**137,129**
	TAXPAYERS' FUNDS				
1,449,377	General funds	19	1,519,977	1,557,008	1,519,977
280,973	Reserves	19	279,762	167,412	279,070
1,730,350	**Total taxpayers' funds**		**1,799,739**	**1,724,420**	**1,799,047**
1,883,373	**Total liabilities and taxpayers' funds**		**1,959,919**	**1,872,033**	**1,936,176**

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

For information on major variances against budget refer to Note 27 (page 82).

STATEMENT OF CASH FLOWS

For The Year Ended 30 June 2008

30/06/07 Actual $000		Notes	30/06/08 Actual $000	30/06/08 Main Estimates $000	30/06/08 Supp. Estimates $000
	CASH FLOWS FROM OPERATING ACTIVITIES				
	Cash provided from:				
	Supply of outputs to				
742,619	Crown Revenue		886,003	862,022	886,003
7,469	Departmental Revenue		7,725	6,169	8,766
26,255	Other Revenue		34,163	26,998	30,969
4,101	Goods and Services Tax (net)*		4,085	–	(2,493)
	Cash disbursed to:				
(368,225)	Personnel		(426,651)	(450,962)	(435,487)
(201,007)	Operating		(216,791)	(211,090)	(237,083)
(103,286)	Capital charge		(130,641)	(120,833)	(133,929)
107,926	**Net cash flows from operating activities**	20	**157,893**	**112,304**	**116,746**
	CASH FLOWS FROM INVESTING ACTIVITIES				
	Cash provided from:				
55	Interest and dividends		17	–	–
83	Sale of investments		430	–	–
754	Sale of physical, biological and intangible assets		1,381	1,450	1,450
	Cash disbursed to:				
(337,674)	Purchase of physical assets, biological and intangible assets **		(108,536)	(177,589)	(133,262)
(336,782)	**Net cash flows from investing activities**		**(106,708)**	**(176,139)**	**(131,812)**
	CASH FLOWS FROM FINANCING ACTIVITIES				
	Cash provided from:				
266,682	Capital contribution from the Crown		70,600	58,600	70,600
	Cash disbursed to:				
(1,372)	Payment of surplus to the Crown		(13,522)	–	(13,522)
265,310	**Net cash flows from financing activities**		**57,078**	**58,600**	**57,078**
36,454	**Net increase/(decrease) in cash and cash equivalents held**		**108,263**	**(5,235)**	**42,012**
20,044	Opening total cash and cash equivalents balances at 1 July		56,498	19,258	56,498
56,498	**Closing cash and cash equivalents balances as of 30 June**		**164,761**	**14,023**	**98,510**

** 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 (2007: nil).*

The accompanying accounting policies and notes form part of these financial statements.
For information on major variances against budget refer to Note 27 (page 82).

STATEMENT OF COMMITMENTS

As At 30 June 2008

Lessee Commitments

The Department has long-term leases on 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 below as future commitments are based on current rental rates.

Operating leases include lease payments for premises, computer equipment, telephone exchange systems and photocopiers.

30/06/07 Actual $000		30/06/08 Actual $000
	Non-cancellable accommodation leases	
8,365	Less than one year	9,195
18,414	One to five years	16,376
5,226	More than five years	4,615
32,005		**30,186**
	Commitments arising from other contracts	
24,217	Less than one year	30,841
28,721	One to five years	26,619
–	More than five years	–
52,938		**57,460**
	Capital commitments	
37,421	Less than one year	65,535
1,406	One to five years	27,036
–	More than five years	25,936
38,827		**118,507**
123,770	**Total commitments**	**206,153**

The increase in capital commitments is primarily due to the commencement of the Mt Eden Redevelopment Project. Other smaller movements include the completion of the contract for Spring Hill Corrections Facility and a new commitment related to the Rimutaka Infrastructure Project.

Lessor Commitments

The Department has operating leases for some of its premises. The operating leases are for board and rent. These totals are reported as part of other revenue.

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

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

As At 30 June 2008

CONTINGENT LIABILITIES

30/06/07 Actual $000		30/06/08 Actual $000
4,421	Legal proceedings	3,063
1,002	Personal grievances	782
5,423	**Total contingent liabilities**	**3,845**

Legal proceedings – The Department was defending 25 legal proceedings claims by prisoners and external parties as at 30 June 2008. They cover a range of areas, including breach of the NZ Bill of Rights Act 1990 and breach of contract.

Personal grievances – The Department was also defending 68 employment related claims made by staff members.

UNQUANTIFIED CLAIMS

The Department is a participating employer in the Defined Benefit Plan (DBP) 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.

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 employers, as there is no prescribed basis for allocation.

CONTINGENT ASSETS

The Department does not have any contingent assets as at 30 June 2008. (2007: Nil).

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

STATEMENT OF DEPARTMENTAL EXPENDITURE AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For The Year Ended 30 June 2008

	30/06/08 Expenditure Actual $000	30/06/08 Appropriation Voted** $000
VOTE: CORRECTIONS		
Appropriations for classes of outputs		
Information Services	41,370	41,176
Community-based Sentences and Orders	105,733	105,149
Custody of Remand Prisoners	128,652	128,061
Escorts and Custodial Supervision	11,457	12,179
Custodial Services	521,598	523,394
Prisoner Employment	45,151	45,067
Rehabilitative Programmes and Reintegrative Services	57,201	56,928
Services to the New Zealand Parole Board	6,560	7,213
Policy Advice and Development	4,652	4,949
Service Purchase and Monitoring	1,675	1,814
Total Departmental Output Expenditure	**924,049**	**925,930**
Remeasurements*	**(621)**	–
Total Departmental Expenditure	**923,428**	**925,930**
Capital Injections	**70,600**	**70,600**

* Remeasurements relate to the forestry revaluation of $3.021 million, the livestock revaluation of ($4.034 million) and the long service and retirement leave valuation of $0.392 million. As per section 4(2) of the Public Finance Act 1989, "Expense does not include an expense that results from (a) a remeasurement of an asset or liability".

** These amounts include adjustments made in the Supplementary Estimates and a Section 26A transfer.

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

PART B: ANNUAL FINANCIAL STATEMENTS

STATEMENT OF UNAPPROPRIATED EXPENDITURE

For The Year Ended 30 June 2008

30/06/07 Unappropriated Expenditure $000		30/06/08 Expenditure Actual $000	30/06/08 Appropriation Voted $000	30/06/08 Unappropriated Expenditure $000
	VOTE: CORRECTIONS			
	Appropriations for classes of outputs			
–	Information Services	41,370	41,176	194
–	Community-based Sentences and Orders	105,733	105,149	584
–	Custody of Remand Prisoners	128,652	128,061	591
–	Escorts and Custodial Supervision	11,457	12,179	–
–	Custodial Services	521,598	523,394	–
–	Prisoner Employment	45,151	45,067	84
–	Rehabilitative Programmes and Reintegrative Services	57,201	56,928	273
–	Services to the New Zealand Parole Board	6,560	7,213	–
–	Policy Advice and Development	4,652	4,949	–
–	Service Purchase and Monitoring	1,675	1,814	–
–	**Total**	**924,049**	**925,930**	**1,726**

EXPENSES APPROVED UNDER SECTION 26B OF THE PUBLIC FINANCE ACT 1989

Additional expenditure of $5.355 million for long service leave was incurred due to the changes in common leave provisions announced by Cabinet during May 2008 (CBC (08)173 refers). Due to the timing of the Cabinet approval, it was not able to be included in the Supplementary Estimates. The impact of the additional provision in long service leave entitlements resulted in the Department exceeding its appropriations for 2007/08 across five output classes.

The unappropriated expenditure has been approved by the Minister of Finance in terms of Section 26B of the Public Finance Act 1989.

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

STATEMENT OF TRUST MONIES

For The Year Ended 30 June 2008

Account	As at 01/07/07 $000	Contribution $000	Distribution $000	As at 30/06/08 $000
Prison Trust Accounts	841	14,611	(14,186)	1,266
	841	**14,611**	**(14,186)**	**1,266**

These accounts represent amounts held at each prison on behalf of prisoners for the purchase of toiletries and other miscellaneous items.

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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2008

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 35 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 2008. The financial statements were authorised for issue by the Chief Executive of the Department of Corrections on 30 September 2008.

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.

This is the first set of financial statements prepared using NZ IFRS and comparatives for the year ended 30 June 2007 have been restated to NZ IFRS accordingly. Reconciliations of equity for the year ended 30 June 2007 under NZ IFRS to the balances reported in the 30 June 2007 financial statements are detailed in note 28 'Explanation of Transition to NZ IFRS'.

The reconciliation of net surplus/ (deficit) is also presented for comparison purposes. The reconciliations are detailed in note 28 'Explanation of Transition to NZ IFRS'.

STANDARDS AND INTERPRETATION ISSUED AND NOT YET ADOPTED

There are no standards, interpretations or amendments that have been issued, but are not yet effective, that the Department has not yet applied.

REPORTING PERIOD

The reporting period covers the 12 months from 1 July 2007 to 30 June 2008. Comparative figures for the year ended 30 June 2007 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.

These are the Department's first NZ IFRS financial statements and NZ IFRS 1 has been applied.

The Department does not qualify for differential reporting exemptions.

The accounting policies have been applied consistently to all periods presented in these financial statements and in preparing an opening NZ IFRS Statement of Financial Position as at 1 July 2006 for the purpose of transition to NZ IFRS.

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

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, by using the effective interest rate.

Revenue – Dividends

Revenue from dividends is recognised when the shareholders 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 ten 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 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 (i.e. not past due).

INVENTORY

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 been 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 valued at fair value as held for sale. Investments arise from the Department's dealings with companies in the farming industry.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

EMPLOYEE BENEFITS

Short-term benefits

Employee benefits 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 bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term benefits

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 6.42% to 7.09%, and a future salary growth rate of 3.0% 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 belongs 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. 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 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 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 value of the liability is measured at the present value of the future payments for which the Department has responsibility using a risk free discount rate. The value of the liability includes a risk margin that represents the inherent uncertainty of the present value of the expected future payments.

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 represents the Crown's net investment in the Department.

Taxpayers' Funds are measured as the difference between total assets and total liabilities. Taxpayers' Funds are classified into:

- general funds
- asset 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 receivables; creditors and 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 the payment of 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 payables and debtors and receivables, which are GST inclusive. All other 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 amount of GST owing to the Inland Revenue Department at balance date, being the difference between output GST and input GST, is included in creditors and payables and debtors and receivables.

Commitments and contingent liabilities are disclosed exclusive of GST.

The movement in GST payable or receivable is recognised as a separate cash flow line item.

BUDGET FIGURES

The budget figures are those presented in the Statement of Intent for the year ended 30 June 2008 which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the 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 Department has identified no estimates, assumptions and critical judgements in applying accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

TERMINOLOGY

The terms Statement of Financial Performance, Statement of Financial Position, and surplus/deficit are appropriate equivalents to IFRS terminology as outlined in NZ IAS 1.

EXPLANATIONS

NZ IAS 1.36 requires comparative information to be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall also be included for narrative information when it is relevant to an understanding of the current period's financial statements.

NOTES

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

CHANGES IN ACCOUNTING POLICIES

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

COST ACCOUNTING POLICIES

The Department derives 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

30/06/07 Actual $000		30/06/08 Actual $000	30/06/08 Main Estimates $000	30/06/08 Supp. Estimates $000
26,961	External sales	30,529	23,974	29,085
1,502	Board and rents	1,643	1,719	1,500
241	Profit on sale of assets	204	–	–
330	Miscellaneous	699	305	513
29,034	**Total other revenue**	**33,075**	**25,998**	**31,098**

NOTE 3: PERSONNEL COSTS

30/06/07 Actual $000		30/06/08 Actual $000	30/06/08 Main Estimates $000	30/06/08 Supp. Estimates $000
361,060	Salaries and wages	423,463	436,097	421,351
621	Government Superannuation Fund (GSF) contribution expense	578	550	550
6,024	State Sector Retirement Savings Scheme (SSRSS) & KiwiSaver employer contribution	6,738	6,629	7,379
7,634	Annual leave	5,220	4,589	7,730
2,792	Retirement and long service leave	6,848	1,747	2,306
55	Sick leave	173	–	–
378,186	**Total personnel costs**	**443,020**	**449,612**	**439,316**

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

The retiring and long service leave includes a remeasurement of ($0.392 million) due to a change in discount rates between 30 June 2007 and 30 June 2008, and an increase in provision for long service leave due to changes in common leave provisions announced by Cabinet during May 2008.

NOTE 4: OPERATING COSTS

30/06/07 Actual $000		30/06/08 Actual $000	30/06/08 Main Estimates $000	30/06/08 Supp. Estimates $000
11,856	Operating lease rentals	13,416	12,801	12,801
270	Audit fees for financial statements' audit	284	284	284
23	Audit Fees for NZ IFRS Transition	18	–	18
63	Fees to auditors for other services provided	133	–	7
46,388	Facilities maintenance	51,012	45,302	51,366
64,630	Offender management costs	72,443	59,512	73,108
10,220	Computer costs	11,004	9,592	10,390
11,962	Contract management *	15,342	15,565	15,565
32,104	Administration	37,247	38,456	34,344
233	Receivables written off during period	83	–	–
1,858	ACC Partnership Programme	866	–	–
9,287	Inventory expenses	8,561	10,034	9,186
16,984	Other operating costs	19,499	20,894	26,566
479	Biological assets revaluation	294	–	–
1,129	Loss on sale or disposal of physical, intangible and biological assets	1,881	–	–
207,486	**Total operating costs**	**232,083**	**212,440**	**233,635**

** Contract Management represents contracts with Chubb New Zealand Limited and the New Zealand Prisoners' Aid and Rehabilitation Society Incorporated.*

NOTE 5: DEPRECIATION AND AMORTISATION

30/06/07 Actual $000		30/06/08 Actual $000	30/06/08 Main Estimates $000	30/06/08 Supp. Estimates $000
	DEPRECIATION			
55,577	Buildings	92,564	87,200	94,082
1,264	Leasehold improvements	1,381	1,200	1,238
2,968	Plant and equipment	3,904	4,800	4,000
1,025	Furniture and fittings	1,689	1,700	1,850
4,003	Computer hardware	4,648	2,000	3,100
3,478	Motor vehicles	3,693	3,600	4,200
68,315	**Depreciation charge**	**107,879**	**100,500**	**108,470**
	AMORTISATION			
9,003	Computer software	10,009	10,804	10,580
9,003	**Amortisation charge**	**10,009**	**10,804**	**10,580**
77,318	**Total depreciation and amortisation charge**	**117,888**	**111,304**	**119,050**

NOTE 6: CAPITAL CHARGE

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

The capital charge rate for the year ended 30 June 2008 was 7.5 percent per annum (2007: 7.5 percent).

NOTE 7: CASH AND CASH EQUIVALENTS

30/06/07 Actual $000		30/06/08 Actual $000
56,498	Cash and bank balances	164,761
56,498	**Total cash and cash equivalents**	**164,761**

The Department is not permitted to invest surplus cash balances. Only Treasury has the power to invest surplus cash.

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

NOTE 8: PREPAYMENTS

30/06/07 Actual $000		30/06/08 Actual $000
	Current Portion	
1,643	Prepayments	1,988
	Non-current Portion	
–	Prepayments	–
1,643	**Total prepayments**	**1,988**

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

NOTE 9: DEBTORS AND RECEIVABLES

30/06/07 Actual $000		30/06/08 Actual $000
	Current portion	
4,613	Trade debtors – external	3,343
295	Trade debtors – employees	273
(52)	Less: Provision for doubtful debts	(145)
4,856	**Trade debtors – external and employees**	**3,471**
2,181	Trade debtors – other Government entities	2,221
2,181	**Trade debtors – other Government entities**	**2,221**
	Non-current Portion	
–	Trade debtors	–
7,037	**Total debtors and receivables**	**5,692**

The carrying value of trade debtors approximates their fair value. 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 2007 and 2008, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

	30/06/07			30/06/08		
	$000 Gross	$000 Impairment	$000 Net	$000 Gross	$000 Impairment	$000 Net
Not past due	6,369	–	**6,369**	5,013	(79)	**4,934**
Past due 1-30 days	328	–	**328**	359	–	**359**
Past due 31-60 days	54	–	**54**	85	(6)	**79**
Past due 61-90 days	1	(1)	–	2	(1)	**1**
Past due > 91 days	337	(51)	**286**	378	(59)	**319**
	7,089	**(52)**	**7,037**	**5,837**	**(145)**	**5,692**

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 2008 the Department has identified no debtors (2007: Nil) that are insolvent.

Movements in the provision for doubtful debts are as follows:

30/06/07 Actual $000		30/06/08 Actual $000
282	Balance brought forward	52
(10)	Change in receivables provisions made during the year	93
(220)	Receivables written off during period	–
52	**Carrying amount of impairment**	**145**

NOTE 10: INVENTORIES

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

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

NOTE 11: ASSETS HELD FOR SALE

30/06/07 Actual $000		30/06/08 Actual $000
474	Freehold land	–
10	Buildings	–
484	**Total assets held for sale**	**–**

NOTE 12: INVESTMENTS

Investments are valued at fair value as available for sale financial instruments. Investments arise from the Department's dealings with companies in the farming industry.

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

30/06/07 Actual $000		30/06/08 Actual $000
	Current portion	
–	Investments held for sale	1,510
	Non-current portion	
9,008	Investments	6,926
9,008	**Total investments**	**8,436**

NOTE 13: PHYSICAL ASSETS

Freehold land and buildings were valued at fair value as at 30 June 2007 by an independent registered valuer, *valuersnet.NZ*. This valuation was certified by M W Lauchlan ANZIV SNZPI.

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 available for sale.

The Department constructs prison buildings which 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 1960's. 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 $3.185 million (2007: $3.488 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 2006	112,061	679,791	10,939	31,961	7,895	29,491	34,846	906,984
Additions	570	322,433	954	3,668	1,391	2,839	4,983	336,838
Revaluation Increase	28,916	162,200	–	–	–	–	–	191,116
Assets Held for Sale	(474)	(10)	–	–	–	–	–	(484)
Disposals / Transfers	(6)	54	(37)	(1,514)	(361)	(188)	(3,005)	(5,057)
Cost or Valuation at 30 June 2007	**141,067**	**1,164,468**	**11,856**	**34,115**	**8,925**	**32,142**	**36,824**	**1,429,397**
Add: Movements								
Additions	791	391,563	3,008	9,115	3,120	9,601	5,207	422,405
Revaluation Increase	–	–	–	–	–	–	–	–
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**
Accumulated Depreciation and Impairment Losses								
Balance 1 July 2006	–	(42,742)	(4,974)	(19,903)	(5,418)	(21,085)	(19,991)	(114,113)
Depreciation Expense	–	(55,577)	(1,264)	(2,968)	(1,025)	(4,003)	(3,478)	(68,315)
Disposals / Transfers	–	(45)	15	1,411	355	191	2,437	4,364
Revaluation	–	98,364	–	–	–	–	–	98,364
Assets Held for Sale	–	–	–	–	–	–	–	–
Impairment Losses	–	–	–	–	–	–	–	–
Accumulated Depreciation and Impairment Losses at 30 June 2007	**–**	**–**	**(6,223)**	**(21,460)**	**(6,088)**	**(24,897)**	**(21,032)**	**(79,700)**

	Land	Buildings	Leasehold Improvements	Plant & Equipment	Furniture & Fittings	Computer Hardware	Motor Vehicles	Total Physical Assets
	$000	$000	$000	$000	$000	$000	$000	$000
Add: Movements								
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	–	–	–	–	–	–	–	–
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)
Carrying Amounts per asset class								
At 1 July 2006	112,061	637,049	5,965	12,058	2,477	8,406	14,855	792,871
At 30 June 2007	141,067	1,164,468	5,633	12,655	2,837	7,245	15,792	1,349,697
At 30 June 2008	142,097	1,463,224	7,262	17,450	4,265	12,204	16,454	1,662,956
Add: Assets Under Construction								
At 1 July 2006								511,719
At 30 June 2007								377,464
At 30 June 2008								35,508
Total Carrying Amounts								
At 1 July 2006								1,304,590
At 30 June 2007								1,727,161
At 30 June 2008								1,698,464

NOTE 14: INTANGIBLE ASSETS

	Acquired Software $000	Internally Generated Software $000	Total Intangible Assets $000
Cost or Valuation			
Balance 1 July 2006	24,962	29,067	54,029
Additions	4,197	15,679	19,876
Revaluation Increase	–	–	–
Assets Held for Sale	–	–	–
Disposals / Transfers	–	–	–
Cost or Valuation at 30 June 2007	**29,159**	**44,746**	**73,905**
Add: Movements			
Additions	2,975	7,473	10,448
Revaluation Increase	–	–	–
Assets Held for Sale	–	–	–
Disposals / Transfers	(171)	(6,374)	(6,545)
Cost or Valuation at 30 June 2008	**31,963**	**45,845**	**77,808**
Accumulated Depreciation and Impairment Losses			
Balance 1 July 2006	(17,376)	(16,457)	(33,833)
Amortisation Expense	(3,463)	(5,540)	(9,003)
Disposals / Transfers	–	–	–
Impairment Losses	–	–	–
Accumulated Depreciation and Impairment Losses at 30 June 2007	**(20,839)**	**(21,997)**	**(42,836)**
Add: Movements			
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)**
Carrying Amounts as per asset class			
At 1 July 2006	**7,586**	**12,610**	**20,196**
At 30 June 2007	**8,320**	**22,749**	**31,069**
At 30 June 2008	**7,648**	**22,536**	**30,184**
Add: Assets Under Construction – Software			
At 1 July 2006	**3,597**	**8,103**	**11,700**
At 30 June 2007	**2,380**	**4,407**	**6,787**
At 30 June 2008	**2,556**	**3,623**	**6,179**
Carrying Amounts			
At 1 July 2006	**11,183**	**20,713**	**31,896**
At 30 June 2007	**10,700**	**27,156**	**37,856**
At 30 June 2008	**10,204**	**26,159**	**36,363**

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

NOTE 15: BIOLOGICAL ASSETS

	30/06/08 Forests $000	30/06/08 Livestock $000	30/06/08 Total Biological Assets $000
Cost or Valuation			
Balance at 1 July 2006	30,822	8,680	39,502
Purchases	–	279	279
Gains (losses) arising from changes in fair value less estimated point of sale costs	3,281	4,921	8,202
Less Sales / harvest	(4,707)	(5,432)	(10,139)
Cost or Valuation at 30 June 2007	**29,396**	**8,448**	**37,844**
Add: Movements			
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**
Carrying Amounts			
At 1 July 2006	**30,822**	**8,680**	**39,502**
At 30 June 2007	**29,396**	**8,448**	**37,844**
At 30 June 2008	**26,373**	**11,931**	**38,304**

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

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.

Forests – The valuation of forests was undertaken by an independent registered valuer, P F Olsen and Company Limited, on 30 June 2008. T Vos, registered forestry consultant (NZIF), completed this valuation. The Department manages 4,512ha of commercial forest located in the North Island, near Turangi. The forest is managed as part of the Department's prisoner employment training programme.

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

- a discount rate of 7.0 % (2007: 7.0%) 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,
- no allowance for inflation has been provided,
- 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 Island. At 30 June 2008 the Department owned 16,238 sheep (2007: 17,856); 1,782 beef cattle (2007: 1,808); 4,275 dairy cattle (2007: 4,340); 2,626 deer (2007: 2,541); and 5,872 pigs (2007: 6,700). The valuation of livestock was undertaken by various independent livestock valuers.

NOTE 16: CREDITORS AND PAYABLES

30/06/07 Actual $000		30/06/08 Actual $000
	Current portion	
21,623	Trade creditors	23,454
47,310	Accrued expenses	45,043
4,493	GST payable	8,578
73,426	**Total current portion**	**77,075**
	Non-current portion	
–	Trade creditors	–
73,426	**Total creditors and payables**	**77,075**

Creditors and 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 payables that are expected to be settled within 12 months as current.

NOTE 17: EMPLOYEE BENEFIT LIABILITIES

30/06/07 Actual $000		30/06/08 Actual $000
	Current liabilities	
14,567	Retirement and long service leave	16,000
33,950	Annual leave	39,170
957	Sick leave	1,130
–	Common leave provisions	3,540
49,474	**Total current portion**	**59,840**
	Non-current liabilities	
10,417	Retirement and long service leave	10,477
–	Common leave provisions	1,815
10,417	**Total non-current portion**	**12,292**
59,891	**Total provision for employee benefit liabilities**	**72,132**

Aon New Zealand revalues the Department's non-current employment benefit liabilities on a quarterly basis.

The major assumptions used in the 30 June 2008 valuation are that future salary growth rates are 3.0% per annum and discount rates ranged from 6.42% to 7.09% per annum.

Employee benefits 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 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 benefit liabilities as current that:

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

In determining the appropriate discount rates the valuer considered the interest rates on NZ government bonds which have terms to maturity that match, as closely to 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.

Common Leave Provisions – A provision for the estimated increase in vested and non-vested long service leave due to the changes in common leave provisions announced by Cabinet in May 2008.

NOTE 18: PROVISIONS

30/06/07 Total Provisions Actual $000		30/06/08 Procurement Actual $000	30/06/08 Restructures Actual $000	30/06/08 Employee Accidents Actual $000	30/06/08 Total Provisions Actual $000
2,839	Balance brought forward	546	1,535	4,103	6,184
12,793	Additional provisions made during the year	–	532	9,874	10,406
(9,448)	Charged against provision for the year	–	(555)	(8,290)	(8,845)
6,184	**Provisions as at 30 June**	**546**	**1,512**	**5,687**	**7,745**

Procurement – The provision arose as a result of changes to the Department's procurement system.

Restructure – The provision arose as a result of changes to the Department's organisational structure. Further changes have resulted in an additional provision in 2007/08.

Employee Accidents – A provision for the estimated future cost of work-related accident claims and ACC charges.

CURRENT AND NON-CURRENT PROVISIONS

30/06/07 Total Provisions Actual $000		30/06/08 Procurement Actual $000	30/06/08 Restructures Actual $000	30/06/08 Employee Accidents Actual $000	30/06/08 Total Provisions Actual $000
6,184	Current provisions are represented by:	546	1,512	5,687	7,745
–	Non-current provisions are represented by:	–	–	–	–
6,184	**Current and non-current provisions as at 30 June**	**546**	**1,512**	**5,687**	**7,745**

EMPLOYEE ACCIDENTS

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

30/06/07 Actual $000		30/06/08 Actual $000
	Estimated future claims:	
720	Incurred but not reported claims (IBNR)	1,250
389	Reopened claims	507
619	Open claims	787
1,728	**Total future claims**	**2,544**
	Associated expenses	
130	Claims management expenses reserve	180
130	**Total expenses**	**180**
1,858	**Total outstanding claims liabilities required**	**2,724**
	ACC Levies	
2,245	ACC levies payable to ACC	2,963
2,245	**Total ACC Levies**	**2,963**
4,103	**Total outstanding claims liabilities required and ACC Levies**	**5,687**

LIABILITY VALUATION

An externally independent actuarial valuer, Neil Christie (FIAA) has calculated the Department's liability, and the valuation is effective 30 June 2008. The valuer has attested he is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding liabilities claim. The key assumptions used in determining the value of outstanding claims are detailed in the assumptions paragraphs below. There are no qualifications contained in the actuarial valuer's report.

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 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, adjusted for the Department's own claims experience (although in this case no adjustment to the standard ACC factors were required).

The reopened provision allows for the cost of the claims currently closed that may reopen at some stage in the future.

The stop loss cover level has been at 150% of the standard levy for the entire period to the 2006/07 cover year and is 200% for the 2007/08 cover year. High Cost Claims Cover has been nil for the entire period until 2007/08 where it is set at $1 million.

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

Inflation has been assumed within the range of 2.6% and 4.2% and a discount rate in the range of 6.1% to 6.2% has been used for future years.

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 19: TAXPAYERS' FUNDS

Taxpayers' Funds comprises two components:

GENERAL FUNDS

30/06/07 Actual $000		30/06/08 Actual $000	30/06/08 Main Estimates $000	30/06/08 Supp. Estimates $000
1,183,316	**General funds as at 1 July**	**1,449,377**	**1,498,408**	**1,449,377**
12,901	Net operating surplus/(deficit)	3,228	–	–
266,682	Capital contribution	70,600	58,600	70,600
279,583		**73,828**	**58,600**	**70,600**
(13,522)	Provision for repayment of surplus to the Crown	(3,228)	–	–
1,449,377	**General funds as at 30 June**	**1,519,977**	**1,557,008**	**1,519,977**

RESERVES

Asset Revaluation Reserve

30/06/07 Total Actual $000		30/06/08 Land $000	30/06/08 Buildings $000	30/06/08 Total Actual $000
87,412	**Balance brought forward**	**65,488**	**213,040**	**278,528**
191,116	Valuation Adjustment – Revaluation gains/(losses) taken to general funds	–	(1,033)	(1,033)
191,116	**Total movement in asset revaluation reserve**	**–**	**(1,033)**	**(1,033)**
278,528	**Asset revaluation reserve as at 30 June**	**65,488**	**212,007**	**277,495**

Fair Value Through Equity Reserve

30/06/07 Total Actual $000		30/06/08 Investments $000	30/06/08 Total Actual $000
3,410	**Balance brought forward**	**2,445**	**2,445**
(965)	Valuation Adjustment – Revaluation gains/(losses) taken to general funds	(178)	(178)
(965)	**Total movement in fair value through equity reserve**	**(178)**	**(178)**
2,445	**Fair value through equity reserve as at 30 June**	**2,267**	**2,267**

*Total Reserves**

30/06/07 Actual $000		30/06/08 Actual $000
90,822	**Balance brought forward**	**280,973**
190,151	Revaluation gains/(losses) taken to general funds	(1,211)
190,151	**Total movement in reserves**	**(1,211)**
280,973	**Total revaluations as at 30 June**	**279,762**

** The Department has no restricted reserves.*

NOTE 20: RECONCILIATION OF NET SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2008

30/06/07 Actual $000		30/06/08 Actual $000	30/06/08 Main Estimates $000	30/06/08 Supp. Estimates $000
12,901	**NET SURPLUS/(DEFICIT)**	**3,228**	–	–
	Add/(less) non-cash items			
77,318	Depreciation and amortisation	117,888	111,304	119,050
–	Impairment charges	–	–	–
412	Employee benefit liabilities	5,696	–	(17)
862	Other non-cash items	176	–	–
78,592	**Total non-cash items**	**123,760**	**111,304**	**119,033**
	Working capital movements			
(2,535)	Movement in receivables	1,169	1,000	(192)
(666)	Movement in inventories	(69)	–	242
(681)	Movement in prepayments	(345)	–	18
8,697	Movement in creditors and payables	20,090	–	(3,426)
716	Movement in provisions	1,561	–	1,095
10,069	Movement in employee benefit liabilities	6,545	–	(24)
15,600	**Working capital movements – net**	**28,951**	**1,000**	**(2,287)**
	Add/(less) items classified as investing or financing activities			
(55)	Dividends	(17)	–	–
–	Biological assets revaluation	294	–	–
888	Net loss/(gain) on sale or disposal of physical assets	1,677	–	–
833	**Total investing activity items**	**1,954**	–	–
107,926	**Net cash flow from operating activities**	**157,893**	**112,304**	**116,746**

NOTE 21: CONTINGENCIES

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

NOTE 22: 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 remuneration note. The Department has determined key management personnel as the Chief Executive and the Executive Management Team.

NOTE 23: REMUNERATION – KEY MANAGEMENT PERSONNEL

The Executive Management Team for 2008 consisted of the Chief Executive and eight General Managers (2007: seven General Managers).

30/06/07 Actual $000		30/06/08 Actual $000
2,161	Salary and other short term benefits	2,271
–	Post employment benefits	–
22	Other long-term benefits	66
–	Termination benefits	–
2,183	**Total provision for employee benefit liabilities**	**2,337**

Salary and other short term benefits – The Department defines these as salaries, employee benefit contributions, paid annual leave, paid sick leave and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (medical care, housing, cars and free or subsidised goods or services).

Post employment benefits – The Department defines these as pensions, other retirement benefits, post-employment life insurance and post-employment medical care.

Other long-term benefits – The Department defines these as long service leave or sabbatical leave, disability benefits and bonuses (if not payable within twelve months of the end of the period).

Termination benefits – The Department defines these as benefits payable when a contract is terminated.

NOTE 24: POST-BALANCE DATE EVENTS

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

NOTE 25: 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.

CASH

The Department did not enter into any forward exchange contracts during the financial year.

FAIR VALUE

The fair value of all 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 cashflows 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.

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Department holds no financial instruments (other than those reported in Note 17 – Employee Benefit Liabilities) that are susceptible to fair value interest rate risk.

Cashflow Interest Rate Risk

Cashflow interest rate risk is the risk that the cashflows from a financial instrument will fluctuate because of changes in market interest rates. The Department has no financial instruments that are susceptible to cashflow interest rate risk.

CURRENCY RISK

Currency risk is the risk that debtors and creditors due in foreign currency will fluctuate because of changes in foreign exchange rates.

The Department has few foreign currency transactions and therefore does not enter into foreign exchange forward contracts to hedge.

INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could impact on the return on investments or the cost of borrowing. The Department has no significant exposure to interest rate risk on its financial instruments.

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, there is no interest rate exposure for funds borrowed.

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, and transactions with financial institutions.

The Department does not require any collateral or security to support financial instruments with financial institutions that the Department deals with, as these entities have high credit ratings. For its other financial instruments, the Department does not have significant concentrations of credit risk.

The Department discloses by each class of financial instrument the amount that best represents its maximum exposure to credit risk at the reporting date without taking into account any collateral held or other credit enhancements.

The Department is only permitted to deposit funds with Westpac New Zealand limited.

Westpac New Zealand limited is a registered bank with a high credit rating.

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 New Zealand Debt Management Office. 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 cashflows.

	30/06/07 Less than 1 year Actual $000	30/06/07 Between 1 and 5 years Actual $000	30/06/07 Over 5 years Actual $000
Creditors and payables (note 16)	68,933	–	–
Other	–	–	–

	30/06/08 Less than 1 year Actual $000	30/06/08 Between 1 and 5 years Actual $000	30/06/08 Over 5 years Actual $000
Creditors and payables (note 16)	68,497	–	–
Other	–	–	–

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

Contractual Maturity Analysis of Financial Assets

As contractual maturity analysis for financial assets is not specifically required by NZ IFRS 7, the Department has chosen not to provide any analysis.

SENSITIVITY ANALYSIS

As NZ IFRS 7 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 overdrafts.

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 Payables

The Department holds no creditors or 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:

30/06/07 Actual $000		30/06/08 Actual $000
	FINANCIAL ASSETS	
	Cash and receivables	
56,498	Cash and cash equivalents (note 7)	164,761
7,037	Debtors and receivables (note 9)	5,692
63,535	**Total cash and receivables**	**170,453**
	Fair Value through equity	
9,008	Investments (note 12)	8,436
9,008	**Total investments**	**8,436**
	FINANCIAL LIABILITIES	
	Financial liabilities	
68,933	Creditors and payables (note 16)	68,497
68,933	**Total financial liabilities**	**68,497**

NOTE 26: CAPITAL MANAGEMENT

The Department's capital is its equity (or taxpayers' funds), which comprise general funds and 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.

NOTE 27: MAJOR BUDGET VARIATIONS

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

Explanations for major variances from the Department's estimated figures in the Statement of Intent are as follows:

The increase in Revenue Crown and Expenditure compared to the 2006/07 financial year relates to funding and expenses for increased capacity and Effective Interventions programmes. A new correctional facility opened in Otago in June 2007 and another at Spring Hill in November 2007.

Revenue and expenditure increased compared to the Main Estimates with additional depreciation and capital charge on re-valued property and higher than expected external revenue and associated expenditure from new or expanded Prisoner Employment activities. The Supplementary Estimates included additional funding for the additional expenses and activities.

Physical assets and net cash flows from investing activities were less than projected in the Main Estimates and reflects a revised spending profile on some of the Department's infrastructure and Effective Interventions programmes.

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

The increase in provisions compared to the Main and Supplementary Estimates are due to additional expenditure relating to Long Service Leave entitlements following the May 2008 Cabinet decision changing common leave provisions for Public Sector employees.

NOTE 28: EXPLANATION OF TRANSITION TO NZ IFRS

As stated under the "Basis of Preparation" section of note 1, these are the Department's first financial statements to be prepared in accordance with NZ IFRS. The Department's transition date is 1 July 2006 and the opening NZ IFRS balance sheet has been prepared as at that date. The Department's NZ IFRS adoption date is 1 July 2007.

In preparing these financial statements in accordance with NZ IFRS 1, the Department has applied the mandatory exceptions and no optional exemptions in application of NZ IFRS.

The actual taxpayers' funds at the end of 2006/07 are brought forward to the taxpayers' funds at the beginning of 2007/08. The Department has reported the 2006/07 actuals under current GAAP and reconciled the balance as at 30 June 2007 with the NZ IFRS balance at 1 July 2007.

RECONCILIATION OF EQUITY

The following table shows that changes in the Department's equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2006 and 30 June 2007.

	Note	NZ GAAP as at 1 July 2006 $000	NZ IFRS adjustment $000	NZ IFRS as at 1 July 2006 $000	NZ GAAP as at 30 June 2007 $000	NZ IFRS adjustment $000	NZ IFRS as at 30 June 2007 $000
ASSETS							
Total current assets *		**30,834**	**–**	**30,834**	**71,504**	**–**	**71,504**
Total non-current assets							
Investments	a, g	6,645	3,410	**10,055**	6,563	2,445	**9,008**
Physical assets (excl. forests)	b, c	1,336,493	(37,224)	**1,299,269**	1,765,017	(37,856)	**1,727,161**
Intangible assets	c	–	37,224	**37,224**	–	37,856	**37,856**
Livestock	b	8,680	(8,680)	–	8,666	(8,666)	–
Forests	b	30,822	(30,822)	–	29,396	(29,396)	–
Biological assets	b, g	–	39,502	**39,502**	–	37,844	**37,844**
Total non-current assets		**1,382,640**	**3,410**	**1,386,050**	**1,809,642**	**2,227**	**1,811,869**
Total assets		**1,413,474**	**3,410**	**1,416,884**	**1,881,146**	**2,227**	**1,883,373**
LIABILITIES							
Current liabilities							
Creditors and payables	d	88,603	522	**89,125**	73,426	–	**73,426**
Employee entitlements	e	38,503	902	**39,405**	48,517	957	**49,474**
Provisions	d	4,211	–	**4,211**	18,468	1,238	**19,706**
Total current liabilities		**131,317**	**1,424**	**132,741**	**140,411**	**2,195**	**142,606**
Total non-current liabilities *		**10,005**	**–**	**10,005**	**10,417**	**–**	**10,417**
Total liabilities		**141,322**	**1,424**	**142,746**	**150,828**	**2,195**	**153,023**
TAXPAYERS' FUNDS							
General funds	a, b, d, e & f	1,182,940	376	**1,183,316**	1,449,622	(245)	**1,449,377**
Reserves	g	89,212	1,610	**90,822**	280,696	277	**280,973**
Taxpayers' funds		**1,272,152**	**1,986**	**1,274,138**	**1,730,318**	**32**	**1,730,350**
Total liabilities and taxpayers' funds		**1,413,474**	**3,410**	**1,416,884**	**1,881,146**	**2,227**	**1,883,373**

* There were no changes to Current Assets and Non-current Liabilities as a result of IFRS. These have been summarised as one line for ease of viewing.

RECONCILIATION OF SURPLUS/DEFICIT

The following table shows the changes in the Department's surplus/ (deficit) resulting from the transition from previous NZ GAAP to NZ IFRS for the year ended 30 June 2007.

	Note	NZ GAAP as at 30 June 2007 $000	NZ IFRS adjustment $000	NZ IFRS as at 30 June 2007 $000
Revenue				
Revenue	h, i	778,786	150 + 241	779,177
Total operating revenue		**778,786**	**391**	**779,177**
Expenditure				
Personnel costs	e	378,131	55	378,186
Operating costs	d, i	206,529	716 + 241	207,486
Depreciation and amortisation		77,318	–	77,318
Capital charge		103,286	–	103,286
Total output expenses		**765,264**	**1,012**	**766,276**
Net surplus/(deficit)		**13,522**	**(621)**	**12,901**

RECONCILIATION OF CASH FLOWS

The following table shows the changes in the Department's Statement of Cash Flows resulting from the transition from previous NZ GAAP to NZ IFRS for the year ended 30 June 2007. The movements as a result of NZ IFRS do not materially affect the Departments cash flows.

	Note	NZ GAAP as at 30 June 2007 $000	NZ IFRS adjustment $000	NZ IFRS as at 30 June 2007 $000
Net surplus/(deficit)		**13,522**	**(621)**	**12,901**
Add/(less) non-cash items				
Depreciation and amortisation		77,318	–	77,318
Impairment charges		–		–
Non-current employee benefit liabilities		412	–	412
Other non-cash items		862	–	862
Total non-cash items		**78,592**	**–**	**78,592**
Working capital movements				
Movement in receivables	h	(2,385)	(150)	(2,535)
Movement in inventories		(666)	–	(666)
Movement in prepayments		(681)	–	(681)
Movement in creditors and payables		8,697	–	8,697
Movement in provisions	d	–	716	716
Movement current employee benefit liabilities	e	10,014	55	10,069
Working capital movements – net		**14,979**	**621**	**15,600**
Add/(less) items classified as investing or financing activities				
Interest/Dividends reclassified as investing activity items	j	–	(55)	(55)
Net loss/(gain) on sale or disposal of biological assets		–	–	–
Net loss/(gain) on sale or disposal of intangible assets		–	–	–
Net loss/(gain) on sale or disposal of physical assets		888	–	888
Total investing activity items		**888**	**(55)**	**833**
Net cash flow from operating activities		**107,981**	**(55)**	**107,926**

	Note	NZ GAAP as at 30 June 2007 $000	NZ IFRS adjustment $000	NZ IFRS as at 30 June 2007 $000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash provided from:				
Supply of outputs to				
Crown		742,619	–	742,619
Departments		7,469	–	7,469
Other	j	26,310	(55)	26,255
Cash disbursed to:				
Personnel	k	(367,705)	(520)	(368,225)
Operating	k	(201,527)	520	(201,007)
Net GST paid		4,101	–	4,101
Capital charge		(103,286)	–	(103,286)
Net cash flows from operating activities		**107,981**	**(55)**	**107,926**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash provided from:				
Interest and dividends	j	–	55	55
Sale of investments		83	–	83
Sale of physical, biological and intangible assets		754	–	754
Cash disbursed to:				
Purchase of investments			–	
Purchase of physical assets, biological and intangible assets		(337,674)	–	(337,674)
Net cash flows from investing activities		**(336,837)**	**55**	**(336,782)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash provided from:				
Capital contribution from the Crown		266,682	–	266,682
Cash disbursed to:				
Payment of surplus to the Crown		(1,372)	–	(1,372)
Net cash flows from financing activities		**265,310**	**–**	**265,310**
Net increase/(decrease) in cash and cash equivalents held		**36,454**	**–**	**36,454**
Opening total cash and cash equivalents balances at 1 July		20,044	–	20,044
Closing cash and cash equivalents balances as of 30 June		**56,498**	**–**	**56,498**

a. Investments

In accordance with NZ IFRS 39: *Financial Instruments*: Recognition and Measurement, the Department investments have been recognised at fair value.

Previously, investments were valued at the lower of cost or net realisable value.

b. Biological Assets

In accordance with NZ IAS 41: *Agriculture*, the Department has classified its livestock and forests as biological assets. Previously, forests were treated as a separate class of asset within physical assets.

Previously, livestock was classified as a separate non-current asset.

c. Intangible Assets

In accordance with NZ IAS 38: *Intangible Assets*, the Department has classified its computer software as an intangible asset.

Previously, computer software was treated as a separate class of asset within physical assets.

d. ACC Partnership Scheme Liability

Under NZ IFRS 4: *Insurance Activities*, the Department is required to recognise the liability for work related injury claims under the ACC partnership programme. The Department has remeasured its liability and an increase in the liability has been recognised under NZ IFRS. Measurements of the liability are reflected in the Statement of Financial Performance. This amounted to an increase of $716,000.

Previously, the Department had not recognised this liability.

e. Employee Entitlements – Sick Leave

In accordance with NZ IAS 19: *Employee Benefits*, the Department has recognised accumulating sick leave as a liability. Previously, the Department had not recognised this liability.

Any movements are recognised in the Statement of Financial Performance. This amounted to an increase of $55,000.

f. Taxpayers' Funds – General Funds

In accordance with NZ IFRS 1: *First-time adoption of NZ equivalents to International Financial Reporting Standards*, adjustments required under transition to NZ IFRS are adjusted:

- directly to taxpayers' funds at 1 July 2006,
- directly to the Statement of Financial Performance at 30 June 2007.

g. Reserves

Biological Assets

In accordance with NZ IAS 41: *Agriculture*, the previous revaluation reserve attributable to biological assets is derecognised and transferred to general funds.

Investments

In accordance with NZ IAS 39: *Financial Instruments*: Recognition and Measurement, a gain or loss on an available-for-sale financial asset shall be recognised directly in taxpayers' funds.

h. Livestock

In accordance with NZ IAS 41: *Agriculture*, 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 Performance. This amounted to an increase of $150,000.

i. Profit on Sale of Assets

Profit on sale of assets was classified as an operating expense. It is now classified as revenue. This amounted to a reclassification of $241,000 and resulted in no change to net surplus.

j. Interest and Dividends

Under NZ IAS 7: *Cash Flow Statements*, the Department is required to reclassify interest and dividends as an operating cash flow. This was previously classified as an investing cash flow. This amounted to a reclassification of $55,000.

k. Employee Entitlements – Reclassification

Portions of employee entitlements was classified as operating cash disbursements. It is now classified as personnel cash disbursements. This amounted to a reclassification of $520,000 and resulted in no change to net surplus.