

Model Financial Statements  
**Crown Service Enterprise**  
2007-08

Prepared under New Zealand equivalents  
to International Financial Reporting Standards

March 2008 version 1.1

Audit New Zealand  
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Wellington

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**Foreword**

I am pleased to introduce to you the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) model financial statements for a Crown entity that is a public benefit entity for financial reporting purposes.

Audit New Zealand's model financial statements highlight our profession's latest thinking in terms of meeting financial reporting and legislative requirements, and providing essential financial statement information.

**Focus**

The financial statements in this model financial statements have been prepared especially to help guide a Crown entity in preparing its first set of NZ IFRS compliant financial statements. The financial statements included in this model, including certain disclosure requirements of the Crown Entities Act 2004, are only part of what is required to be included in a Crown entity's annual report.

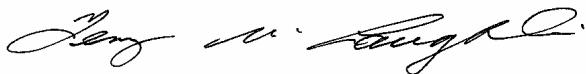
**Future updates**

We will continue to update the model financial statements to reflect changes in NZ IFRS and evolving good practice in application of NZ IFRS to the Crown entity sector.

We would welcome any feedback on the application of this model in the Crown entity sector or any other comments that may assist in future updates of the model financial statements. If you have any feedback or comments on these model financial statements please pass these to your Audit New Zealand Manager or Director.

**Acknowledgements**

I would like to thank the staff who have contributed to these model financial statements, particularly Charlotte Evett of the Office of the Auditor-General and Brett Story, Stephen Lewis, and Robert Cox of the Audit New Zealand Accounting Technical Team.



Terry McLaughlin  
Executive Director

March 2008

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## About the model financial statements

### Objective

The principal objective in producing the model is to guide a Crown entity in preparing its first NZ IFRS compliant financial statements.

The model financial statements have been prepared using a fictitious non-company Crown entity, Crown Service Enterprise (“the CSE”).

The CSE is a “public benefit entity” for financial reporting purposes. The model is not intended to provide guidance for those Crown entities that are assessed as “profit oriented entities” for financial reporting purposes.

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

The model is not intended to provide specific guidance on the statutory reporting requirements of those entities listed in Schedule 4 of the Public Finance Act 1989 (PFA). Sections 45M to 45O of the PFA detail those sections of the Crown Entities Act 2004 (CEA) that apply to schedule 4 PFA entities.

### Content

Included in the model is:

- Statement of responsibility
- Audit report
- Statement of financial performance
- Statement of financial position
- Statement of changes in equity
- Statement of cash flows
- Statement of accounting policies
- Notes to the financial statements

The model is prepared on the basis that the CSE is a public benefit entity (“PBE”) for the purposes of NZ IFRS.

The model does not include all the information that is required to be disclosed in a Crown entity’s annual report by the CEA. In particular, the model does not include the disclosures required by sections:

- 151(1)(a),(2) – Information that is necessary to enable an informed assessment to be made on the Crown entity’s operations and performance for the financial year, including an assessment against the intentions, measures, and standards set out in the statement of intent prepared at the beginning of the year;
- 151(1)(b) - Statement of service performance in accordance with section 153;
- 151(1)(f) - Any direction given by a Minister in writing under any enactment during the financial year;
- 151(1)(g) - Information on compliance with the obligation to be a good employer (including a Crown entity’s equal employment opportunity programme);
- 151(1)(i) – Information required by section 20(3), which relates to the enforcement of certain natural person transactions; and
- 151(1)(j) – Information required by section 68(6), which relates to permission to act despite being interested in a matter.

The model has been prepared for an entity that does not have any subsidiaries. If a Crown entity is a parent of a Crown entity group, then the CEA requires the presentation of both parent and consolidated financial statements.

The model has not applied the differential reporting exemptions that may be available to qualifying entities under the differential reporting framework. Appendix A of the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards* details the full and partial exemptions available to qualifying entities.

Not all of the accounting policies and notes will be applicable to a particular Crown entity. The model is not intended to cover all of the possible financial reporting issues that could arise in the sector. We have included in the model a range of accounting policies and notes, focusing on those that we would expect to occur commonly in the sector.

The model illustrates a possible financial statement format, for example the statement of financial performance has been prepared by classifying expenses based on the nature of the expenditure. Alternatively, expenses could be classified based on their function. This is just one example where there may be more than one way of disclosing the information required under NZ IFRS.

While the model provides guidance on disclosure matters, it does not deal with the underlying accounting treatment.

Crown entities will need to make choices about the accounting policies and presentation options appropriate for their circumstances.

The model does not address all the possible recognition and disclosure requirements of NZ IFRS. Entities should not use the model as a substitute for referring to individual NZ IFRS standards and interpretations applicable to their specific circumstances. Nor does it identify all possible NZ IFRS adjustments that may arise on transition to NZ IFRS.

We have included references to specific NZ IFRS standards in the left margin of the model and a subject index on page 52 for easy searching.

### **Standards not covered by the model**

The model does not consider any recognition, measurement or disclosure requirements of the following standards:

- NZ IFRS 2 Share-based Payment;
- NZ IFRS 3 Business Combinations;
- NZ IFRS 6 Exploration for and Evaluation of Mineral Resources;
- NZ IFRS 8 Operating Segments;
- NZ IAS 11 Construction Contracts;
- NZ IAS 12 Income Taxes;
- NZ IAS 26 Accounting and Reporting by Retirement Benefit Plans;
- NZ IAS 27 Consolidated and Separate Financial Statements;
- NZ IAS 28 Investments in Associates;
- NZ IAS 29 Reporting in Hyperinflationary Economies;
- NZ IAS 31 Interests in Joint Ventures;
- NZ IAS 33 Earnings per Share;
- NZ IAS 34 Interim Financial Reporting;
- NZ IAS 40 Investment Property; and
- NZ IAS 41 Agriculture.

In addition, any standards, interpretations and amendments issued after 14 March 2008 will not be reflected in this set of financial statements.

CEA s151(1)(d),155 **STATEMENT OF RESPONSIBILITY<sup>1</sup>**

In terms of the Crown Entities Act 2004, the Board is responsible for the preparation of the Crown Service Enterprise's financial statements and statement of service performance, and for the judgements made in them.

The Board of the Crown Service Enterprise has the responsibility for establishing, and has established<sup>2</sup>, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board's opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the Crown Service Enterprise for the year ended 30 June 2008.

Signed on behalf of the Board:<sup>3</sup>

**Board member**  
26 September 2008

**Board member**  
26 September 2008

<sup>1</sup> In addition to the signed statement of responsibility, section 151(3) of the CEA requires the annual report to be dated and signed on behalf of the Board by 2 members or, in the case of a corporation sole, by the sole member.  
<sup>2</sup> A positive statement that a system of internal control has been established is considered good practice and is not a requirement of the CEA.  
<sup>3</sup> Section 155 of the CEA requires the statement of responsibility to be dated and signed on behalf of the Board by 2 members or, in the case of a corporation sole, by the sole member.

**AUDIT REPORT****TO THE READERS OF  
CROWN SERVICE ENTERPRISE'S  
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2008**

The Auditor-General is the auditor of Crown Service Enterprise (the Enterprise). The Auditor-General has appointed me, R O Tidua, 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 Enterprise for the year ended 30 June 2008.

**Unqualified Opinion**

In our opinion:

- The financial statements of the Enterprise on pages 11 to 51:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Enterprise'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 Enterprise on pages [xx] to [xx]:
  - 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 26 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 Board 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.

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<sup>4</sup> This audit report is for illustration purposes only. The Crown entity's auditor will provide the form and content of the audit report.

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 Board;
- 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 Board and the Auditor**

The Board 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 Enterprise 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 Enterprise'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 Board's responsibilities arise from the Crown Entities Act 2004.

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 the Crown Entities Act 2004.

#### **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 an assurance review over the Enterprise's tendering process for procurement of building renovation services. Other than the audit and this assignment, we have no relationship with or interests in the Enterprise.

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

NZ IAS 1.8(b) **STATEMENT OF FINANCIAL PERFORMANCE<sup>5,6,7,8</sup>**  
**FOR THE YEAR ENDED 30 JUNE 2008**

NZ IAS 1.104	Note	Actual 2008 \$000	Budget <sup>9</sup> 2008 \$000	Actual <sup>10</sup> 2007 \$000	
<b>Income</b>					
NZ IAS 1.81(a)	Revenue from Crown	2	508,552	508,468	498,080
NZ IFRS 7.20(b)	Interest income		5,226	5,200	4,080
NZ IAS 1.81(a)	Other revenue	3	18,479	21,480	15,882
NZ IAS 1.83	Gains	4	1,255	1,200	866
NZ IAS 1.83	<i>Total income</i>		533,512	536,348	518,908
<b>Expenditure</b>					
NZ IAS 1.91	Personnel costs	5	331,814	331,813	325,956
NZ IAS 1.91	Depreciation and amortisation expense	15, 16	66,803	66,802	63,557
NZ IAS 1.91	Capital charge	6	64,160	63,000	52,875
NZ IAS 1.81(b)	Finance costs	7	2,678	2,676	1,800
NZ IAS 1.91	Other expenses	8	49,125	63,943	40,020
NZ IAS 1.83	<i>Total expenditure</i>		514,580	528,234	484,208
NZ IAS 1.81(f)	<b>Net surplus/(deficit)</b>		<b>18,932</b>	<b>8,114</b>	<b>34,700</b>

NZ IAS 1 NZ 41.1 Explanations of significant variances against budget are detailed in note 32<sup>11</sup>.

*The accompanying notes form part of these financial statements.*

<sup>5</sup> The terms statement of financial performance, statement of financial position, statement of changes in equity and, surplus/deficit are appropriate equivalents to NZ IFRS terminology for public benefit entities.

<sup>6</sup> NZ IAS 1.85 prohibits any items of income or expense being presented as extraordinary items either on the face of the statement of financial performance or in the notes.

<sup>7</sup> Where there are discontinued operations, NZ IAS 1.81(e) requires disclosure of the total surplus or deficit of discontinued operations and the gain or loss recognised on the measurement to fair value less costs to sell on the disposal of the assets or disposal group(s) constituting the discontinued operation.

<sup>8</sup> The statement of financial performance has been prepared using the nature of expense classification. Alternatively, entities may choose to present expenses based on the function of expense. Refer to NZ IAS 1.88, NZ 92.1.

<sup>9</sup> Section 154(3)(c) of the CEA requires the financial statements to "include the forecast financial statements prepared at the start of the financial year, for comparison with the actual financial statements".

<sup>10</sup> 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.

<sup>11</sup> NZ IAS 1 NZ 41.1 requires an entity that has published prospective financial information, other than that expressed solely in general terms, to present a comparison of the prospective financial information with the actual financial results being reported. Explanations for major variances shall be given.

NZ IAS 1.8(a) **STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2008**

NZ IAS 1.51,71,104	Note	Actual 2008 \$000	Budget 2008 \$000	Actual 2007 \$000
<b>Assets</b>				
<b>Current assets</b>				
NZ IAS 1.68(i)	<a href="#">9</a>	75,078	75,042	56,591
NZ IAS 1.68(h)	<a href="#">10</a>	8,346	6,340	2,530
NZ IAS 1.69		1,000	0	1,000
NZ IAS 1.68(g)	<a href="#">11</a>	942	900	1,245
NZ IAS 1.68(d)	<a href="#">12</a>	3,420	3,400	3,078
NZ IAS 1.68(d)	<a href="#">13</a>	2,900	2,500	1,960
NZ IAS 1.68A	<a href="#">14</a>	1,160	0	0
NZ IAS 1.69		<b>92,846</b>	<b>88,182</b>	<b>66,404</b>
<b>Non-current assets</b>				
NZ IAS 1.68(d)	<a href="#">12</a>	7,918	7,910	157,648
NZ IAS 1.68(a)	<a href="#">15</a>	863,974	865,232	645,171
NZ IAS 1.68(c)	<a href="#">16</a>	10,594	10,500	8,953
		<b>882,486</b>	<b>883,642</b>	<b>811,772</b>
NZ IAS 1.69		<b>975,332</b>	<b>971,824</b>	<b>878,176</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
NZ IAS 1.68(j)	<a href="#">17</a>	45,586	46,450	35,769
NZ IAS 1.69	<a href="#">18</a>	42,842	47,517	32,514
NZ IAS 1.68(k)	<a href="#">19</a>	3,404	4,578	3,189
NZ IAS 1.68(l)	<a href="#">20</a>	9,298	12,000	9,986
NZ IAS 1.68(l)	<a href="#">13</a>	1,740	1,000	2,240
NZ IAS 1.69		<b>102,870</b>	<b>111,545</b>	<b>83,698</b>
<b>Non-current liabilities</b>				
NZ IAS 1.69	<a href="#">18</a>	44,591	49,257	46,894
NZ IAS 1.68(k)	<a href="#">19</a>	4,175	8,478	11,162
NZ IAS 1.68(l)	<a href="#">20</a>	15,638	19,916	21,808
NZ IAS 1.69		<b>64,404</b>	<b>77,651</b>	<b>79,864</b>
NZ IAS 1.69		<b>167,274</b>	<b>189,196</b>	<b>163,562</b>
NZ IAS 1.69		<b>808,058</b>	<b>782,628</b>	<b>714,614</b>

**STATEMENT OF FINANCIAL POSITION  
 AS AT 30 JUNE 2008 (CONTINUED)**

	Note	Actual 2008 \$000	Budget 2008 \$000	Actual 2007 \$000	
<b>Equity</b>					
NZ IAS 1.75(e)	General funds <sup>12</sup>	21	312,060	286,168	292,108
NZ IAS 1.75(e)	Other reserves	21	495,998	496,460	422,506
NZ IAS 1.68(p)	<b>Total equity</b>		<b>808,058</b>	<b>782,628</b>	<b>714,614</b>

NZ IAS 1.8(c)

**STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Actual 2008 \$000	Budget 2008 \$000	Actual 2007 \$000	
<b>Balance at 1 July</b>					
		714,614	683,494	553,513	
NZ IAS 1.96(b)	Amounts recognised directly in equity:				
	<i>Property, plant and equipment</i>	21			
NZ IAS 16.77(f)	Revaluation gains/(losses) taken to equity		73,397	90,000	52,333
	<i>Financial assets at fair value through equity</i>	21			
NZ IAS 39.55(b)	Revaluation gains/(losses) taken to equity		95	0	110
NZ IAS 39.55(b)	Transfer to statement of financial performance on disposal <sup>13</sup>		0	0	0
NZ IAS 39.98(b)	<i>Cash flow hedges transferred to plant and equipment</i>	21	0	0	(1,160)
NZ IAS 1.96(a)	Surplus/(deficit) for the year		18,932	8,114	34,700
NZ IAS 1.96(c)	<i>Total recognised income and expense</i>		92,424	98,114	85,983
NZ IAS 1.97(a)	Capital contribution		1,020	1,020	75,118
NZ IAS 1.97(a)	Repayment of capital <sup>13</sup>		0	0	0
	<b>Balance at 30 June</b>	21	<b>808,058</b>	<b>782,628</b>	<b>714,614</b>

*The accompanying notes form part of these financial statements.*

<sup>12</sup> Contributed capital and retained surpluses shall be presented separately when a Crown entity has the available information.

<sup>13</sup> Disclosure is only required if these transactions took place.

NZ IAS 1.8(d)

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Actual 2008 \$000	Budget 2008 \$000	Actual 2007 \$000
<b>Cash flows from operating activities</b>				
NZ IAS 7.10				
NZ IAS 7.14		508,552	508,468	498,080
NZ IAS 7.31		5,070	5,200	4,238
NZ IAS 7.14		18,184	21,480	13,200
NZ IAS 7.14		(53,993)	(70,705)	(37563)
NZ IAS 7.14		(320,499)	(323,813)	(341,760)
NZ IAS 7.31		(2,376)	(1,478)	(1,763)
NZ IAS 7.14		(64,160)	(63,000)	(52,875)
		(99)	(50)	(55)
	<b>22</b>	<b>90,679</b>	<b>76,102</b>	<b>81,502</b>
<b>Cash flows from investing activities</b>				
NZ IAS 7.10				
NZ IAS 7.16(b)		9,809	7,000	694
NZ IAS 7.16(b)		177,483	185,000	215,000
NZ IAS 7.16(a)		(214,209)	(206,222)	(97,250)
NZ IAS 7.16(a)		(8,308)	(6,909)	0
NZ IAS 7.16(a)		(28,000)	(24,000)	(202,476)
		(64,339)	(45,131)	(84,032)
<b>Cash flows from financing activities</b>				
NZ IAS 7.10				
NZ IAS 7.17	<b>21</b>	1,020	1,020	75,118
NZ IAS 7.17(e)		(2,128)	(2,200)	(10,431)
NZ IAS 7.17(d)		(7,859)	(8,749)	(11,412)
		(8,967)	(9,929)	53,275
		18,487	21,042	50,745
		56,591	54,000	5,846
	<b>9</b>	<b>75,078</b>	<b>75,042</b>	<b>56,591</b>

NZ IAS 7 NZ 24.1 The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

NZ IAS 7.43 During the period, the CSE acquired property, plant and equipment totalling \$3,849,000 (2007: \$nil) by means of finance leases.

*The accompanying notes form part of these financial statements.*

<sup>14</sup> We believe it is good practice to separately disclose cash flows arising from the acquisition and disposal of property, plant and equipment and intangible assets. Separating these cash flows will provide readers of the financial statements a clearer linkage between the property, plant and equipment and intangible asset movement schedules and cash flows arising from acquisitions and disposals.

NZ IAS 1.8(e)

**NOTES TO THE FINANCIAL STATEMENTS**
**1 Statement of accounting policies for the year ended 30 June 2008<sup>15,16,17</sup>**
**Reporting Entity**

- NZ IAS 1.126(a),(c) The Crown Service Enterprise ("the CSE") is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. As such, the CSE's ultimate parent is the New Zealand Crown.
- NZ IAS 1.126(b) The CSE's primary objective is to provide public services to the NZ public, as opposed to that of making a financial return.
- NZ IAS 1 NZ 13.1(b) Accordingly, the CSE has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS").
- NZ IAS 1.46(a),(b),(c)  
NZ IAS 10.17 The financial statements for the CSE are for the year ended 30 June 2008, and were approved by the Board on 26 September 2008.
- NZ IAS 1.103(a) **Basis of preparation**
- NZ IAS 1.105(a) *Statement of Compliance*
- NZ IAS 1 NZ 13.1(a),(d) The financial statements of the CSE have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand generally accepted accounting practice ("NZ GAAP").
- NZ IAS 1 NZ 13.1(d) The financial statements comply with NZ IFRSs, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.
- NZ IFRS 1.36,39(a)-(c) *First year of preparation under NZ IFRS*
- 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 and surplus/(deficit) 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 33.
- NZ IAS 8 NZ 31.1 The accounting policies set out below 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 purposes of the transition to NZ IFRS.
- NZ IAS 1.108(a) *Measurement base*
- The financial statements have been prepared on a historical cost basis, except where modified by the revaluation of certain items of property, plant and equipment, and the measurement of equity investments and derivative financial instruments at fair value.
- NZ IAS 1.46(d),(e) *Functional and presentation currency*
- The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000). The functional currency of the CSE is New Zealand dollars.

<sup>15</sup> The going concern concept is assumed when preparing financial statements. If management is aware of conditions or events that cast doubt over the ability to continue as a going concern, those facts shall be disclosed. If the financial statements are not prepared on a going concern basis that fact shall also be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

<sup>16</sup> NZ IAS 1.108(b) requires entities to disclose all accounting policies that are relevant to an understanding of the financial statements.

<sup>17</sup> NZ IAS 1.126 requires the following information to be included in the annual report; it does not necessarily have to be in the financial statements: domicile and legal form, country of incorporation, address of its registered office, description of operations, principal activities, name of parent and ultimate parent of the group.

NZ IAS 8.30,31	<p><b>Standards, amendments and interpretations issued that are not yet effective and have not been early adopted<sup>18,19</sup></b></p> <p>Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the CSE include:</p> <ul style="list-style-type: none"> <li>• NZ IAS 1 <i>Presentation of Financial Statements (revised 2007)</i> replaces NZ IAS 1 <i>Presentation of Financial Statements (issued 2004)</i> and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with the Crown in its capacity as “owner”. The revised standard gives the CSE the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The CSE intends to adopt this standard for the year ending 30 June 2010, and is yet to decide whether it will prepare a single statement of comprehensive income or a separate income statement followed by a statement of comprehensive income.</li> <li>• NZ IAS 23 <i>Borrowing Costs (revised 2007)</i> replaces NZ IAS 23 <i>Borrowing Costs (issued 2004)</i> and is effective for reporting periods commencing on or after 1 January 2009. The revised standard requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. The CSE intends to adopt this standard for the year ending 30 June 2010 and has not yet determined the potential impact of the new standard.</li> <li>• NZ specific amendment to NZ IAS 2 <i>Inventories</i>. In November 2007 the New Zealand Accounting Standards Review Board approved an amendment to NZ IAS 2 <i>Inventories</i>, which requires public benefit entities to measure inventory held for distribution at cost, adjusted when applicable for any loss of service potential. Prior to the amendment, public benefit entities were required to measure inventories held for distribution at the lower of cost and current replacement cost. Application of the amendment is mandatory for reporting periods beginning on or after 1 January 2008. CSE will adopt the amended standard for the year ending 30 June 2009 and expects the impact of adopting the new standard to be minimal.</li> </ul>
NZ IAS 1.108(b)	<b>Significant Accounting Policies</b>
NZ IAS 18.35(a)	<b>Revenue</b>
NZ IAS 18.9	Revenue is measured at the fair value of consideration received or receivable.
	<i>Revenue from the Crown</i>
NZ IAS 20.39(b)	The CSE is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose of the CSE meeting its objectives as specified in the statement of intent.
NZ IAS 20.39(a)	Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates.
	<i>Other grants</i>
NZ IAS 20.39(a)	Non-government grants are recognised as revenue when they become receivable unless there is an obligation to return the funds if conditions of the grant are not met. If there is such an obligation the grants are initially recorded as grants received in advance, and recognised as revenue when conditions of the grant are satisfied.
	<i>Interest</i>
NZ IAS 18.30(a)	Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.
NZ IAS 17.50	<i>Rental income</i>
	Lease receipts under an operating sub-lease are recognised as revenue on a straight-line basis over the lease term.

<sup>18</sup> NZ IAS 8.30 requires entities who chose not to apply standards or interpretations issued but not yet effective to disclose this fact, including: the title of the Standard or Interpretation, the nature of the impending change or changes in accounting policy, date by which application of the Standard or Interpretation is required and date at which the entity plans to apply the Standard or Interpretation; and either a discussion of the known impact of the new Standard or Interpretation on the entity in the initial year of application, or where the impact is not known or reasonably estimatable, a statement to that effect.

<sup>19</sup> Whilst not a requirement of NZ IAS 8, we consider it good practice to disclose those standards, amendments and interpretations that are not yet effective that have been early adopted. The transitional provisions of a new standard, amendment or interpretation may require disclosure when early adopted.

	<i>Sale of publications</i>
NZ IAS 18.14	Sales of publications are recognised when the product is sold to the customer.
	<i>Provision of services</i>
NZ IAS 18.20	Revenue derived through the provision of services to third parties is recognised in proportion to the stage of completion at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.
	<i>Vested assets</i>
NZ IAS 16 NZ 15.1	Where a physical asset is gifted to or acquired by the CSE for nil or nominal cost, the fair value of the asset received is recognised as income. Such assets are recognised as income when control over the asset is obtained.
Good practice	The operations of the CSE are reliant on services provided by volunteers. Volunteer services received are not recognised as revenue or expenditure by the CSE due to the difficulty of measuring their fair value with reliability.
Good practice	<b>Capital charge</b>
	The capital charge is recognised as an expense in the period to which the charge relates.
NZ IAS 23.9,29(a)	<b>Borrowing costs</b>
NZ IAS 23.7	Borrowing costs are recognised as an expense in the period in which they are incurred.
	<b>Grant expenditure</b>
NZ IAS 37 NZ Appdx E	Non-discretionary grants are those grants awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.
	Discretionary grants are those grants where the CSE has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the grants approval committee and the approval has been communicated to the applicant.
	<b>Leases</b>
	<i>Finance leases</i>
NZ IAS 17.4	Leases that transfer to CSE substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred, are classified as finance leases.
NZ IAS 17.20	At the commencement of the lease term, the CSE recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.
	The finance charged is charged to the statement of financial performance over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.
NZ IAS 17.27,28	The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the CSE will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.
	<i>Operating leases</i>
NZ IAS 17.4,33	Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the CSE are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease in the statement of financial performance.
NZ SIC 15.5	Lease incentives received are recognised in the statement of financial performance over the lease term as an integral part of the total lease expense.
	<b>Cash and cash equivalents</b>
NZ IAS 7.6,45,46	Cash and cash equivalents include cash on hand, deposits held at call with banks both domestic and international, other short-term, highly liquid investments, with original maturities of three months or less and bank overdrafts.
NZ IFRS 7.21	<b>Debtors and other receivables</b>
NZ IAS 39.43	Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.
NZ IAS 39.46(a)	

<p>NZ IAS 39.63 NZ IFRS 7 Appdx B5(d), (f),(g)</p>	<p>Impairment of a receivable is established when there is objective evidence that the CSE 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. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due).</p>
<p>NZ IFRS 7.21</p>	<p><b>Investments</b></p>
<p>NZ IAS 39.56,58</p>	<p>At each balance sheet date the CSE assesses whether there is any objective evidence that an investment is impaired.</p> <p><i>Bank deposits</i></p>
<p>NZ IAS 39.43</p>	<p>Investments in bank deposits are initially measured at fair value plus transaction costs.</p>
<p>NZ IAS 39.46(a)</p>	<p>After initial recognition investments in bank deposits are measured at amortised cost using the effective interest method.</p>
<p>NZ IAS 39.63</p>	<p>For bank deposits, impairment is established when there is objective evidence that the CSE will not be able to collect amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability that the bank will enter into bankruptcy, and default in payments are considered indicators that the deposit is impaired.</p> <p><i>Equity investments</i></p>
<p>NZ IAS 39.43</p>	<p>The CSE designates equity investments at fair value through equity, which are initially measured at fair value plus transaction costs.</p>
<p>NZ IAS 39.46,55(b)</p>	<p>After initial recognition these investments are measured at their fair value with gains and losses recognised directly in equity, except for impairment losses which are recognised in the statement of financial performance.</p>
<p>NZ IAS 39.55(b)</p>	<p>On derecognition the cumulative gain or loss previously recognised in equity is recognised in the statement of financial performance.</p>
<p>NZ IAS 39.67-69</p>	<p>For equity investments classified as fair value through equity, a significant or prolonged decline in the fair value of the investment below its cost is considered an indicator of impairment. If such evidence exists for investments at fair value through equity, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of financial performance) is removed from equity and recognised in the statement of financial performance. Impairment losses recognised in the statement of financial performance on equity investments are not reversed through the statement of financial performance.</p> <p><b>Inventories</b></p>
<p>NZ IAS 2 NZ 9.1,9.2 NZ IAS 2.,36(a), NZ10.1</p>	<p>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 cost 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.</p>
<p>NZ IAS 2 NZ 9.3</p>	<p>The replacement cost of the economic benefits or service potential of inventory held for distribution reflects any obsolescence or any other impairment.</p>
<p>NZ IAS 2.9,36(a)</p>	<p>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.</p>
<p>NZ IAS 2.34,34.1</p>	<p>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.</p> <p><b>Accounting for derivative financial instruments, hedging activities and foreign currency transactions</b></p> <p>The CSE uses derivative financial instruments to hedge its exposure to foreign exchange risk arising from its operational activities. The CSE does not hold or issue these financial instruments for trading purposes. The CSE has not adopted hedge accounting.</p>
<p>NZ IAS 39.43 NZ IAS 39.46,55(a)</p>	<p>Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. Movements in the fair value of derivative financial instruments are recognised in the statement of financial performance.</p>
<p>NZ IAS 21.21,28</p>	<p>Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign</p>

exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance.

#### **Non-current assets held for sale**

- NZ IFRS 5.6  
NZ IFRS 5.15 Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.
- NZ IFRS 5.20 Any impairment losses for write-downs of non-current assets held for sale are recognised in the statement of financial performance.
- NZ IFRS 5.21 Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.
- NZ IFRS 5.25 Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

#### **Property, plant and equipment**

Property, plant and equipment asset classes consist of land, buildings, leasehold improvements, furniture and office equipment, and motor vehicles.

- NZ IAS 16.73(a) Property, plant and equipment are shown at cost or valuation, less any accumulated depreciation and impairment losses.

#### *Revaluations*

- NZ IAS 16.73(a)  
NZ IAS 16.77(b)-(d) Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value and at least every 3 years<sup>20</sup>. Fair value is determined from market-based evidence by an independent valuer. All other asset classes are carried at depreciated historical cost.
- NZ IAS 16.31,34 The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value. Additions between revaluations are recorded at cost.

#### *Accounting for revaluations*

- NZ IAS 16 NZ 39.1 The CSE accounts for revaluations of property, plant and equipment on a class of asset basis.
- NZ IAS 16 NZ 39.2  
NZ IAS 16 NZ 40.2 The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the statement of financial performance. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the statement of financial performance will be recognised first in the statement of financial performance up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

#### *Additions*

- NZ IAS 16.7 The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the CSE and the cost of the item can be measured reliably.
- NZ IAS 16 NZ 15.1 Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

#### *Disposals*

- NZ IAS 16.68  
NZ IAS 16.71 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.
- NZ IAS 16.41 When revalued assets are sold, the amounts included in revaluation reserves in respect of those assets are transferred to general funds.

#### *Subsequent costs*

- NZ IAS 16.7 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 CSE and the cost of the item can be measured reliably.
- NZ IAS 16.12,13 The costs of day-to-day servicing of property, plant and equipment are recognised in the statement of financial performance as they are incurred.

<sup>20</sup> The maximum revaluation cycle allowable under the Crown accounting policies is five years. It may be appropriate to adopt a shorter revaluation cycle policy.

NZ IAS 16.73(b),(c)	<p><i>Depreciation<sup>21</sup></i></p> <p>Depreciation is provided on a straight-line basis on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:</p> <table border="0" style="margin-left: 40px;"> <tr> <td>Buildings (including components)</td> <td>25 to 60 years</td> <td>(1.6%-4%)</td> </tr> <tr> <td>Leasehold improvements</td> <td>10 years</td> <td>(10%)</td> </tr> <tr> <td>Furniture and office equipment</td> <td>5 years</td> <td>(20%)</td> </tr> <tr> <td>Motor vehicles</td> <td>5 years</td> <td>(20%)</td> </tr> </table> <p>Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.</p>	Buildings (including components)	25 to 60 years	(1.6%-4%)	Leasehold improvements	10 years	(10%)	Furniture and office equipment	5 years	(20%)	Motor vehicles	5 years	(20%)
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Furniture and office equipment	5 years	(20%)											
Motor vehicles	5 years	(20%)											
NZ IAS 16.51	<p>The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.</p> <p><b>Intangible assets</b></p> <p><i>Software acquisition and development</i></p>												
NZ IAS 38.4	<p>Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.</p>												
NZ IAS 38.66,67	<p>Costs that are directly associated with the development of software for internal use by the CSE, are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.</p>												
NZ IAS 38.15,29,67,69	<p>Staff training costs are recognised as an expense when incurred.</p> <p>Costs associated with maintaining computer software are recognised as an expense when incurred.</p>												
NZ SIC 32.8 NZ IAS 38.66,67	<p>Costs associated with the development and maintenance of the CSE's website are recognised as an expense when incurred.</p> <p><i>Amortisation</i></p>												
NZ IAS 38.97,118(b)	<p>The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in statement of financial performance.</p>												
NZ IAS 38.118(a)	<p>The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:</p> <table border="0" style="margin-left: 40px;"> <tr> <td>Acquired computer software</td> <td>3 years</td> <td>33%</td> </tr> <tr> <td>Developed computer software</td> <td>4 years</td> <td>25%</td> </tr> </table> <p><b>Impairment of non-financial assets</b></p>	Acquired computer software	3 years	33%	Developed computer software	4 years	25%						
Acquired computer software	3 years	33%											
Developed computer software	4 years	25%											
NZ IAS 36.9 NZ IAS 36.18	<p>Property, plant and equipment and intangible 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.</p>												
NZ IAS 36 NZ 6.1 NZ IAS 36.22	<p>Value in use is 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 CSE would, if deprived of the asset, replace its remaining future economic benefits or service potential.</p>												
NZ IAS 36 NZ 61.1	<p>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.</p>												
NZ IAS 36.60	<p>For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of financial performance.</p>												
NZ IAS 36 NZ 120.1	<p>The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the statement of financial performance, a reversal of the impairment loss is also recognised in the statement of financial performance.</p>												

<sup>21</sup> The useful lives and depreciation rates that have been listed above are only illustrative. Each entity will need to set these based on their specific circumstances.

NZ IAS 36.119	For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the statement of financial performance.
	<b>Creditors and other payables</b>
NZ IAS 39.43 NZ IAS 39.47	Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.
	<b>Employee entitlements</b>
NZ IAS 19.10	<p><i>Short-term employee entitlements</i></p> <p>Employee entitlements that the CSE expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at current rates of pay.</p> <p>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.</p>
NZ IAS 19.11,14	The CSE recognises a liability for sick leave to the extent that compensated 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 the CSE anticipates it will be used by staff to cover those future absences.
NZ IAS 19.17,19	The CSE recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.
	<i>Long-term employee entitlements</i>
NZ IAS 19.126-131	<p>Entitlements that are payable beyond 12 months, such as long service leave and retirement leave have been calculated on an actuarial basis.</p> <p>The calculations are based on:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• the present value of the estimated future cash flows.</li> </ul> <p>The discount rate is based on the weighted average of interest rates for government stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.</p>
	<b>Superannuation schemes</b>
NZ IAS 19.44	<p><i>Defined contribution schemes</i></p> <p>Obligations for contributions to Kiwisaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation scheme and are recognised as an expense in the statement of financial performance as incurred.</p>
NZ IAS 19.30(b)(i)	<p><i>Defined benefit schemes</i></p> <p>The CSE makes contributions to the DBP Contributors Scheme (the scheme), which is a multi-employer defined benefit scheme.</p>
NZ IAS 19.30(b)(ii)	Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, the extent to which the surplus/deficit 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. Further information on this scheme is disclosed in note 24.
	<b>Provisions</b>
NZ IAS 37.14	The CSE 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 expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
NZ IAS 37.45,47	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.
NZ IAS 37.71	<p><i>Restructuring</i></p> <p>A provision for restructuring is recognised when the CSE has approved a detailed formal plan for the restructuring which has either been announced publicly to those affected, or for which implementation has already commenced.</p>

NZ IAS 37.66	<p><i>Onerous Contracts</i></p> <p>A provision for onerous contracts is recognised when the expected benefits to be derived by the CSE from a contract are lower than the unavoidable cost of meeting its obligations under the contract.</p> <p>The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the CSE recognises any impairment loss on the assets associated with that contract.</p>
NZ IFRS 4.37(a)	<p><i>ACC Partnership Programme</i></p> <p>The CSE belongs to the ACC Partnership Programme whereby the CSE accepts the management and financial responsibility for employee work related illnesses and accidents. Under the program the CSE is liable for all its claims costs for a period of two years up to a specified maximum. At the end of the two year period, the CSE pays a premium to ACC for the value of residual claims, and from that point the liability for ongoing claims passes to ACC.</p> <p>The liability for the ACC Partnership Programme is measured using actuarial techniques at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date. Consideration is given to anticipated future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows.</p>
NZ IFRS 7.21	<p><b>Borrowings</b></p>
NZ IAS 39.43	<p>Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.</p> <p><b>Good and Service Tax (GST)</b></p> <p>All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.</p> <p>The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.</p> <p>The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.</p> <p>Commitments and contingencies are disclosed exclusive of GST.</p> <p><b>Income Tax</b></p> <p>The CSE is a public authority and consequently is exempt from the payment of income tax. Accordingly, no charge for income tax has been provided for.</p> <p><b>Budget figures</b></p> <p>The budget figures are derived from the statement of intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ IFRS, using accounting policies that are consistent with those adopted by the CSE for the preparation of the financial statements.</p> <p><b>Cost allocation</b></p> <p>The CSE has determined the cost of outputs using the cost allocation system outlined below.</p> <p>Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner, with a specific output.</p> <p>Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity/usage information. Depreciation is charged on the basis of asset utilisation. Personnel costs are charged on the basis of actual time incurred. Property and other premises costs, such as maintenance, are charged on the basis of floor area occupied for the production of each output. Other indirect costs are assigned to outputs based on the proportion of direct staff costs for each output.</p> <p>There have been no changes to the cost allocation methodology since the date of the last audited financial statements.</p>
NZ IAS 39.46(a)	
NZ IAS 1.108	
Good practice	
Good practice	
Good practice	
NZ IAS 1 NZ 41.1	
Good practice	
NZ IAS 1.116	<p><b>Critical accounting estimates and assumptions<sup>22</sup></b></p> <p>In preparing these financial statements the CSE has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within</p>

<sup>22</sup> The examples provided are not intended to be exhaustive. Entities will need to consider their own facts and circumstances to ensure the disclosures of NZ IAS 1 paragraphs 116 and 113 are complete.

the next financial year are discussed below:

*Property, plant and equipment useful lives and residual value*

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

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

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

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

The carrying amounts of property, plant and equipment are disclosed in note 15.

*Retirement and long service leave*

Note 18 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

NZ IAS 1.113

**Critical judgements in applying the CSE's accounting policies**

Management has exercised the following critical judgements in applying the CSE's accounting policies for the period ended 30 June 2008:

*Leases classification*

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

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

The CSE has exercised its judgement on the appropriate classification of equipment leases and, has determined a number of lease arrangements are finance leases.

*Non-government grants*

The CSE must exercise judgement when recognising grant income to determine if conditions of the grant contract have been satisfied. This judgement will be based on the facts and circumstances that are evident for each grant contract.

## 2 Revenue from Crown

NZ IAS 20.39(c)

The CSE has been provided with funding from the Crown for the specific purposes of the CSE as set out in its founding legislation and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to government funding (2007 nil).

NZ IAS 1.103(c)

## 3 Other revenue

	Actual 2008 \$000	Actual 2007 \$000
Other grants received	14,808	12,112
Donated assets	295	1,682
Rental income from property sub-leases	1,500	500
Other	1,876	1,588
<b>Total other revenue</b>	<b>18,479</b>	<b>15,882</b>

NZ IAS 1.103(c)

**4 Gains**

	Actual 2008 \$000	Actual 2007 \$000	
NZ IAS 1.35,87(c)	Net gain on sale of property, plant and equipment	1,186	114
NZ IFRS 7.20(a)(ii)	Net gains on derivative financial instruments	69	752
NZ IAS 21.52(a)	Net foreign exchange gains	0	0
	<b>Total gains</b>	<b>1,255</b>	<b>866</b>

NZ IFRS 5.41

During the period the CSE disposed of motor vehicles that had reached a pre-determined mileage. The net gain on motor vehicle disposals was \$186,000 (2007 \$114,000). Two adjoining properties located at 102 and 103 Roundabout Drive were disposed of during March 2008 at a gain of \$1,000,000. These properties had been identified as surplus to the CSE's requirements; therefore approval was sought to dispose of the properties.<sup>23</sup>

NZ IAS 1.103(c)

**5 Personnel costs**

	Actual 2008 \$000	Actual 2007 \$000	
	Salaries and wages	304,242	342,999
NZ IAS 19.46	Employer contributions to defined contribution plans	19,547	18,364
	Increase/(decrease) in employee entitlements (note 18)	8,025	(35,407)
	<b>Total personnel costs</b>	<b>331,814</b>	<b>325,956</b>

Good practice

Employer contributions to defined contribution plans include contributions to Kiwisaver, State Sector Retirement Savings Scheme and the DBP Contributors Scheme.<sup>24</sup>

Good practice

**6 Capital charge**

The CSE pays a capital charge to the Crown on its taxpayers' funds as at 30<sup>th</sup> June and 31<sup>st</sup> December each year. The capital charge rate for the year ended 30 June 2008 was 8.0% (2007 7.5%).

NZ IAS 1.103(c)

**7 Finance costs**

	Actual 2008 \$000	Actual 2007 \$000	
NZ IFRS 7.20(b)	Interest on bank overdraft	0	6
NZ IFRS 7.20(b)	Interest on secured loans	1,992	1,318
	Interest on finance lease	664	439
NZ IAS 37.60	Discount unwind on provisions (note 19)	22	37
	<b>Total finance costs</b>	<b>2,678</b>	<b>1,800</b>

<sup>23</sup> If there are a number of asset sales, a general narrative can be provided.

<sup>24</sup> The schemes listed are not exhaustive. Crown entities may make contributions to other defined contribution plans, including defined benefit plans that are accounted for as a defined contribution plan.

NZ IAS 1.103(c)

**8 Other expenses<sup>25</sup>**

	Actual 2008 \$000	Actual 2007 \$000
<i>Fees to auditor:<sup>26</sup></i>		
NZ IAS 1 NZ 94.1(a)(i) Audit fees for financial statement audit	48	45
NZ IAS 1 NZ 94.1(a)(i) Audit fees for NZ IFRS transition	10	6
NZ IAS 1 NZ 94.1(a)(ii) Audit related fees for assurance and related services	5	0
NZ IAS 1.86 Onerous contracts	0	5,122
NZ IAS 1.86 Restructuring costs	0	5,829
	Staff travel	1,934
NZ IAS 17.35(c) Operating lease expense	9,190	8,547
NZ IAS 1 NZ 94.2 Donations <sup>27</sup>	865	800
NZ IFRS 7.20(e) Impairment of receivables (note 10)	2,490	4,283
NZ IFRS 4 Appdx D 17.6.1(b) ACC partnership programme (note 19)	632	672
NZ IAS 38.126 Website development expenses	3,240	1,904
	Advertising	4,764
	Consultancy	5,234
	Grants	12,015
NZ IAS 21.52(a) Net foreign exchange losses	1,868	1,010
NZ IAS 2.36(d) Inventories consumed	999	623
NZ IAS 1.35,87(c) Net loss on sale of property, plant and equipment <sup>28</sup>	0	0
NZ IAS 36.126(a) Impairment of property, plant and equipment <sup>28</sup>	0	0
	Other	5,831
	<b>Total other expenses</b>	<b>49,125</b>
		<b>40,020</b>

NZ IAS 1 NZ 94.1(a)(ii) The audit related fees were for an assurance review over the tendering process for procurement of building renovation services.

NZ IAS 7.45

**9 Cash and cash equivalents**

	Actual 2008 \$000	Actual 2007 \$000
Cash on hand and at bank	6,950	4,735
Cash equivalents – term deposits	68,128	51,856
<b>Total cash and cash equivalents</b>	<b>75,078</b>	<b>56,591</b>

NZ IFRS 7.25,29(a) The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value.

NZ IFRS 7.34(a) The weighted average effective interest rate for term deposits is 7.35% (2007 6.95%)

<sup>25</sup> NZ IAS 1.86 requires that when items of income or expense are material, their nature and amount shall be disclosed separately.

<sup>26</sup> NZ IAS 1 NZ 94.1 requires the nature of the services to be disclosed for assurance and related services, tax services, and all other non-audit services provided by the auditor.

<sup>27</sup> In the context of reporting by a Crown entity, donations are interpreted as per their common usage, that is, discretionary charitable gifts, and should exclude any grants made in terms of a Crown entity's normal funding programme that seek to achieve the objectives of the entity.

<sup>28</sup> Disclosure is only required if these transactions took place.

NZ IAS 1.74

**10 Debtors and other receivables**

	Actual 2008 \$000	Actual 2007 \$000
Debtors and other receivables	10,725	6,645
Less : provision for impairment	(2,379)	(4,115)
<b>Total debtors and other receivables</b>	<b>8,346</b>	<b>2,530</b>

NZ IFRS 7. 25,29(a)

The carrying value of receivables approximates their fair value.

NZ IFRS 7.36(d)

The carrying amount of receivables that would otherwise be past due, but not impaired, whose terms have been renegotiated is \$3,050,000 (2007 \$1,262,000).

NZ IFRS 7.37(a)

As at 30 June 2008 and 2007, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

	2008			2007		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	6,021	(725)	5,296	2,248	(980)	1,268
Past due 1-30 days	2,120	(800)	1,320	1,610	(920)	690
Past due 31-60 days	1,120	(625)	495	1,627	(1,325)	302
Past due 61-90 days	1,300	(184)	1,116	950	(710)	240
Past due > 91 days	164	(45)	119	210	(180)	30
<b>Total</b>	<b>10,725</b>	<b>(2,379)</b>	<b>8,346</b>	<b>6,645</b>	<b>(4,115)</b>	<b>2,530</b>

NZ IFRS 7.37(b)

The provision for impairment has been calculated based on expected losses for the CSE's pool of debtors. Expected losses have been determined based on an analysis of the CSE'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 CSE has identified 1 debtor (2007 2) totaling \$500,000 (2007 \$722,000) that is insolvent.

NZ IFRS 7.16

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

	Actual 2008 \$000	Actual 2007 \$000
Balance at 1 July	4,115	4,054
Additional provisions made during the year (note 8)	2,490	4,283
Receivables written-off during period	(4,226)	(4,222)
<b>Balance at 30 June</b>	<b>2,379</b>	<b>4,115</b>

NZ IFRS 7.20(e)

NZ IAS 1.74  
 NZ IAS 2.36(b)

## 11 Inventories

	Actual 2008 \$000	Actual 2007 \$000
Emergency stock	117	120
Inventory held for the use in the provision of goods and services	203	252
Publications held for sale	622	873
<b>Total inventories</b>	<b>942</b>	<b>1,245</b>

NZ IAS 2 NZ 36.1(a)

The carrying amount of inventories held for distribution that are measured at current replacement cost as at 30 June 2008 amounted to \$124,000 (2007 \$102,000).

 NZ IAS 2 NZ 36.1(b)  
 NZ IAS 2 NZ 36.1(c)

The write-down of inventories held for distribution amounted to \$26,000 (2007 \$nil). There have been no reversals of write-downs.

NZ IAS 2.36(e),(f)

The write-down of commercial inventories amounted to \$26,000 (2007 \$46,000). There have been no reversals of write-downs.

NZ IAS 2.36(h)

No inventories are pledged as security for liabilities; however some inventories are subject to retention of title clauses.

NZ IAS 1.74

## 12 Investments

	Actual 2008 \$000	Actual 2007 \$000
<b>Current investments are represented by:</b>		
Term deposits	3,420	3,078
<i>Total current portion</i>	3,420	3,078
<b>Non-current investments are represented by:</b>		
Term deposits	6,811	156,636
Equity investments	1,107	1,012
<i>Total non-current portion</i>	7,918	157,648
<b>Total investments</b>	<b>11,338</b>	<b>160,726</b>

NZ IAS 1.74

## 12 Investments (continued)

NZ IFRS 7.20(e)

There were no impairment provisions for investments.

NZ IFRS 7.25,27(b)

The fair value of equity investments are determined by reference to published price quotations in an active market.

NZ IFRS 7.34(a)

*Maturity analysis and effective interest rates of term deposits*

The maturity dates and weighted average effective interest rates for term deposits are as follows:

	Actual 2008 \$000	Actual 2007 \$000
Term deposits with maturities of 4–6 months (average maturity 155 days) <i>weighted average effective interest rate</i>	1,500 7.8%	1,700 7.3%
Term deposits with maturities of 6–12 months (average maturity 260 days) <i>weighted average effective interest rate</i>	1,920 8.4%	1,378 7.4%
Term deposits with maturities in excess of 12 months (average maturity 520 days) <i>weighted average effective interest rate</i>	6,811 8.5%	156,636 7.6%

NZ IFRS 7.25,29(a)

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

NZ IFRS 7.27(a),(b)

The fair value of term deposits with maturities in excess of 12 months is \$6,423,000 (2007 \$153,657,000). The fair values are based on discounted cash flows using market quoted interest rates for term deposits with terms to maturity similar to the relevant investments.

NZ IFRS 7.40

Short-term deposits are invested at fixed rates ranging from 7.5% – 8.55%. As these deposits are at a fixed interest rate and measured at amortised cost, an increase or decrease in interest rates during the period would not impact the measurement of the investments and hence there would be no impact on the surplus/deficit or equity.<sup>29</sup>

## 13 Derivative financial instruments

NZ IFRS 7.34(a)

The notional principal amounts of outstanding forward exchange contracts at 30 June 2008 was \$AUS 6,000,000 (2007 \$AUS nil) and \$US nil (2007 \$US 10,000,000).

NZ IFRS 7.25,27

The fair value of forward exchange contracts has been determined using a discounted cash flows valuation technique based on quoted market rates.

## 14 Non-current assets held for sale

NZ IFRS 5.41

The CSE owns land at Round Corner Drive, Taranaki, which has been classified as held for sale following the Boards approval to sell the property, because it will provide no future use to the CSE. The completion date of the sale is expected to be October 2008.

NZ IFRS 5.38

**Non-current assets held for sale include:**

	Actual 2008 \$000	Actual 2007 \$000
Land	1,020	0
Buildings	140	0
<b>Total non-current assets held for sale</b>	<b>1,160</b>	<b>0</b>

<sup>29</sup> NZ IFRS 7.40 requires the preparation of a sensitivity analysis for each type of market risk to which the entity is exposed at the balance date, showing how the surplus/deficit and equity would have been affected by changes in the relevant risk variable that is reasonably possible at that date. A sensitivity analysis would be required, for example, if significant funds are held on call at variable interest rates.

## 15 Property, plant and equipment

NZ IAS 16.73

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

	Land	Buildings	Furniture and office equipment	Leasehold improvements	Motor Vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Cost or valuation</b>						
Balance at 1 July 2006	200,000	95,269	113,376	89,600	134,976	633,221
Additions	45,662	23,825	24,000	10,000	3,000	106,487
Revaluation increase	46,876	2,073	0	0	0	48,949
Disposals	0	0	0	(36,000)	(10,000)	(46,000)
Transfer to assets held for sale <sup>30</sup>	0	0	0	0	0	0
Balance at 30 June 2007	292,538	121,167	137,376	63,600	127,976	742,657
Balance at 1 July 2007	292,538	121,167	137,376	63,600	127,976	742,657
Additions	136,270	31,990	24,578	22,487	0	215,325
Revaluation increase	69,940	906	0	0	0	70,846
Disposals	(8,497)	0	0	0	(2,000)	(10,497)
Transfer to assets held for sale	(1,020)	(142)	0	0	0	(1,162)
Balance at 30 June 2008	489,231	153,921	161,954	86,087	125,976	1,017,169
<b>Accumulated depreciation and impairment losses</b>						
Balance at 1 July 2006	0	953	41,127	37,320	10,000	89,400
Depreciation expense	0	2,431	9,626	12,311	32,522	56,890
Eliminate on disposal	0	0	0	(36,000)	(9,420)	(45,420)
Eliminate on revaluation	0	(3,384)	0	0	0	(3,384)
Transfer to assets held for sale	0	0	0	0	0	0
Impairment losses	0	0	0	0	0	0
Balance at 30 June 2007	0	0	50,753	13,631	33,102	97,486
Balance at 1 July 2007	0	0	50,753	13,631	33,102	97,486
Depreciation expense	0	2,553	10,463	13,476	33,644	60,136
Eliminate on disposal	0	0	0	0	(1,874)	(1,874)
Eliminate on revaluation	0	(2,551)	0	0	0	(2,551)
Transfer to assets held for sale	0	(2)	0	0	0	(2)
Impairment losses	0	124	0	0	0	124
Reversal of impairment losses	0	(124)	0	0	0	(124)
Balance at 30 June 2008	0	0	61,216	27,107	64,872	153,195

<sup>30</sup> Disclosure is only required if these transactions took place.

**15 Property, plant and equipment (continued)**

	Land	Buildings	Furniture and office equipment	Leasehold Improvements	Motor Vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Carrying amounts</b>						
At 1 July 2006	200,000	94,316	72,249	52,280	124,976	543,821
At 30 June and 1 July 2007	292,538	121,167	86,623	49,969	94,874	645,171
At 30 June 2008	489,231	153,921	100,738	58,980	61,104	863,974

- NZ IAS 16.74(a) The CSE owns a building in Wellington, which is restricted for Government or Reserve use. The carrying amount of the building is \$525,000 (2007 \$512,000). Secured loans are secured by a floating charge over property, plant and equipment.
- NZ IAS 16.77(a), NZ 77.2 Land and buildings, excluding work in progress, have been valued to fair value as at 30 June 2008 by an independent registered valuer, R Holt SNZPI. The total fair value of property valued by R Holt amounted to \$641,107,000 (2007 \$413,705,000).
- NZ IAS 16.74(b) The total amount of property, plant and equipment in the course of construction is \$2,045,000 (2007 \$nil).
- NZ IAS 36.130 An impairment of \$124,000 (2007 \$nil) was recognised for a building that was damaged due to an earthquake that occurred in January 2008. The recoverable amount of the building was its fair value less costs to sell, which was determined by reference to an active market that took into account the costs to repair the damage. A total of \$116,000 in compensation has been received from an insurance claim for the damaged building and has been recognised as part of other revenue in note 3. The impairment of this building was subsequently reversed following completion of repair work.
- NZ IAS 17.31(a) The net carrying amount of office equipment held under finance leases is \$6,672,000 (2007 \$5,432,000)

**16 Intangible assets<sup>31</sup>**

- NZ IAS 38.118(e) Movements for each class of intangible asset are as follows:

	Acquired software	Internally generated software	Total
	\$000	\$000	\$000
<b>Cost</b>			
Balance at 1 July 2006	5,000	15,000	20,000
Additions	0	0	0
Disposals	0	0	0
Balance at 30 June 2007	5,000	15,000	20,000
Balance at 1 July 2007	5,000	15,000	20,000
Additions	2,077	6,231	8,308
Disposals	0	0	0
Balance at 30 June 2008	7,077	21,231	28,308

<sup>31</sup> NZ IAS 38.118 requires entities to distinguish between internally generated intangible assets and other intangible assets. For example, internally developed software shall be distinguished from acquired software.

**16 Intangible assets (continued)**

	Acquired software \$000	Internally generated software \$000	Total \$000
<b>Accumulated amortisation and impairment losses</b>			
Balance at 1 July 2006	1,095	3,285	4,380
Amortisation expense	1,667	5,000	6,667
Disposals	0	0	0
Impairment losses	0	0	0
Balance at 30 June 2007	2,762	8,285	11,047
Balance at 1 July 2007	2,762	8,285	11,047
Amortisation expense	1,667	5,000	6,667
Disposals	0	0	0
Impairment losses	0	0	0
Balance at 30 June 2008	4,429	13,285	17,714
<b>Carrying amounts</b>			
At 1 July 2006	3,905	11,715	15,620
At 30 June and 1 July 2007	2,238	6,715	8,953
At 30 June 2008	2,648	7,946	10,594

NZ IAS 38.122(d)

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

NZ IAS 1.74

**17 Creditors and other payables**

	Actual 2008 \$000	Actual 2007 \$000
Creditors	21,710	19,634
Income in advance	880	945
Accrued expenses	12,886	6,754
Other payables	10,110	8,436
<b>Total creditors and other payables</b>	<b>45,586</b>	<b>35,769</b>

NZ IFRS 7.25,29(a)

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

NZ IAS 1.74  
 NZ IAS 19.131

**18 Employee entitlements**

	Actual 2008 \$000	Actual 2007 \$000
<b>Current employee entitlements are represented by:</b>		
Accrued salaries and wages	9,710	9,298
Annual leave	30,214	20,160
Sick leave	1,434	2,054
Retirement and long service leave	1,484	1,002
<i>Total current portion</i>	42,842	32,514
<b>Non-current employee entitlements are represented by:</b>		
Retirement and long service leave	44,591	46,894
<i>Total non-current portion</i>	44,591	46,894
<b>Total employee entitlements</b>	<b>87,433</b>	<b>79,408</b>

NZ IAS 1.116

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 rate and the salary inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability.

In determining the appropriate discount rate the CSE 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. A weighted average discount rate of 7.8% (2006 7.4%) and an inflation factor of 2.7% were used.

If the discount rate were to differ by 1% from the CSE's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$1,893,000 higher/lower.

If the salary inflation factor were to differ by 1% from the CSE's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$1,675,000 higher/lower.

NZ IAS 1.74

## 19 Provisions

	Actual 2008 \$000	Actual 2007 \$000
<b>Current provisions are represented by:</b>		
Restructuring	1,913	987
Lease make-good	381	531
Onerous contracts	600	1,189
ACC Partnership Programme	510	482
<i>Total current portion</i>	3,404	3,189
<b>Non-current provisions are represented by:</b>		
Restructuring	706	4,521
Lease make-good	1,820	3,222
Onerous contracts	1,439	3,207
ACC Partnership Programme	210	212
<i>Total non-current portion</i>	4,175	11,162
<b>Total provisions</b>	<b>7,579</b>	<b>14,351</b>

NZ IAS 37.84

Movements for each class of provision are as follows:

	Restructuring \$000	Lease make-good \$000	Onerous contracts \$000	ACC Partnership Programme \$000	Total \$000
<b>2007<sup>32</sup></b>					
Balance at 1 July	0	350	0	502	852
Additional provisions made	5,829	3,579	5,122	672	15,202
Amounts used	(325)	(175)	(758)	(482)	(1,740)
Unused amounts reversed	0	0	0	0	0
Discount unwind (note 7)	3	2	32	0	37
<b>Balance at 30 June 2007</b>	<b>5,507</b>	<b>3,756</b>	<b>4,396</b>	<b>692</b>	<b>14,351</b>
<b>2008</b>					
Balance at 1 July	5,507	3,756	4,396	692	14,351
Additional provisions made	0	0	0	632	632
Amounts used	(2,894)	(1,558)	(2,370)	(604)	(7,426)
Unused amounts reversed	0	0	0	0	0
Discount unwind (note 7)	6	3	13	0	22
<b>Balance at 30 June 2008</b>	<b>2,619</b>	<b>2,201</b>	<b>2,039</b>	<b>720</b>	<b>7,579</b>

<sup>32</sup> Disclosure of comparative figures for provisions is good practice. It is not required under NZ IAS 37.84.

## 19 Provisions (continued)

NZ IAS 37.85	<p><b>Restructuring</b></p> <p>The CSE's Board approved a detailed and formal restructuring plan which was announced in May 2007, and commenced in June of that same year. The restructuring plan and associated payments are expected to be completed by October 2009. The provision has been made for the obligation of expected restructuring costs for employee termination benefits.</p>
NZ IAS 37.85	<p><b>Lease make-good</b></p> <p>In respect of a number of its leased premises, the CSE is required at the expiry of the lease term to make good any damage caused to the premises from installed fixtures and fittings and to remove any fixtures or fittings installed by the CSE. In many cases, the CSE has the option to renew these leases, which impacts on the timing of expected cash outflows to make good the premises. The cash-flows associated with the non-current portion of the lease make-good provision are expected to occur in May and June 2012. Information about CSE's leasing arrangements is disclosed in note 23.</p>
NZ IAS 37.85	<p><b>Onerous contracts</b></p> <p>In 2007 the CSE entered into a non-cancellable lease for office space which, due to changes in its activities, the CSE ceased to use by 30 June 2007. The lease does not expire until 30 June 2012. The building has been sublet for the remaining portion of the lease; however a change in the market conditions has resulted in the rental expense being greater than the rental income. A provision has been made for the obligation of the future discounted rental payments net of anticipated assumed rental income.</p>
NZ IFRS 4.17.1-17	<p><b>ACC Partnership Programme<sup>33</sup></b></p> <p>The liability for the ACC Partnership Programme is measured at the present value of anticipated future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques. Consideration is given to expected future wage and salary levels, and experience of employee claims and injuries.</p> <p>Expected future payments are discounted using year end market yields on government bonds with terms to maturity that match, as closely to possible, the estimated future cash outflows.</p>
NZ IFRS 4 Appdx D 17.7.1(a)	<p>The CSE manages its exposure arising from the programme by promoting a safe and healthy working environment by:</p> <ul style="list-style-type: none"> <li>• implementing and monitoring health and safety policies;</li> <li>• induction training on health and safety;</li> <li>• actively managing work place injuries to ensure employees return to work as soon as practical;</li> <li>• recording and monitoring work place injuries and near misses to identify risk areas and implementing mitigating actions; and</li> <li>• identification of work place hazards and implementation of appropriate safety procedures.</li> </ul>
NZ IFRS 4 Appdx D 17.7.1(c)	<p>The CSE has chosen a stop loss limit of 200% of the industry premium. The stop loss limit means the CSE will only carry the total cost of claims of up to \$750,000.</p>
NZ IFRS 4 Appdx D 17.7.1(c)(ii)	<p>The CSE 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.</p>
NZ IFRS 4 Appdx D 17.8A	<p>An external independent actuarial valuer, DW Smith [BSc FIAA] has calculated the CSE'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 claims liability. There are no qualifications contained in the actuarial valuer's report.</p>
NZ IFRS 4 Appdx D 17.2(g), 17.8B(b),(c) NZ IFRS 4 Appdx D	<p>Average inflation has been assumed as 2.7% for the year ending 30 June 2009 and 2.9% for the year ending 30 June 2010. A discount rate of 6.8% has been used for the year ending 30 June 2009 and 6.95% for the year ending 30 June 2010.</p>
NZ IFRS 4 Appdx D 17.6.1(d)	<p>The value of the liability is not material for the Ministry's financial statements; therefore, any changes in assumptions will not have a material impact on the financial statements.</p>

<sup>33</sup> Where the ACC Partnership Programme liability is material to a Crown entity the disclosure requirements of NZ IFRS 4 *Insurance Contracts* must be met. Refer to the Te Motu District Council Model Financial Statements for an illustration of the full disclosures required by NZ IFRS 4.

## 20 Borrowings

	Actual 2008 \$000	Actual 2007 \$000
NZ IAS 1.63	<b>Current borrowings are represented by:</b>	
	2,312	2,128
	6,986	7,858
	<i>Total current portion</i>	<i>9,298</i>
NZ IAS 1.51,52	<b>Non-current borrowings are represented by:</b>	
	5,048	3,578
	10,590	18,230
	<i>Total non-current portion</i>	<i>15,638</i>
	<b>Total borrowings</b>	<b>31,794</b>

NZ IFRS 7.31 The secured debt is at a floating interest rate. The interest on the debt is set quarterly at the 90 day bank bill rate +.25%.

NZ IFRS 7.27,29(a) Due to interest rates on floating rate debt resetting to the market rate every three months, the carrying amounts of secured loans approximates their fair value.

NZ IAS 1.67(a) Subsequent to balance date, the CSE refinanced \$3,000,000 of the current portion of its secured loans. The loans were refinanced for a three-year period at a floating rate of interest set quarterly at the 90 day bank bill rate. The CSE anticipates that the remaining amount of the current portion will be refinanced on similar terms.

### Analysis of finance leases

	Actual 2008 \$000	Actual 2007 \$000
NZ IAS 17.31(b)	<b>Minimum lease payments payable:</b>	
	2,497	2,324
	5,452	3,910
	0	0
	<i>Total minimum lease payments</i>	<i>7,949</i>
	(589)	(528)
	<i>Present value of minimum lease payments</i>	<i>7,360</i>
NZ IAS 17.31(b)	<b>Present value of minimum lease payments payable:</b>	
	2,312	2,128
	5,048	3,578
	0	0
	<i>Total present value of minimum lease payments</i>	<i>7,360</i>

## 20 Borrowings (continued)

	Description of leasing arrangements
NZ IAS 17.31(a)	The CSE has entered into finance leases for various items of plant and equipment. The net carrying amount of the leased items within each class of property, plant and equipment is shown in note 15.
NZ IAS 17.31(e)(ii)	The finance leases can be renewed at the CSE's option, with rents set by reference to current market rates for items of equivalent age and condition. The CSE does not have the option to purchase the asset at the end of the lease term.
NZ IAS 17.31(e)(iii)	There are no restrictions placed on the CSE by any of the finance leasing arrangements.
Good practice	Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

## 21 Equity

		Actual 2008 \$000	Actual 2007 \$000
	<b>General funds</b>		
	Balance at 1 July	292,108	182,290
NZ IAS 16.41	Transfer from property, plant and equipment revaluation reserve on disposal	5,500	0
	Surplus/(deficit)	18,932	34,700
NZ IAS 1.97(a)	Capital contribution	1,020	75,118
NZ IAS 1.97(a)	Repayment of capital	0	0
	<i>Balance at 30 June</i>	317,560	292,108
	<b>Other reserves</b>		
	<i>Property, plant and equipment revaluation reserve</i>		
	Balance at 1 July	421,994	369,661
NZ IAS 36 NZ 61.1	Impairment charges	(124)	0
NZ IAS 36 NZ120.1	Reversal of impairment	124	0
NZ IAS 16.77(f)	Revaluations	73,397	52,333
NZ IAS 16.41	Transfer to general funds on disposal	(5,500)	0
	<i>Balance at 30 June</i>	489,891	421,994
Good practice	Property, plant and equipment revaluation reserves consist of:		
	Land	441,065	376,625
	Buildings	48,826	45,369
	<i>Total property, plant and equipment revaluation reserves</i>	489,891	421,994
	<i>Financial assets at fair value through equity</i>		
	Balance at 1 July	512	402
NZ IFRS 7.20(a)(ii)	Revaluations	95	110
NZ IFRS 7.20(a)(ii)	Transfer to retained surpluses on disposal	0	0
	<i>Balance at 30 June</i>	607	512

**21 Equity (continued)**

	Actual 2008 \$000	Actual 2007 \$000
NZ IAS 1.97(c)	<b>Cash flow hedge reserve</b>	
	0	1,160
NZ IFRS 7.23(e)	Transfers to acquired property, plant and equipment	
	0	(1,160)
	<i>Balance at 30 June</i>	
	0	0
	490,498	422,506
	<b>Total equity at 30 June</b>	
	<b>808,058</b>	<b>714,614</b>

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

	Actual 2008 \$000	Actual 2007 \$000
NZ IAS 7 NZ 20.1	<b>Net surplus/(deficit) after tax</b>	
	18,932	34,700
NZ IAS 7 NZ 20.2(a)	<b>Add/(less) non-cash items:</b>	
	66,803	63,557
	(295)	(1,682)
	(69)	(752)
	1,868	1,010
	<i>Total non-cash items</i>	
	68,307	62,133
NZ IAS 7 NZ 20.2(c)	<b>Add/(less) items classified as investing or financing activities:</b>	
	(1,186)	(114)
	<i>Total items classified as investing or financing activities</i>	
	(1,186)	(114)
NZ IAS 7 NZ 20.2(b)	<b>Add/(less) movements in working capital items:</b>	
	(5,816)	8,311
	303	560
	8,886	(2,180)
	(6,772)	13,499
	8,025	(35,407)
	<i>Net movements in working capital items</i>	
	4,626	(15,217)
	<b>Net cash from operating activities</b>	
	<b>90,679</b>	<b>81,502</b>

<sup>34</sup> Any creditors and accruals for capital expenditure will need to be excluded when calculating this increase or decrease.

## 23 Capital commitments and operating leases

		Actual 2008 \$000	Actual 2007 \$000
<b>Capital commitments</b>			
NZ IAS 16.74(c)	Property, plant and equipment	258	0
NZ IAS 38.122(e)	Intangible assets	1,245	0
<b>Total capital commitments</b>		<b>1,503</b>	<b>0</b>
<b>Operating leases as lessee</b>			
NZ IAS 17.35(a)	The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:		
		Actual 2008 \$000	Actual 2007 \$000
NZ IAS 17.35(a)(i)	Not later than one year	9,422	3,570
NZ IAS 17.35(a)(ii)	Later than one year and not later than five years	27,570	33,025
NZ IAS 17.35(a)(iii)	Later than five years	0	0
<b>Total non-cancellable operating leases</b>		<b>36,992</b>	<b>36,595</b>
NZ IAS 17.35(d)	The CSE leases two properties, one of which has been sublet due to it being surplus to requirements. Both the lease and the sub-lease expire 30 June 2012. The CSE has recognised a provision of \$2,039,000 (2007 \$4,396,000) in respect of this lease (refer note 19).		
NZ IAS 17.35(d)(ii)	A significant portion of the total non-cancellable operating lease expense relates to the lease of two floors of an office building. The lease expires in April 2012, with an option to vacate the premises at the lease renewal date of April 2009. The CSE has assumed it will not vacate the premises at the lease renewal date of April 2009. The CSE does not have the option to purchase the asset at the end of the lease term.		
NZ IAS 17.35(d)(iii)	There are no restrictions placed on the CSE by any of its leasing arrangements.		
NZ IAS 17.35(b)	Total future minimum sublease payments to be received under non-cancellable subleases for office space at the balance sheet date are \$9,200,000 (2007 \$13,050,000). <sup>35</sup>		

## 24 Contingencies

### Contingent liabilities

#### Lawsuit

NZ IAS 37.86(a),(b)	<p>The CSE has a contingent liability related to legal action instigated by a former employee. The claimant is seeking \$75,000 (2007 nil) in damages.</p> <p>Management in conjunction with the Board are vigorously defending the charges and are confident that the CSE will not be found liable.</p>
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<sup>35</sup> If a Crown entity has material operating leases as a lessor it must fully comply with the disclosure requirements of NZ IAS 17.56.

## 24 Contingencies (continued)

### *Superannuation schemes*

NZ IAS 37.86  
 NZ IAS 19.30(b),(c) The CSE is a participating employer in the DBP Contributors Scheme, which is a multi-employer defined benefit scheme. If the other participating employers ceased to participate in the Scheme, the CSE could be responsible for the entire deficit of the Scheme of \$xxx as at [date]. Similarly, if a number of employers ceased to participate in the Scheme, the CSE could be responsible for an increased share of the deficit. This deficit was calculated using a discount rate equal to the expected return on net assets of xxx.<sup>36</sup>

The Actuary of the Scheme has recommended the employer contribution remain at xxx 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 xxx is inclusive of Specified Superannuation Contribution Withholding Tax.

The timing for extinguishment of the past service deficit will depend on the experience of the Scheme and the assumptions used for actuarial reviews. The actuary currently expects the past service deficit to be extinguished by 20xx.

### **Contingent assets**

NZ IAS 37.89 The CSE has no contingent assets (2007 \$nil)<sup>37</sup>.

## 25 Related party transactions and key management personnel

### **Related party transactions**

NZ IAS 24.12,16 -18 The CSE is a wholly owned entity of the Crown. The government significantly influences the role of the CSE in addition to being its major source of revenue.

NZ IAS 24 NZ 17.1 The CSE enters into transactions with government departments, state-owned enterprises and other Crown entities. Those transactions that occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the CSE would have adopted if dealing with that entity at arm's length in the same circumstances have not been disclosed as related party transactions.

NZ IAS 24.17(a)-(d),18 *The following transactions were carried out with related parties other than those described above*

All related party transactions have been entered into on an arms length basis.<sup>38</sup>

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

	Transaction	Ref	Transaction value year ended 30 June		Balance outstanding year ended 30 June	
			2008	2007	2008	2007
Director 1	Provision of legal services to CSE	i	12,000	13,000	0	0
Director 4	Provision of goods and services to CSE	ii	0	195,950	0	0

<sup>36</sup> NZ IAS 19.30(c) requires where there is a surplus or deficit in a multi-employer plan that may affect the amount of future contributions, entities must disclose any available information about the surplus or deficit, the basis used to determine the surplus or deficit, and the implications, if any, for the entity.

<sup>37</sup> Where no contingent assets exist it is good practice to state that fact.

<sup>38</sup> Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated, NZ IAS 24.21.

## 25 Related party transactions and key management personnel (continued)

(i) The CSE used Director 1 Legal of which Director 1 is the managing partner in relation to advice over a matter relating to a claim made by a former employee of CSE. Amounts were billed based on normal rates for such services and were due and payable under normal commercial terms.

(ii) Purchase of goods and services from City Development Company, which Director 4's wife is a board member, were made in 2007 on normal commercial terms. No such purchases were made in the current year.

(iii) There are close family members of key management personnel employed by the CSE. The terms and conditions of those arrangements are no more favourable than the CSE would have adopted if there were no relationship to key management personnel.

NZ IAS 24.17(c),(d) No provision has been required, nor any expense recognised for impairment of receivables from related parties (2007 \$nil).

NZ IAS 24.16

### Key management personnel compensation

		Actual 2008 \$000	Actual 2007 \$000
NZ IAS 24.16(a)	Salaries and other short-term employee benefits	1,272	1,241
NZ IAS 24.16(b)	Post-employment benefits	0	0
NZ IAS 24.16(c)	Other long-term benefits	24	14
NZ IAS 24.16(d)	Termination benefits	0	0
	<b>Total key management personnel compensation</b>	<b>1,296</b>	<b>1,255</b>

Good practice Key management personnel include all board members, the Chief Executive, and the remaining 6 members of the Leadership Team.<sup>39,40</sup>

CEA s152(1)(a)<sup>41</sup>

## 26 Board member remuneration

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

	Actual 2008 \$000	Actual 2007 \$000
Director 1 <sup>42</sup> (Chairperson)	85	82
Director 2	75	71
Director 3	75	71
Director 4	75	71
<b>Total Board member remuneration</b>	<b>310</b>	<b>295</b>

<sup>39</sup> This disclosure provides useful information to readers about the number of people that comprise key management personnel.

<sup>40</sup> NZ IAS 24 defines key management personnel as "those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity". For a Crown entity we would expect the compensation of the Board, CEO and members of the senior management team, or equivalent body, to be included in the key management personnel disclosures. There may also be other individuals who meet the key management personnel definition of NZ IAS 24. Crown entities will need to consider their specific facts and circumstances in determining the individuals that shall be included in the key management personnel compensation disclosures.

<sup>41</sup> The disclosures required by section 152 of the Crown Entities Act 2004 shall be made in the annual report. We consider it good practice to include these disclosures in the financial statements section of the annual report.

<sup>42</sup> The actual names of Directors' will need to be included in this disclosure.

## 26 Board member remuneration (continued)

CEA s152(1)(b)	There have been no payments made to committee members appointed by the Board who are not Board members during the financial year.
CEA s152(1)(e)	The CSE has provided a deed of indemnity to Directors for certain activities undertaken in the performance of the CSE's functions.
CEA s152(1)(f)	The CSE has effected Directors and Officers Liability and Professional Indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees.

CEA s152(1)(c)

## 27 Employee remuneration<sup>43</sup>

	Actual 2008 \$000	Actual 2007 \$000
Total remuneration paid or payable		
100,000 – 109,999	5	6
110,000 – 119,999	4	3
120,000 – 129,999	3	2
130,000 – 139,999	1	0
140,000 – 149,999	0	1
150,000 – 159,999	1	1
160,000 – 169,999	1	0
<b>Total employees</b>	<b>15</b>	<b>13</b>

CEA s152(1)(d)	During the year ended 30 June 2008, 2 (2007: 3) employees received compensation and other benefits in relation to cessation totalling \$225,000 (2007 \$174,000). <sup>44</sup> No Board members received compensation or other benefits in relation to cessation (2007: 0).
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## 28 Events after the balance sheet date

NZ IAS 10.19,21	There were no significant events after the balance sheet date.
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## 29 Categories of financial assets and liabilities<sup>45</sup>

The carrying amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

NZ IFRS 7.8

	Actual 2008 \$000	Actual 2007 \$000
NZ IFRS 7.8(c)		
<i>Loans and receivables</i>		
Cash and cash equivalents	75,078	56,591
Debtors and other receivables	8,346	2,530
Investments – term deposits	10,231	159,714
<b>Total loans and receivables</b>	<b>93,655</b>	<b>218,835</b>

<sup>43</sup> For the purposes of total remuneration paid or payable, the remuneration which should be considered includes the following elements: salary, cash allowances, bonuses, incentive payments, and other benefits included in the employees total remuneration package, for example, superannuation contributions, medical insurance and motor vehicles.

<sup>44</sup> Where no payments have been made, we consider it good practice to state this fact.

<sup>45</sup> If any financial assets or liabilities have been categorised into any of the other NZ IAS 39 categories then an analysis of the assets and liabilities in those other categories is also required. The other NZ IAS 39 categories are held to maturity, and those financial instruments designated as fair value through profit and loss.

## 29 Categories of financial assets and liabilities (continued)

	Actual 2008 \$000	Actual 2007 \$000	
	<i>Financial assets at fair value through equity</i>		
NZ IFRS 7.8(d)	Investments - equity investments	1,107	1,012
	<i>Fair value through profit and loss – held for trading</i>		
NZ IFRS 7.8(a)	Derivative financial instrument assets	2,900	1,960
NZ IFRS 7.8(e)	Derivative financial instrument liabilities	1,740	2,240
	<i>Financial liabilities measured at amortised cost</i>		
NZ IFRS 7.8(f)	Creditors and other payables	45,586	35,769
	Borrowings – secured loans	17,576	26,088
	<b>Total financial liabilities measured at amortised cost</b>	<b>63,162</b>	<b>61,857</b>

## 30 Financial instrument risks

NZ IFRS 7.31	<p>The CSE's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The CSE has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.</p> <p><b>Market risk</b></p> <p>The interest rates on the CSE's investments are disclosed in note 12.</p> <p><i>Fair value interest rate risk</i></p>
NZ IFRS 7.33(a), Appdx A	<p>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 CSE's exposure to fair value interest rate risk is limited to its bank deposits which are held at fixed rates of interest.</p> <p><i>Cash flow interest rate risk</i></p>
NZ IFRS 7.33(a), Appdx A	<p>Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Investments and borrowings issued at variable interest rates expose the CSE to cash flow interest rate risk.</p>
NZ IFRS 7.33(b)	<p>The CSE's investment policy requires a spread of investment maturity dates to limit exposure to short-term interest rate movements. The CSE currently has no variable interest rate investments.</p>
NZ IFRS 7.33(b)	<p>The CSE's borrowing policy requires a spread of interest rate repricing dates on borrowings to limit the exposure to short-term interest rate movements. The CSE's borrowing policy does not permit the use of interest rate derivatives to manage interest rate risk.</p> <p><i>Sensitivity analysis</i></p> <p>As at 30 June 2008, if the 90 day bank bill rate had been 50 basis points higher or lower, with all other variables held constant, the surplus/deficit for the year would have been \$88,000 (\$2007 \$130,000) higher/lower. This movement is attributable to increased or decreased interest expense on floating rate loans. The sensitivity is lower in 2008 than 2007 because of a reduction in outstanding borrowings that has occurred as the CSE's loans have matured.</p> <p><i>Currency risk</i></p>
NZ IFRS 7 Appdx A	<p>Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.</p>

### 30 Financial instrument risks (continued)

NZ IFRS 7.33(a), (b)	<p>The CSE purchases goods and services overseas which require it to enter into transactions denominated in foreign currencies. The CSE also holds small balances of AUD, GBP and USD at call with international banks in order to settle transactions denominated in foreign currencies when logistically necessary. As a result of these activities, exposure to currency risk arises.</p> <p>It is the CSE's policy to manage foreign currency risks arising from contractual commitments and liabilities by entering into foreign exchange forward contracts to hedge the foreign currency risk exposure.</p>
NZ IFRS 7.40	<p><i>Sensitivity analysis<sup>46</sup></i></p> <p>As at 30 June 2008, if the NZ dollar had weakened/strengthened by 5% against the US dollar with all other variables held constant, the surplus for the year would have been:</p> <ul style="list-style-type: none"> <li>▪ \$14,000 (2007 \$20,000) lower if the NZ dollar had weakened;</li> <li>▪ \$15,000 (2007 \$22,500) higher if the NZ dollar had strengthened.</li> </ul> <p>This movement is attributable to foreign exchange gains/losses on translation of US dollar denominated creditors and bank balances.</p> <p><i>Price risk</i></p>
NZ IFRS 7.33(a),(b)	<p>Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The CSE is exposed to equity securities price risk on its equity investments, which are classified as financial assets held at fair value through equity. This price risk arises due to market movements in listed securities. The CSE's equity investments are held for strategic purposes as opposed to generating a financial return.</p>
NZ IFRS 7.40	<p>The CSE holds listed equity instruments, which are publicly traded and included in the NZX50 equity index. If the NZX50 index at 30 June 2008 had fluctuated by plus or minus 0.5% and the equity instruments had moved proportionately, the effect would have been to increase/decrease the fair value through equity reserve by \$5,535 (2006 \$5,006).</p>
	<p><b>Credit risk</b></p>
NZ IFRS 7 Appdx A	<p>Credit risk is the risk that a third party will default on its obligation to the CSE, causing the CSE to incur a loss.</p>
NZ IFRS 7.33(a),(b)	<p>Due to the timing of its cash inflows and outflows, the CSE invests surplus cash with registered banks. The CSE's investment policy limits the amount of credit exposure to any one institution.</p> <p>The CSE has processes in place to review the credit quality of customers prior to the granting of credit.</p>
NZ IFRS 7.36(a) NZ IFRS 7.36(b),37(c) NZ IFRS 7 Appdx B10(b)	<p>The CSE's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents (note 9), net debtors (note 10), term deposits (note 12), and derivative financial assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.</p>
NZ IFRS 7.36(c)	<p>The CSE has no significant concentrations of credit risk, as it has a small number of credit customers and only invests funds with registered banks with specified Standard and Poor's credit ratings.</p>
NZ IFRS 7.33,39(b)	<p><b>Liquidity risk</b></p> <p>Liquidity risk is the risk that the CSE will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The CSE aims to maintain flexibility in funding by keeping committed credit lines available.</p> <p>In meeting its liquidity requirements, the CSE maintains a target level of investments that must mature within specified timeframes.</p>

<sup>46</sup> A sensitivity analysis for derivative financial instruments is required when the aggregated fair value of derivatives are significant.

### 30 Financial instrument risks (continued)

NZ IFRS 7.39(a)

The table below analyses the CSE's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate at the balance sheet date. The amounts disclosed are the contractual undiscounted cash flows.<sup>47</sup>

	Less than 6 months	Between 6 months and 1 year	Between 1 and 5 years
	\$000	\$000	\$000
<b>2007</b>			
Creditors and other payables (note 17)	35,769	0	0
Borrowings (note 20)	1,162	9,660	28,041
<b>2008</b>			
Creditors and other payables (note 17)	45,586	0	0
Borrowings (note 20)	4,373	5,654	19,841

NZ IFRS 7.39(a),  
AppdxB15

The table below analyses the CSE's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.<sup>48</sup>

	Less than 6 months	Between 6 months and 1 year	Between 1 and 5 years
	\$000	\$000	\$000
<b>2007</b>			
Forward foreign exchange contracts			
Outflow	10,471	2,345	0
Inflow	11,547	2,478	0
<b>2008</b>			
Forward foreign exchange contracts			
Outflow	5,478	1,478	0
Inflow	5,589	1,555	0

### 31 Capital management

NZ IAS 1.124A

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

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

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

<sup>47</sup> NZ IFRS 7 does not prescribe the number of time bands to use. Entities will need to exercise judgement in determining the appropriate number of time bands to use when presenting the maturity analysis.

<sup>48</sup> NZ IFRS 7 does not prescribe the number of time bands to use. Entities will need to exercise judgement in determining the appropriate number of time bands to use when presenting the maturity analysis.

## 32 Explanation of significant variances against budget<sup>49</sup>

NZ IAS 1 NZ 41(1)

Explanations for significant variations from the CSE's budgeted figures in the statement of intent are as follows:

### Statement of financial performance

#### *Other revenue*

Other revenue was less than budgeted by \$3m because other grants were \$2.5m less than expected. Due to prioritisation of Crown deliverables, the CSE was unable to apply for promotional funding for certain development initiatives.

#### *Other expenses*

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

### Statement of financial position

#### *Employee entitlements*

Employee entitlements were less than budgeted by \$9.3m largely due to management's efforts to encourage and reduce the level of untaken leave, and management assuming more employees would qualify for retirement and long-service leave than that calculated in the actuarial valuation as at 30 June 2008.

#### *Provisions*

Provisions were less than budgeted by \$4.3 due to \$2.5m of restructuring and \$1.5m lease make-good payments, being made earlier than expected.

### Statement of changes in equity

#### *Property, plant and equipment revaluations*

Property, plant and equipment revaluation gains were less than budgeted by \$16.6m due to property valuations not moving to the extent anticipated by management.

#### *Surplus/deficit for the year*

The surplus for the year was greater than budgeted by \$10.8m due to the budget variances explained in the statement of financial performance above.

### Statement of changes in cash flows

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

<sup>49</sup> This note should explain variances between actual results and the budgeted figures in the statement of intent (which are consistent with the Main Estimates). An alternative approach that meets this requirement is to explain significant changes between the Main Estimates and the Supplementary Estimates and then explain any significant variances between the Supplementary Estimates and the actual results.

### 33 Explanation of transition to NZ IFRS

NZ IFRS 1.13,26

#### Transition to NZ IFRS

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

#### Exemptions from full retrospective application elected by the CSE

NZ IFRS 1.13

In preparing these financial statements in accordance with NZ IFRS 1, the CSE has not applied any optional exemptions to full retrospective application of NZ IFRS.

NZ IFRS 1.26(c)

The only mandatory exception from retrospective application that applies to the CSE is the requirement for estimates under NZ IFRS at 1 July 2006 and 30 June 2007 to be consistent with estimates made for the same date under previous NZ GAAP.

NZ IFRS 1.39(a)

#### Reconciliation of equity<sup>50</sup>

NZ IFRS 1.11

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

	Note	1 July 2006			30 June 2007		
		Previous NZ GAAP	Effect on Transition NZ IFRS	NZ IFRS	Previous NZ GAAP	Effect on Transition NZ IFRS	NZ IFRS
		\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents	a	5,324	522	5,846	56,340	251	56,591
Debtors and other receivables	b	10,706	135	10,841	2,428	102	2,530
Prepayments		1,000	0	1,000	1,000	0	1,000
Inventories		1,805	0	1,805	1,245	0	1,245
Investments	a	74,622	(522)	74,100	3,329	(251)	3,078
Derivative financial instruments	c	0	2,900	2,900	0	1,960	1,960
Non-current assets held for sale	d	1,045	(1,045)	0	0	0	0
<i>Total current assets</i>		94,502	1,990	96,492	64,342	2,062	66,404
<b>Non-current assets</b>							
Investments	e	98,638	402	99,040	157,136	512	157,648
Property, plant and equipment	f	558,396	(14,575)	543,821	654,669	(9,498)	645,171
Intangible assets	g	0	15,620	15,620	0	8,953	8,953
<i>Total non-current assets</i>		657,034	1,447	658,481	811,805	(33)	811,772
<i>Total assets</i>		751,536	3,437	754,973	876,147	2,029	878,176

<sup>50</sup> NZ IFRS 1.6 does not require an entity to present its opening NZ IFRS balance sheet in its first NZ equivalents to IFRS financial statements. We consider it good practice to present the reconciliation of equity and surplus/deficit as shown in this model, which is the approach taken by the implementation guidance of NZ IFRS 1 IG 63.

**33 Explanation of transition to NZ IFRS (continued)**

	Note	1 July 2006			30 June 2007		
		Previous NZ GAAP	Effect on Transition NZ IFRS	NZ IFRS	Previous NZ GAAP	Effect on Transition NZ IFRS	NZ IFRS
		\$000	\$000	\$000	\$000	\$000	\$000
<b>Liabilities</b>							
<b>Current Liabilities</b>							
Creditors and other payables		37,951	0	37,951	35,769	0	35,769
Employee entitlements	h	44,949	1,870	46,819	30,460	2,054	32,514
Provisions	i	250	150	400	2,707	482	3,189
Borrowings		14,480	0	14,480	9,986	0	9,986
Derivative financial instruments	c	0	1,740	1,740	0	2,240	2,240
<i>Total current liabilities</i>		97,630	3,760	101,390	78,922	4,776	83,698
<b>Non-current liabilities</b>							
Employee entitlements	h	67,996	0	67,996	46,894	0	46,894
Provisions	i	100	352	452	10,950	212	11,162
Borrowings		31,622	0	31,622	21,808	0	21,808
<i>Total non-current liabilities</i>		99,718	352	100,070	79,652	212	79,864
<i>Total liabilities</i>		197,348	4,112	201,460	158,574	4,988	163,562
<b>Net Assets</b>		554,188	(675)	553,513	717,573	(2,959)	714,614
<b>Equity</b>							
General funds	j	184,527	(2,237)	182,290	295,579	(3,471)	292,108
Other reserves	k	369,661	1,562	371,223	421,994	512	422,506
<b>Total equity</b>		554,188	(675)	553,513	717,573	(2,959)	714,614

**Explanatory notes – Reconciliation of equity**
**a. Cash and cash equivalents and investments**

Those term deposits with maturities less than three months have been reclassified as cash and cash equivalents.

**b. Debtors and other receivables**

Under previous NZ GAAP the CSE applied a general provision for doubtful debts to all debtors over 90 days old. NZ IFRS requires the CSE to measure the provision for doubtful debts based on objective evidence that the CSE will not be able to collect the amounts owing.

The impact of this change has been a reduction in the provision for doubtful debts.

**c. Derivative financial instruments**

Financial derivatives were not recognised in the statement of financial position under previous NZ GAAP. NZ IFRS requires financial derivatives to be recognised in the statement of financial position at their fair value.

### 33 Explanation of transition to NZ IFRS (continued)

#### d. Non-current assets held for sale

Non-current assets held for sale under previous NZ GAAP did not all meet the "held for sale" definition under NZ IFRS. NZ IFRS requires that properties must be available for immediate sale in their present condition, and the sale must be highly probable. An appropriate level of management must be committed to a plan to sell the asset and there must be an active programme to locate a buyer and the plan must have been initiated. The sale must be expected to be completed within one year. The effect of this change in definition is a reduction of non-current assets held for sale, which have been reclassified into property, plant and equipment.

NZ IFRS 1.43A

#### e. Investments (non-current)

CSE's equity investments were recognised at cost under previous NZ GAAP. The CSE has designated these investments as fair value through equity under NZ IAS 39. The effect on transition to NZ IFRS is an increase in the carrying value of the investment and financial assets at fair value through equity reserve. The carrying amount of these investments under previous NZ GAAP was \$500,000 (30 June 2006 \$500,000), and on transition to NZ IFRS the fair value was \$1,012,000 (30 June 2006 \$902,000). This resulted in an adjustment to the financial assets at fair value through equity reserve of \$512,000 at 30 June 2007 and \$402,000 1 July 2006.

#### f. Property, plant and equipment

The adjustments to property, plant and equipment are as follows:

	1 July 2006 \$000	30 June 2007 \$000
Non-current assets held for sale (note d)	1,045	0
Intangible assets (note g)	(15,620)	(8,953)
Hedge accounting (* below)	0	(545)
<b>Total adjustment to property, plant and equipment</b>	<b>(14,575)</b>	<b>(9,498)</b>

#### \*Hedge accounting

Under previous NZ GAAP the CSE accounted for future capital purchases that were hedged with forward exchange contracts in accordance with SSAP-21 *Accounting for the Effects of Changes in Foreign Currency Exchange Rates*. Where an entity is not hedge accounting, NZ IFRS requires property, plant and equipment to be recorded at the spot rate at initial recognition. The CSE has elected to not adopt hedge accounting under NZ IFRS, and the impact of this adjustment has been a reduction in the carrying amount of property, plant and equipment at 30 June 2007 of \$545,000.

#### g. Intangible assets

Computer software has been reclassified as an intangible asset. It was previously classified as property, plant and equipment.

#### h. Employee entitlements – Sick leave

Sick leave was not recognised as a liability under previous NZ GAAP. NZ IAS 19 requires the CSE to recognise employees' unused sick leave entitlement that can be carried forward at balance date, to the extent the CSE anticipates it will be used by staff to cover future absences.

#### i. Provisions – ACC Partnership Programme

A liability for the ACC Partnership Programme was not recognised under previous NZ GAAP. NZ IFRS 4 requires accounting for the ACC Partnership programme as an insurance contract. The CSE is required to recognise the present value of expected future payments for amounts in relation to unpaid reported claims, claims incurred but not reported and claims incurred for which no information is yet available.

### 33 Explanation of transition to NZ IFRS (continued)

#### j. General funds

The adjustments to general funds are as follows:

	1 July 2006 \$000	30 June 2007 \$000
Debtors and other receivables provisioning (note b)	135	102
Derivative financial instruments (note c)	0	(280)
Property, plant and equipment (note f)	0	(545)
Sick leave liability (note h)	(1,870)	(2,054)
ACC Partnership Program (note i)	(502)	(694)
<b>Total adjustment to general funds</b>	<b>(2,237)</b>	<b>(3,471)</b>

#### k. Other reserves

The adjustments to other reserves are as follows:

	1 July 2006 \$000	30 June 2007 \$000
Cash flow hedge reserve (** below)	1,160	0
Financial instruments at fair value through equity reserve (note e)	402	512
<b>Total adjustment to other reserves</b>	<b>1,562</b>	<b>512</b>

NZ IFRS 1.30

**\*\* Cash flow hedge reserve**

Under previous NZ GAAP the CSE accounted for forward foreign exchange contracts in accordance with the hedging requirements of SSAP-21 *Accounting for the Effects of Changes in Foreign Currency Exchange Rates*. In accordance with the transitional provisions of NZ IFRS 1, where an entity was hedge accounting under previous NZ GAAP, the unrealised gains or losses on forward exchange contracts held at the date of transition in relation to future capital purchases expected to occur are recognised in the cash flow hedge reserve within equity. Cash flow hedge reserve balances will be transferred to the carrying amount of property, plant and equipment at their initial recognition. Fair value movements of forward exchange contracts subsequent to the date of transition to NZ IFRS are recognised in the statement of financial performance.

### 33 Explanation of transition to NZ IFRS (continued)

 NZ IFRS 1.39(b)  
 NZ IFRS 1.11

#### Reconciliation of surplus for the year ending 30 June 2007

The following table shows the changes in the CSE surplus, resulting from the transition from previous NZ GAAP to NZ IFRS for the year ending 30 June 2007.

	Note	Previous NZ GAAP \$000	Effect on transition to NZ IFRS \$000	NZ IFRS \$000
<b>Income</b>				
Revenue from Crown		498,080	0	498,080
Interest		4,080	0	4,080
Other revenue		15,882	0	15,882
Gains	a	1,146	(280)	866
<i>Total income</i>		519,188	(280)	518,908
<b>Expenses</b>				
Personnel costs	b	325,772	184	325,956
Depreciation and amortisation expense	c	63,554	3	63,557
Capital charge		52,875	0	52,875
Finance costs		1,800	0	1,800
Other expenses	d,e	39,246	223	40,020
<i>Total expenses</i>		483,247	410	484,208
<b>Surplus/(deficit)</b>		<b>35,941</b>	<b>(690)</b>	<b>34,700</b>

#### Explanatory notes - Reconciliation of surplus

##### a. Gains – Net gain on derivative financial instruments

This represents fair value movements associated with forward foreign exchange contracts, which are required to be recognised in the statement of financial performance. Under previous NZ GAAP unrecognised gains and losses on forward foreign exchange contracts were deferred (off balance sheet) and were subsequently recognised as an adjustment to the recognition value of the relevant assets.

##### b. Personnel expenses

This represents the increase in the sick leave provision, which was not recognised under previous NZ GAAP.

##### c. Depreciation and amortisation expense – Assets classified as held for sale

Assets classified as held for sale under previous NZ GAAP were not depreciated. On transition to NZ IFRS certain properties no longer meet the criteria to be classified as held for sale. They have been reclassified to property, plant and equipment and have been depreciated accordingly. The result of this is an increase in depreciation expense.

##### d. Other expenses - ACC Partnership Programme

This represents the net movement in the ACC Partnership Programme liability of \$190,000 which was not recognised under previous NZ GAAP.

##### e. Other expenses - Provision for doubtful debts

This represents change in the measurement basis of the provision for doubtful debts on transition to NZ IFRS, which has impacted on the movement in the provision for doubtful debts recognised in the statement of financial performance by \$33,000.

### 33 Explanation of transition to NZ IFRS (continued)

#### Statement of cash flows

NZ IFRS 1.40

On transition to NZ IFRS the statement of cash flows presents the increase and decrease in short term deposits with maturities of 4 – 12 months on a gross rather than a net basis, and short term deposits with maturities less than 3 months are now included as part of cash and cash equivalents.

This change and the reclassification of some term deposits to cash and cash equivalents has impacted on the statement of cash flows for the year ended 30 June 2007 as follows:

- The net decrease in short term deposits of \$12,524,000 has changed to a gross increase of \$202,476,000 and gross decrease of \$215,000,000; and
- The amount of cash and cash equivalents has increased from \$56,340,000 to \$56,591,000.

There have been no other material adjustments to the statement of cash flows for the year ended 30 June 2007, on transition to NZ IFRS.

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