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**PART 2**

**FINANCIAL  
SUMMARY  
AND  
SERVICE  
PERFORMANCE**



## PART 2 – FINANCIAL SUMMARY AND SERVICE PERFORMANCE

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## STATEMENT OF RESPONSIBILITY

In terms of sections 35 and 37 of the Public Finance Act 1989, I am responsible, as Chief Executive of the Department of Corrections, for the preparation of the Department's financial statements and the judgements made in the process of producing those statements.

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

In my opinion, these financial statements fairly reflect the financial position and operations of the Department for the year ended 30 June 2004.

Signed

Countersigned



Mark Byers  
Chief Executive

24 September 2004



Richard Morris  
Chief Financial Officer

24 September 2004



## AUDIT REPORT

### **TO THE READERS OF THE DEPARTMENT OF CORRECTIONS' FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

The Auditor-General is the auditor of the Department of Corrections (the Department). The Auditor-General has appointed me, H C Lim, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Department, on his behalf, for the year ended 30 June 2004.

#### **UNQUALIFIED OPINION**

In our opinion the financial statements of the Department on pages 61 to 133:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Department's financial position as at 30 June 2004;
  - the results of its operations and cash flows for the year ended on that date;
  - its service performance achievements measured against the performance targets adopted for the year ended on that date; and
  - the assets and trust monies managed by the Department on behalf of the Crown for the year ended 30 June 2004.

The audit was completed on 24 September 2004, and is the date at which our opinion is expressed.

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

#### **BASIS OF OPINION**

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

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

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

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive;
- confirming year-end balances;

- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

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

#### **RESPONSIBILITIES OF THE CHIEF EXECUTIVE AND THE AUDITOR**

The Chief Executive is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Department as at 30 June 2004. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. In addition, they must fairly reflect the assets and trust monies managed by the Department on behalf of the Crown for the year ended 30 June 2004. The Chief Executive's responsibilities arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 38(1) of the Public Finance Act 1989.

#### **INDEPENDENCE**

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

In addition to the audit we have carried out assurance-related assignments in the areas of:

- tendering and project management;
- cost allocation policies and procedures.

We have also seconded a staff member to the Department's corporate finance team. Both the assurance related assignments and the secondment are compatible with those independence requirements. Other than the audit, the assurance related assignments and the secondment, we have no relationship with or interests in the Department.



H C Lim

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand

#### **MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS**

This audit report relates to the financial statements of the Department of Corrections for the year ended 30 June 2004 included on the Department of Corrections' website. The Chief Executive is responsible for the maintenance and integrity of the Department of Corrections' website. We have not been engaged to report on the integrity of the Department of Corrections' web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

We have not been engaged to report on any other electronic versions of the Department of Corrections' financial statements, and accept no responsibility for any changes that may have occurred to electronic versions of the financial statements published on other websites and/or published by other electronic means.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 24 September 2004 to confirm the information included in the audited financial statements presented on this web site.

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

# FINANCIAL STATEMENTS

## STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2004

### REPORTING ENTITY

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

These are the financial statements of the Department of Corrections prepared pursuant to section 35 of the Public Finance Act 1989.

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

### MEASUREMENT SYSTEM

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

## Accounting Policies

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

### BUDGET FIGURES

The Budget figures are those presented in the Statement of Intent (Main Estimates) and those amended by the Supplementary Estimates (Supp. Estimates) and any transfer made by Order in Council under section 5 of the Public Finance Act 1989.

### REVENUE

The Department derives revenue through the provision of outputs to the Crown and from the sale of goods and services to third parties. Such revenue is recognised when earned and is reported in the financial period to which it relates.

### COST ALLOCATION

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

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

### DEBTORS AND RECEIVABLES

Receivables are recorded at estimated realisable value, after providing for doubtful and uncollectable debts.

**OPERATING LEASES**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease.

**PHYSICAL ASSETS**

Land and buildings are stated at fair value as determined by an independent registered valuer. Fair value is determined using market-based evidence, except for prison buildings which are valued at optimised depreciated replacement cost. Land and buildings are revalued at least every three years. Additions between revaluations are recorded at cost.

The three-year cycle is subject to a reasonableness test on an annual basis to ensure it does not result in material differences in fair value.

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

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

**FORESTS**

The tree crop is valued annually at market value on the basis that the Department retains the forests to maturity. The market value is based on a three-year rolling average of prices published by the Ministry of Agriculture and Forestry.

The result of revaluing forestry is credited or debited to the Statement of Financial Performance.

**DEPRECIATION**

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

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

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

The useful life of buildings is reassessed following any revaluation.

Where the fixed term of a lease is for less than 10 years, excluding rights of renewal, the useful life for leasehold improvements is set at that lesser period.

#### **INVENTORY**

Finished goods, raw materials and work in progress are valued at the lower of cost or net realisable value. Costs have been assigned to inventory quantities on hand at balance date using the first-in first-out basis for finished goods and work in progress, and the weighted-average basis for raw materials. Cost comprises direct material and direct labour together with an appropriate portion of fixed and variable production overheads.

#### **EMPLOYEE ENTITLEMENTS**

Provision is made in respect of the Department's liability for annual, long service and retirement leave. Annual leave is measured at nominal values on an actual entitlement basis at current rates of pay.

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

#### **STATEMENT OF CASH FLOWS**

*Cash* means cash balances on hand and held in bank accounts.

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

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

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

#### **LIVESTOCK**

Livestock is valued annually using the Inland Revenue Department's national average market value. Gains due to changes in the per-head value of the livestock at balance date are taken to the revaluation reserve. Losses due to changes in the per-head value are applied against the revaluation reserve to the extent that there are sufficient reserves, otherwise they are taken to the Statement of Financial Performance. Gains and losses due to changes in livestock numbers are taken directly to the Statement of Financial Performance.

#### **INVESTMENTS**

Investments are valued at the lower of cost or net realisable value. Investments arise from the Department's dealings with companies in the farming industry.

#### **FOREIGN CURRENCY**

Foreign currency transactions are converted into New Zealand dollars at the exchange rate at the date of the transaction. Where a forward exchange contract has been used to establish the price of a transaction, the forward rate specified in that foreign exchange contract is used to convert that transaction to New Zealand dollars. Consequently, no exchange gain or loss resulting from the difference between the forward exchange contract rate and the spot exchange rate on date of settlement is recognised.

**FINANCIAL INSTRUMENTS**

The Department is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors and creditors. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Statement of Financial Performance.

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

**GOODS AND SERVICES TAX (GST)**

The Statement of Unappropriated Expenditure and the Statement of Departmental Expenditure and Appropriations are inclusive of GST. The Statement of Financial Position is exclusive of GST except for Creditors and Payables and Debtors and Receivables, which are GST inclusive. All other statements are GST exclusive.

The amount of GST owing to the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Creditors and Payables.

**TAXATION**

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 1994. Accordingly, no charge for income tax has been provided for.

**COMMITMENTS**

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

**CONTINGENT LIABILITIES**

Contingent liabilities are disclosed at the point at which the contingency is evident.

**TAXPAYERS' FUNDS**

This is the Crown's net investment in the Department.

**CHANGES IN ACCOUNTING POLICIES**

There has been a change in accounting policy in respect of the revaluation of forestry assets. Previously, the result of revaluing forestry was credited or debited to an asset revaluation reserve for that class of asset. Where a revaluation would have resulted in a debit balance in the revaluation reserve the debit balance was expensed in the Statement of Financial Performance. The change is that the result of revaluing forestry is now credited or debited to the Statement of Financial Performance.

This change has no impact on the financial results for the Department as at 30 June 2004.

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

All other policies have been applied on a basis consistent with the previous year.

## STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

| 30/06/03<br>Actual |                                | 30/06/04<br>Actual | 30/06/04<br>Main<br>Estimates | 30/06/04<br>Supp.<br>Estimates |
|--------------------|--------------------------------|--------------------|-------------------------------|--------------------------------|
| \$000              | Notes                          | \$000              | \$000                         | \$000                          |
| <b>REVENUE</b>     |                                |                    |                               |                                |
| 431,389            | Crown                          | 462,142            | 439,860                       | 462,142                        |
| 734                | Departmental                   | 1,276              | 1,496                         | 1,752                          |
| 24,027             | Other                          | 25,752             | 23,498                        | 26,998                         |
| <b>456,150</b>     | <b>Total operating revenue</b> | <b>489,170</b>     | <b>464,854</b>                | <b>490,892</b>                 |
| <b>EXPENDITURE</b> |                                |                    |                               |                                |
| 219,191            | Personnel costs                | 240,949            | 225,872                       | 242,040                        |
| 145,313            | Operating costs                | 150,562            | 135,974                       | 152,132                        |
| 44,084             | Depreciation                   | 44,511             | 46,500                        | 46,500                         |
| 48,606             | Capital charge                 | 51,897             | 56,508                        | 51,897                         |
| <b>457,194</b>     | <b>Total output expenses</b>   | <b>487,919</b>     | <b>464,854</b>                | <b>492,569</b>                 |
| -                  | Other expenses                 | 7,697              | -                             | 2,500                          |
| <b>457,194</b>     | <b>Total expenses</b>          | <b>495,616</b>     | <b>464,854</b>                | <b>495,069</b>                 |
| <b>(1,044)</b>     | <b>Net surplus/(deficit)</b>   | <b>(6,446)</b>     | <b>-</b>                      | <b>(4,177)</b>                 |

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

*For information on major variances against budget refer to Note 17 (page 80).*

## STATEMENT OF MOVEMENT IN TAXPAYERS' FUNDS

FOR THE YEAR ENDED 30 JUNE 2004

| 30/06/03<br>Actual |   | 30/06/04<br>Actual | 30/06/04<br>Main<br>Estimates | 30/06/04<br>Supp.<br>Estimates |
|--------------------|---|--------------------|-------------------------------|--------------------------------|
| \$000              | Notes   | \$000              | \$000                         | \$000                          |
| <b>559,341</b>     | <b>TAXPAYERS' FUNDS BROUGHT FORWARD AS AT 1 JULY</b>  | <b>610,557</b>     | <b>616,036</b>                | <b>610,557</b>                 |
|                    | Movements during the year (other than flows to and from the Crown)                            |                    |                               |                                |
| (1,044)            | Add/(deduct) net surplus/(deficit)  | (6,446)            | –                             | (4,177)                        |
| (3,289)            | Increase/(decrease) in revaluation reserves <span style="float: right;">6</span>              | 20                 | –                             | –                              |
| <b>(4,333)</b>     | <b>Total recognised revenues and expenses for the period</b>                                  | <b>(6,426)</b>     | <b>–</b>                      | <b>(4,177)</b>                 |
|                    | Adjustment for flows to and from the Crown  |                    |                               |                                |
| 56,695             | Add capital contributions from the Crown during the year <span style="float: right;">6</span> | 69,761             | 97,520                        | 69,761                         |
| (1,146)            | Provision for payment of surplus to the Crown <span style="float: right;">11</span>           | (1,251)            | –                             | –                              |
| –                  | Other Add/(deduct) asset/liability transfers between the Department and the Crown             | 348                | –                             | 348                            |
| <b>55,549</b>      | <b>Total adjustments for flows to and from the Crown</b>                                      | <b>68,858</b>      | <b>97,520</b>                 | <b>70,109</b>                  |
| <b>610,557</b>     | <b>Taxpayers' funds at end of the year</b>  | <b>672,989</b>     | <b>713,556</b>                | <b>676,489</b>                 |

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

For information on major variances against budget refer to Note 17 (page 80).

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2004

| 30/06/03<br>Actual         |   | Notes | 30/06/04<br>Actual | 30/06/04<br>Main<br>Estimates | 30/06/04<br>Supp.<br>Estimates |
|----------------------------|---|-------|--------------------|-------------------------------|--------------------------------|
| \$000                      |   |       | \$000              | \$000                         | \$000                          |
| <b>ASSETS</b>              |   |       |                    |                               |                                |
| <b>Current Assets</b>      |   |       |                    |                               |                                |
| 64,369                     | Cash and bank balances                        | 14    | 78,735             | 28,282                        | 51,719                         |
| 897                        | Prepayments                                   |       | 643                | 600                           | 850                            |
| 4,306                      | Accounts receivable                           | 7     | 5,306              | 2,900                         | 4,300                          |
| 4,143                      | Inventories                                   |       | 4,569              | 3,500                         | 4,100                          |
| <b>73,715</b>              | <b>Total current assets</b>                   |       | <b>89,253</b>      | <b>35,282</b>                 | <b>60,969</b>                  |
| <b>Non-current assets</b>  |   |       |                    |                               |                                |
| 6,526                      | Livestock                                     |       | 6,840              | 9,287                         | 6,526                          |
| 5,377                      | Investments                                   | 8     | 5,673              | 3,700                         | 5,748                          |
| 604,112                    | Physical assets                               | 9     | 652,182            | 742,287                       | 687,323                        |
| <b>616,015</b>             | <b>Total non-current assets</b>               |       | <b>664,695</b>     | <b>755,274</b>                | <b>699,597</b>                 |
| <b>689,730</b>             | <b>Total assets</b>                           |       | <b>753,948</b>     | <b>790,556</b>                | <b>760,566</b>                 |
| <b>LIABILITIES</b>         |   |       |                    |                               |                                |
| <b>Current liabilities</b> |   |       |                    |                               |                                |
| 42,971                     | Accounts payable                              | 10    | 37,824             | 44,000                        | 43,400                         |
| 1,146                      | Provision for repayment of surplus            | 11    | 1,251              | -                             | -                              |
| 26,220                     | Provision for employee entitlements           | 12    | 31,026             | 24,000                        | 28,000                         |
| <b>70,337</b>              | <b>Total current liabilities</b>              |       | <b>70,101</b>      | <b>68,000</b>                 | <b>71,400</b>                  |
| <b>Term liabilities</b>    |   |       |                    |                               |                                |
| 8,836                      | Provision for employee entitlements           | 12    | 10,858             | 9,000                         | 12,677                         |
| <b>8,836</b>               | <b>Total term liabilities</b>                 |       | <b>10,858</b>      | <b>9,000</b>                  | <b>12,677</b>                  |
| <b>79,173</b>              | <b>Total liabilities</b>                      |       | <b>80,959</b>      | <b>77,000</b>                 | <b>84,077</b>                  |
| <b>TAXPAYERS' FUNDS</b>    |   |       |                    |                               |                                |
| 610,339                    | General funds                                 | 6     | 672,751            | 710,049                       | 676,271                        |
| 218                        | Revaluation reserves                          | 6     | 238                | 3,507                         | 218                            |
| <b>610,557</b>             | <b>Total taxpayers' funds</b>                 |       | <b>672,989</b>     | <b>713,556</b>                | <b>676,489</b>                 |
| <b>689,730</b>             | <b>Total liabilities and taxpayers' funds</b> |       | <b>753,948</b>     | <b>790,556</b>                | <b>760,566</b>                 |

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

For information on major variances against budget refer to Note 17 (page 80).

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2004

| 30/06/03<br>Actual                          |   | 30/06/04<br>Actual | 30/06/04<br>Main<br>Estimates | 30/06/04<br>Supp.<br>Estimates |
|---|---|--------------------|-------------------------------|--------------------------------|
| \$000                                       | Note  | \$000              | \$000                         | \$000                          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b> |   |                    |                               |                                |
| Cash provided from:                         |   |                    |                               |                                |
| Supply of outputs to                        |   |                    |                               |                                |
| 431,389                                     | Crown   | 462,142            | 439,860                       | 462,142                        |
| 734   | Departments                                     | 1,276              | 1,496                         | 1,752                          |
| 21,895                                      | Other   | 24,460             | 23,498                        | 27,004                         |
| Cash disbursed to:                          |   |                    |                               |                                |
| (217,052)                                   | Personnel                                       | (234,121)          | (225,872)                     | (242,040)                      |
| (142,228)                                   | Operating                                       | (151,437)          | (135,974)                     | (146,266)                      |
| (260)                                       | Net GST paid                                    | 839                | –                             | –                              |
| (48,606)                                    | Capital charge                                  | (51,897)           | (56,508)                      | (51,897)                       |
| <b>45,872</b>                               | <b>Net cash flows from operating activities</b> | <b>51,262</b>      | <b>46,500</b>                 | <b>50,695</b>                  |
| <b>13</b>                                   |   |                    |                               |                                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b> |   |                    |                               |                                |
| Cash provided from:                         |   |                    |                               |                                |
| –   | Sale of investments                             | –                  | –                             | (23)                           |
| 5,505                                       | Sale of physical assets                         | 1,656              | 1,950                         | 1,801                          |
| Cash disbursed to:                          |   |                    |                               |                                |
| (962)                                       | Purchase of investments                         | –                  | –                             | –                              |
| (93,041)                                    | Purchase of physical assets                     | (107,167)          | (155,525)                     | (133,738)                      |
| <b>(88,498)</b>                             | <b>Net cash flows from investing activities</b> | <b>(105,511)</b>   | <b>(153,575)</b>              | <b>(131,960)</b>               |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b> |   |                    |                               |                                |
| Cash provided from:                         |   |                    |                               |                                |
| 56,695                                      | Capital contribution from the Crown             | 69,761             | 97,520                        | 69,761                         |
| Cash disbursed to:                          |   |                    |                               |                                |
| (6,672)                                     | Payment of surplus to the Crown                 | (1,146)            | –                             | (1,146)                        |
| <b>50,023</b>                               | <b>Net cash flows from financing activities</b> | <b>68,615</b>      | <b>97,520</b>                 | <b>68,615</b>                  |
| <b>7,397</b>                                | <b>Net increase/(decrease) in cash held</b>     | <b>14,366</b>      | <b>(9,555)</b>                | <b>(12,650)</b>                |
| 56,972                                      | Opening total cash balances at 1 July           | 64,369             | 37,837                        | 64,369                         |
| <b>64,369</b>                               | <b>Closing cash balances as of 30 June</b>      | <b>78,735</b>      | <b>28,282</b>                 | <b>51,719</b>                  |

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

For information on major variances against budget refer to Note 17 (page 80).

## STATEMENT OF COMMITMENTS

AS AT 30 JUNE 2004

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

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

| <b>30/06/03</b> |   | <b>30/06/04</b> |
|-----------------|---|-----------------|
| <b>Actual</b>   |   | <b>Actual</b>   |
| <b>\$000</b>    |   | <b>\$000</b>    |
|                 | <b>Non-cancellable accommodation leases</b>     |                 |
| 5,447           | Less than one year                              | 5,254           |
| 4,066           | One to two years                                | 3,837           |
| 9,522           | Two to five years                               | 8,332           |
| 3,643           | More than five years                            | 1,740           |
| <b>22,678</b>   |   | <b>19,163</b>   |
|                 | <b>Commitments arising from other contracts</b> |                 |
| 23,554          | Less than one year                              | 28,842          |
| 14,967          | One to two years                                | 12,577          |
| 467             | Two to five years                               | 22,273          |
| -               | More than five yers                             | -               |
| <b>38,988</b>   |   | <b>63,692</b>   |
|                 | <b>Capital Commitments</b>                      |                 |
| 59,217          | Less than one year                              | 50,740          |
| 32,746          | One to two years                                | 91              |
| -               | Two to five years                               | -               |
| -               | More than five years                            | -               |
| <b>91,963</b>   |   | <b>50,831</b>   |
| <b>153,629</b>  | <b>Total commitments</b>                        | <b>133,686</b>  |

The increase in operating commitments is largely due to the renewal of contracts with the New Zealand Prisoners' Aid and Rehabilitation Society for the provision of reintegrative services, Chubb New Zealand Limited for the provision of escort services in Northland and Auckland, and Telecom New Zealand for the provision of network services. This has been partially offset by the reduction in the commitment to GEO Pty Australia Limited, which has the management contract of Auckland Central Remand Prison, which expires in 2005.

The decrease in capital commitments is largely due to the contracts entered into for the construction of Northland Region Corrections Facility nearing completion.

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

## STATEMENT OF CONTINGENT LIABILITIES

AS AT 30 JUNE 2004

| 30/06/03<br>Actual<br>\$000 |                                     | 30/06/04<br>Actual<br>\$000 |
|-----------------------------|-------------------------------------|-----------------------------|
| 5,719                       | Legal proceedings                   | 5,915                       |
| 1,074                       | Personal grievances                 | 1,088                       |
| <b>6,793</b>                | <b>Total Contingent Liabilities</b> | <b>7,003</b>                |

The Department is defending 21 legal proceedings claims by inmates and external parties as at 30 June 2004. They cover a range of areas, including breach of the New Zealand Bill of Rights and breach of contract.

The Department is also defending personal grievances made by 26 staff members.

The Department considers over 40 percent of these claims to be low risk.

### GUARANTEES AND INDEMNITIES

The contracts entered into by the Department have been reviewed and all guarantees and indemnities fall into normal business guarantees and indemnities, which are non-quantifiable.

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

## STATEMENT OF UNAPPROPRIATED EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2004

(Figures are GST-inclusive where applicable)

| 30/06/03<br>Unapprop.<br>Expenditure<br>\$000 | Output Class  | 30/06/04<br>Actual<br>\$000 | 30/06/04<br>Appropriation<br>\$000 | 30/06/04<br>Unapprop.<br>Expenditure<br>\$000 |
|---|---|-----------------------------|------------------------------------|---|
| -   | Information Services                                    | 29,276                      | 29,846                             | -   |
| -   | Community-based Sentences<br>and Orders                 | 65,619                      | 65,940                             | -   |
| -   | Custody of Remand Inmates                               | 53,618                      | 54,119                             | -   |
| -   | Escorts and Custodial<br>Supervision                    | 6,744                       | 7,017                              | -   |
| -   | Custodial Services                                      | 287,783                     | 287,941                            | -   |
| -   | Inmate Employment                                       | 41,606                      | 43,007                             | -   |
| -   | Rehabilitative Programmes and<br>Reintegrative Services | 49,758                      | 51,038                             | -   |
| -   | Services to the New Zealand Parole Board                | 6,004                       | 6,160                              | -   |
| -   | Policy Advice and Development                           | 4,490                       | 4,579                              | -   |
| -   | Service Purchase and Monitoring                         | 4,168                       | 4,283                              | -   |
| -   |   |                             |                                    | -   |
| -   | Other Expenses  | 7,697                       | 2,500                              | 5,197   |

Unappropriated expenditure in Other Expenses is due to the revaluation of forests at 30 June 2004.

Approval of this unappropriated expenditure has been given by the Minister of Finance in terms of section 12 of the Public Finance Act 1989.

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

## STATEMENT OF DEPARTMENTAL EXPENDITURE AND APPROPRIATIONS

FOR THE YEAR ENDED 30 JUNE 2004

(Figures are GST-inclusive where applicable)

|  | <b>30/06/04<br/>Expenditure<br/>Actual<br/>\$000</b> | <b>30/06/04<br/>Appropriation<br/>Voted*<br/>\$000</b> |
|--|--|--|
| <b>VOTE: CORRECTIONS</b>                             |  |  |
| Appropriations for classes of outputs                |  |  |
| Information Services                                 | 29,276   | 29,846   |
| Community-based Sentences and Orders                 | 65,619   | 65,940   |
| Custody of Remand Inmates                            | 53,618   | 54,119   |
| Escorts and Custodial Supervision                    | 6,744  | 7,017  |
| Custodial Services                                   | 287,783  | 287,941  |
| Inmate Employment                                    | 41,606   | 43,007   |
| Rehabilitative Programmes and Reintegrative Services | 49,758   | 51,038   |
| Services to the New Zealand Parole Board             | 6,004  | 6,160  |
| Policy Advice and Development                        | 4,490  | 4,579  |
| Service Purchase and Monitoring                      | 4,168  | 4,283  |
| <b>Sub-total</b>                                     | <b>549,066</b>                                       | <b>553,930</b>   |
| <b>Appropriation for capital contributions</b>       | <b>69,761</b>  | <b>69,761</b>  |
| <b>Appropriation for other expenses</b>              |  |  |
| Revaluation Losses                                   | 7,697  | 2,500  |
| <b>Total</b>   | <b>626,524</b>                                       | <b>626,191</b>   |

\* These amounts include adjustments made in the Supplementary Estimates and the following transfers under section 5 of the Public Finance Act 1989:

| <b>Output Class</b>                                  | <b>Supplementary<br/>Estimates<br/>\$000</b> | <b>Section 5<br/>Transfers<br/>\$000</b> | <b>Final<br/>Appropriation<br/>\$000</b> |
|--|--|--|--|
| Custody of Remand Inmates                            | 51,542                                       | 2,577                                    | 54,119                                   |
| Escorts and Custodial Supervision                    | 6,792  | 225                                      | 7,017                                    |
| Rehabilitation Programmes and Reintegrative Services | 53,840                                       | (2,802)                                  | 51,038                                   |
| Net Adjustment                                       |  | 0  |  |

The transfers were made because of a higher proportion of remand inmates to total inmate numbers. As sentenced inmates were tracking close to budget the Department was unable to transfer the funds from the Custodial Services output class. Instead the Rehabilitation Programmes and Reintegrative Services output class was used as this was under budget due to programme cancellations.

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

## STATEMENT OF TRUST MONIES

AS AT 30 JUNE 2004

| Account               | As at<br>01/07/03<br>\$000 | Contribution<br>\$000 | Distribution<br>\$000 | Revenue<br>\$000 | Expenses<br>\$000 | As at<br>30/06/04<br>\$000 |
|-----------------------|----------------------------|-----------------------|-----------------------|------------------|-------------------|----------------------------|
| Prison Trust Accounts | 395                        | 8,224                 | 8,150                 | -                | -                 | 469                        |
|                       | <b>395</b>                 | <b>8,224</b>          | <b>8,150</b>          | <b>-</b>         | <b>-</b>          | <b>469</b>                 |

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

## SCHEDULE OF NON-DEPARTMENTAL ASSETS

AS AT 30 JUNE 2004

Non-Departmental Assets are administered by the Department on behalf of the Crown.

| 30/06/03<br>Actual<br>\$000 |                                      | 30/06/04<br>Actual<br>\$000 | 30/06/04<br>Main<br>Estimates<br>\$000 | 30/06/04<br>Supp.<br>Estimates<br>\$000 |
|-----------------------------|--------------------------------------|-----------------------------|--|---|
|                             | Vote Corrections                     |                             |  |   |
|                             | Non-current assets                   |                             |  |   |
| 348                         | Investments                          | -                           | 348                                    | -                                       |
| <b>348</b>                  | <b>Total Non-Departmental Assets</b> | <b>-</b>                    | <b>348</b>                             | <b>-</b>                                |

At 30 June 2003 the Department had some shares transferred from the Treasury. At this stage these were Crown shares. During the 2003/04 financial year the Department obtained Treasury approval to transfer these shares into departmental operations. These are now included in the Department's Statement of Financial Position.

The Department has no revenue, expenditure, liabilities, commitments or contingencies in relation to non-departmental activities.

### STATEMENT OF ACCOUNTING POLICY FOR NON-DEPARTMENTAL INFORMATION

Measurement and recognition rules applied in the preparation of this schedule are consistent with generally accepted accounting practice and Crown accounting policies.

Investments are valued at the lower of cost or net realisable value.

This non-departmental balance is consolidated into the Crown Financial Statements and therefore readers of this schedule should also refer to the Crown Financial Statements for 2003/04.

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 1: REVENUE OTHER

| 30/06/03<br>Actual<br>\$000 |                            | 30/06/04<br>Actual<br>\$000 | 30/06/04<br>Main<br>Estimates<br>\$000 | 30/06/04<br>Supp.<br>Estimates<br>\$000 |
|-----------------------------|----------------------------|-----------------------------|--|---|
| 14,549                      | Timber and livestock       | 15,076                      | 15,603                                 | 15,165                                  |
| 1,063                       | Rents                      | 1,257                       | 1,009                                  | 1,009                                   |
| 8,076                       | Prison industry sales      | 9,261                       | 6,604                                  | 10,542                                  |
| 339                         | Other                      | 158                         | 282                                    | 282                                     |
| <b>24,027</b>               | <b>Total revenue other</b> | <b>25,752</b>               | <b>23,498</b>                          | <b>26,998</b>                           |

### NOTE 2: PERSONNEL COSTS

| 30/06/03<br>Actual<br>\$000 |                                   | 30/06/04<br>Actual<br>\$000 | 30/06/04<br>Main<br>Estimates<br>\$000 | 30/06/04<br>Supp.<br>Estimates<br>\$000 |
|-----------------------------|-----------------------------------|-----------------------------|--|---|
| 218,329                     | Salaries and wages                | 237,252                     | 225,872                                | 242,040                                 |
| 862                         | Retirement and long service leave | 3,697                       | –                                      | –                                       |
| <b>219,191</b>              | <b>Total personnel costs</b>      | <b>240,949</b>              | <b>225,872</b>                         | <b>242,040</b>                          |

### NOTE 3: OPERATING COSTS

| 30/06/03<br>Actual<br>\$000 |  | 30/06/04<br>Actual<br>\$000 | 30/06/04<br>Main<br>Estimates<br>\$000 | 30/06/04<br>Supp.<br>Estimates<br>\$000 |
|-----------------------------|--|-----------------------------|--|---|
| 7,558                       | Operating lease rentals                                      | 8,061                       | 8,386                                  | 8,619                                   |
| 210                         | Audit fees to auditors for audit of the financial statements | 218                         | 210                                    | 210                                     |
| 115                         | Fees to auditors for other services provided                 | 188                         | –                                      | –                                       |
| 22,023                      | Facilities maintenance                                       | 27,291                      | 20,842                                 | 22,380                                  |
| 21,941                      | Offender management costs                                    | 24,293                      | 24,707                                 | 25,249                                  |
| 12,539                      | Computer costs   | 13,491                      | 13,011                                 | 14,245                                  |
| 15,908                      | Contract management  | 16,299                      | 16,092                                 | 16,489                                  |
| 37,946                      | Administration   | 34,885                      | 29,574                                 | 38,163                                  |
| 21,660                      | Other operating costs  | 22,248                      | 23,152                                 | 26,777                                  |
| 5,413                       | Write down of fixed assets                                   | 3,588                       | –                                      | –                                       |
| <b>145,313</b>              | <b>Total operating costs</b>                                 | <b>150,562</b>              | <b>135,974</b>                         | <b>152,132</b>                          |

Contract management represents contracts with GEO Pty Australia Limited, Chubb New Zealand Limited and the New Zealand Prisoners' Aid and Rehabilitation Society Incorporated.

#### NOTE 4: DEPRECIATION

| 30/06/03<br>Actual<br>\$000 |                                  | 30/06/04<br>Actual<br>\$000 | 30/06/04<br>Main<br>Estimates<br>\$000 | 30/06/04<br>Supp.<br>Estimates<br>\$000 |
|-----------------------------|----------------------------------|-----------------------------|--|---|
| 27,046                      | Buildings                        | 28,589                      | 28,800                                 | 28,800                                  |
| 731                         | Leasehold improvements           | 628                         | 800                                    | 800                                     |
| 2,502                       | Plant and equipment              | 2,812                       | 4,000                                  | 4,200                                   |
| 667                         | Furniture and fittings           | 747                         | 900                                    | 900                                     |
| 9,707                       | Computer equipment               | 8,137                       | 9,000                                  | 8,800                                   |
| 3,431                       | Motor vehicles                   | 3,598                       | 3,000                                  | 3,000                                   |
| <b>44,084</b>               | <b>Total depreciation charge</b> | <b>44,511</b>               | <b>46,500</b>                          | <b>46,500</b>                           |

#### NOTE 5: CAPITAL CHARGE

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

The capital charge rate for the year ended 30 June 2004 was 8.5 percent per annum (2003: 8.5%).

#### NOTE 6: TAXPAYERS' FUNDS

Taxpayers' Funds comprises two components:

| General Funds<br>30/06/03<br>Actual<br>\$000 |  | 30/06/04<br>Actual<br>\$000    | 30/06/04<br>Main<br>Estimates<br>\$000 | 30/06/04<br>Supp.<br>Estimates<br>\$000 |
|--|--|--------------------------------|--|---|
| <b>555,834</b>                               | <b>General funds as at 1 July</b>                              | <b>610,339</b>                 | <b>612,529</b>                         | <b>610,339</b>                          |
| (1,044)                                      | Net operating surplus/(deficit)                                | (6,446)                        | –                                      | (4,177)                                 |
| 56,695                                       | Capital contribution   | 69,761                         | 97,520                                 | 69,761                                  |
| <b>55,651</b>                                |  | <b>63,315</b>                  | <b>97,520</b>                          | <b>65,584</b>                           |
| (1,146)                                      | Provision for repayment of surplus to the Crown                | 11 (1,251)                     | –                                      | –                                       |
| –  | Asset/liability transfers between the Department and the Crown | 348                            | –                                      | 348                                     |
| <b>610,339</b>                               | <b>General funds as at 30 June</b>                             | <b>672,751</b>                 | <b>710,049</b>                         | <b>676,271</b>                          |
| <b>Revaluation Reserve</b>                   |  |                                |  |   |
| 30/06/03<br>Total<br>Actual<br>\$000         |  | 30/06/04<br>Livestock<br>\$000 | 30/06/04<br>Investments<br>\$000       | 30/06/04<br>Total<br>Actual<br>\$000    |
| 3,507  | Balance brought forward  | 218                            | –                                      | 218                                     |
| (3,289)                                      | Revaluation changes at 30 June                                 | 20                             | –                                      | 20                                      |
| <b>218</b>                                   | <b>Balance at 30 June</b>                                      | <b>238</b>                     | <b>–</b>                               | <b>238</b>                              |

**NOTE 7: DEBTORS AND RECEIVABLES**

| <b>30/06/03</b> |                                      | <b>30/06/04</b> |
|-----------------|--------------------------------------|-----------------|
| <b>Actual</b>   |                                      | <b>Actual</b>   |
| <b>\$000</b>    |                                      | <b>\$000</b>    |
| 4,412           | Trade debtors                        | 5,149           |
| 228             | Other                                | 481             |
| (334)           | Provision for doubtful debts         | (324)           |
| <b>4,306</b>    | <b>Total debtors and receivables</b> | <b>5,306</b>    |

**NOTE 8: INVESTMENTS**

The increase in investments is primarily due to the transfer of Ballance Agrinutrients shares from the Crown to the Department.

## NOTE 9: PHYSICAL ASSETS

| 30/06/03<br>Actual<br>\$000 |  | 30/06/04<br>Actual<br>\$000 |
|-----------------------------|--|-----------------------------|
|                             | Freehold land                                    |                             |
| 769                         | At cost  | 574                         |
| 74,375                      | At valuation – 30 June 2002                      | 74,375                      |
| <b>75,144</b>               | <b>Land – net book value</b>                     | <b>74,949</b>               |
|                             | Buildings  |                             |
| 60,044                      | At cost  | 82,744                      |
| 344,576                     | At valuation – 30 June 2002                      | 344,576                     |
| (27,020)                    | Accumulated depreciation                         | (55,524)                    |
| <b>377,600</b>              | <b>Buildings – net book value</b>                | <b>371,796</b>              |
|                             | Leasehold improvements                           |                             |
| 8,136                       | At cost  | 7,606                       |
| (4,492)                     | Accumulated depreciation                         | (3,377)                     |
| <b>3,644</b>                | <b>Leasehold improvements – net book value</b>   | <b>4,229</b>                |
|                             | Forests  |                             |
| 37,277                      | At valuation                                     | 29,401                      |
| <b>37,277</b>               | <b>Forests – net book value</b>                  | <b>29,401</b>               |
|                             | Plant and equipment                              |                             |
| 27,680                      | At cost  | 29,812                      |
| (17,134)                    | Accumulated depreciation                         | (18,421)                    |
| <b>10,546</b>               | <b>Plant and equipment – net market value</b>    | <b>11,391</b>               |
|                             | Furniture and Fittings                           |                             |
| 6,238                       | At cost  | 6,573                       |
| (4,466)                     | Accumulated depreciation                         | (4,342)                     |
| <b>1,772</b>                | <b>Furniture and fittings – net book value</b>   | <b>2,231</b>                |
|                             | Computer equipment (incl software)               |                             |
| 60,424                      | At cost  | 65,726                      |
| (35,071)                    | Accumulated depreciation                         | (40,035)                    |
| <b>25,353</b>               | <b>Computer equipment – net book value</b>       | <b>25,691</b>               |
|                             | Motor vehicles                                   |                             |
| 30,601                      | At cost  | 31,140                      |
| (15,909)                    | Accumulated depreciation                         | (16,999)                    |
| <b>14,692</b>               | <b>Motor vehicles – net book value</b>           | <b>14,141</b>               |
|                             | Items under construction                         |                             |
| 50,029                      | Buildings  | 113,474                     |
| 8,055                       | Computer equipment                               | 4,879                       |
| <b>58,084</b>               | <b>Items under construction – net book value</b> | <b>118,353</b>              |
|                             | Total fixed assets                               |                             |
| 708,204                     | At cost and valuation                            | 790,880                     |
| (104,092)                   | Accumulated depreciation                         | (138,698)                   |
| <b>604,112</b>              | <b>Total carrying amount of fixed assets</b>     | <b>652,182</b>              |

Freehold land and buildings were valued at fair value as at 30 June 2002 by an independent registered valuer, *valuersnet.NZ*. This valuation was completed by M W Lauchlan ANZIV SNZPI.

The annual valuation of forests was undertaken by departmental staff and was reviewed by an independent registered valuer, P F Olsen and Company Limited, on 30 June 2004. This valuation was completed by T Vos, registered forestry contractor, NZIF.

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

#### NOTE 10: CREDITORS AND PAYABLES

| 30/06/03<br>Actual<br>\$000 |                                     | 30/06/04<br>Actual<br>\$000 |
|-----------------------------|-------------------------------------|-----------------------------|
| 12,716                      | Trade creditors                     | 12,232                      |
| 28,036                      | Accrued expenses                    | 22,534                      |
| 2,219                       | GST payable                         | 3,058                       |
| <b>42,971</b>               | <b>Total creditors and payables</b> | <b>37,824</b>               |

#### NOTE 11: PROVISION FOR REPAYMENT OF SURPLUS TO THE CROWN

| 30/06/03<br>Actual<br>\$000 |  | 30/06/04<br>Actual<br>\$000 |
|-----------------------------|--|-----------------------------|
| (1,044)                     | Net surplus/(deficit)  | (6,446)                     |
| –                           | Add: Other expenses (not for production of outputs)                            | 7,697                       |
| (1,044)                     | Net surplus/(deficit) from delivery of outputs                                 | 1,251                       |
| 1,146                       | Net gain on sale of fixed assets (if not already included in output surpluses) | –                           |
| <b>1,146</b>                | <b>Total provision for repayment of surplus to the Crown</b>                   | <b>1,251</b>                |

#### NOTE 12: EMPLOYEE ENTITLEMENTS

| 30/06/03<br>Actual<br>\$000 |  | 30/06/04<br>Actual<br>\$000 |
|-----------------------------|--|-----------------------------|
|                             | Current liabilities                              |                             |
| 8,278                       | Retirement and long service leave                | 9,831                       |
| 17,942                      | Annual leave                                     | 21,195                      |
| <b>26,220</b>               | <b>Total current portion</b>                     | <b>31,026</b>               |
|                             | Non-current liabilities                          |                             |
| 8,836                       | Retirement and long service leave                | 10,858                      |
| <b>8,836</b>                | <b>Total non-current portion</b>                 | <b>10,858</b>               |
| <b>35,056</b>               | <b>Total provision for employee entitlements</b> | <b>41,884</b>               |

The non-current portion of employee entitlements is calculated on an actuarial basis. A review of this calculation was undertaken by AON Consulting during the 2003/04 financial year.

**NOTE 13: RECONCILIATION OF NET SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2004**

| 30/06/03<br>Actual<br>\$000 |  | 30/06/04<br>Actual<br>\$000 | 30/06/04<br>Main<br>Estimates<br>\$000 | 30/06/04<br>Supp.<br>Estimates<br>\$000 |
|-----------------------------|--|-----------------------------|--|---|
| <b>(1,044)</b>              | <b>Net surplus/(deficit)</b>                   | <b>(6,446)</b>              | –                                      | <b>(4,177)</b>                          |
|                             | Add/(less) non-cash items                      |                             |  |   |
| 44,084                      | Depreciation                                   | 44,511                      | 46,500                                 | 46,500                                  |
| (124)                       | Inc/(dec) in non-current employee entitlements | 2,022                       | –                                      | 3,841                                   |
| 5,712                       | Inc/(dec) other non-cash items                 | 11,086                      | –                                      | 2,500                                   |
| <b>49,672</b>               | <b>Total non-cash items</b>                    | <b>57,619</b>               | <b>46,500</b>                          | <b>52,841</b>                           |
|                             | Working capital movements                      |                             |  |   |
| (1,834)                     | (Inc)/dec in receivables                       | (1,000)                     | –                                      | 6                                       |
| (903)                       | (Inc)/dec in inventories                       | (426)                       | –                                      | 43                                      |
| (395)                       | (Inc)/dec in prepayments                       | 254                         | –                                      | 47                                      |
| (741)                       | Inc/(dec) in creditors and payables            | (3,509)                     | –                                      | 155                                     |
| 2,263                       | Inc/(dec) in current employee entitlements     | 4,806                       | –                                      | 1,780                                   |
| <b>(1,610)</b>              | <b>Working capital movements – net</b>         | <b>125</b>                  | <b>–</b>                               | <b>2,031</b>                            |
| –                           | Add/(less) investing activity items            | –                           | –                                      | –                                       |
| (1,146)                     | Net loss/(gain) on sale of physical assets     | (36)                        | –                                      | –                                       |
| <b>(1,146)</b>              | <b>Total investing activity items</b>          | <b>(36)</b>                 | <b>–</b>                               | <b>–</b>                                |
| <b>45,872</b>               | <b>Net cash flow from operating activities</b> | <b>51,262</b>               | <b>46,500</b>                          | <b>50,695</b>                           |

**NOTE 14: FINANCIAL INSTRUMENTS**

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

**CASH**

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

**CREDIT RISK**

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

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

**FAIR VALUE**

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

**CURRENCY RISK**

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

**INTEREST RATE RISK**

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

Under section 46 of the Public Finance Act the Department cannot raise a loan without Ministerial approval and no such loans have been raised. Accordingly, there is no interest rate exposure for funds borrowed.

**NOTE 15: CONTINGENCIES**

The Department does not have any contingent assets as at 30 June 2004 (30 June 2003: nil).

Contingent liabilities are separately disclosed in the Statement of Contingent Liabilities.

**NOTE 16: RELATED PARTY INFORMATION**

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

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

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

**NOTE 17: MAJOR BUDGET VARIATIONS****STATEMENT OF FINANCIAL POSITION, STATEMENT OF MOVEMENT IN TAXPAYERS' FUNDS AND STATEMENT OF CASH FLOWS**

Revenue Crown operating costs and personnel are more than projected in the Mains Estimates process due to an increase in appropriation for the Department's Output Pricing Review and bargaining round.

General funds, physical assets and net cash flows from financing activities are less than projected in the Mains Estimates process due to the transfer of capital contributions from 2003/2004 to 2004/2005 and 2005/2006.

Revaluation reserves are less than projected in the Mains Estimates process due to a decrease in the value of forests.

The increase in cash reflects the decrease in fixed assets spending. This is also reflected in the Statement of Cash Flows. While the cash received in respect of operating activities was close to budget, the net cash outflow from investing activities was approximately \$48 million less than budgeted. This resulted in an increased closing cash position.

Creditors and payables were lower than projected in the Mains Estimates primarily due to timing issues arising from when payments were made at the end of the financial year.

**NOTE 18: POST BALANCE DATE EVENTS**

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