AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2004

STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F of the Public Finance and Audit Act 1983, I state that:

(a) The accompanying financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Financial Reporting Code for Budget Dependent General Government Sector Agencies, the applicable clauses of the Public Finance and Audit Regulation 2000 and the Treasurer's Directions.

(b) The statements exhibit a true and fair view of the financial position and transactions of the Department.

(c) There are no circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.

RON WOODHAM
Commissioner
September 2004

AUDITOR-GENERAL
NEW SOUTH WALES

GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

Department of Corrective Services

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Department of Corrective Services:

(a) presents fairly the Department's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and

(b) complies with section 45E of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

The Commissioner's Role

The financial report is the responsibility of the Commissioner of the Department of Corrective Services. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows, the program statement – expenses and revenues, the summary of compliance with financial directives and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Commissioner in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Commissioner had not fulfilled his reporting obligations.

My opinion does not provide assurance:

- about the future viability of the Department of Corrective Services,
- that the Department has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the financial report.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

M T Spriggins ACA
Director of Audit

SYDNEY
23 September 2004

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2004

	NOTES	ACTUAL 2004 $'000	BUDGET 2004 $'000	ACTUAL 2003 $'000
Expenses				
Operating expenses				
Employee related	2 (a)	471,417	477,097	452,236
Other operating expenses	2 (b)	136,480	126,986	133,333
Maintenance		21,840	19,784	18,428
Depreciation	2 (c)	37,816	36,978	36,309
Grants and subsidies	2 (d)	3,909	3,891	3,760
Other expenses	2 (e)	398	627	309
Total Expenses		**671,860**	**665,363**	**644,375**
Less:				
Retained Revenues				
Sales of goods and services	3 (a)	26,391	28,079	24,917
Investment income	3 (b)	908	1,365	1,351
Grants and contributions	3 (c)	7,456	3,911	5,143
Other revenue	3 (d)	4,194	76	427
Total Retained Revenues		**38,949**	**33,431**	**31,838**
Gain/(loss) on sale of non-current assets	4	(149)	-	2,159
Net Cost of Services	21	**633,060**	**631,932**	**610,378**
Government Contributions				
Recurrent appropriation	6 (a)	547,403	553,203	501,923
Capital appropriation	6 (b)	80,242	107,270	120,008
Acceptance by the Crown Entity of employee				
benefits and other liabilities	7	49,428	48,680	55,273
Total Government Contributions		**677,073**	**709,153**	**677,204**
SURPLUS FOR THE YEAR		**44,013**	**77,221**	**66,826**
NON-OWNER TRANSACTION CHANGES IN EQUITY				
Net increase/(decrease) in Asset Revaluation Reserve		83,650	-	(9,594)
TOTAL REVENUE, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		**83,650**	**-**	**(9,594)**
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	17	**127,663**	**77,221**	**57,232**

The accompanying notes form part of these statements

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2004

	NOTES	ACTUAL 2004 $'000	BUDGET 2004 $'000	ACTUAL 2003 $'000
ASSETS				
Current Assets				
Cash	9	18,834	11,723	17,940
Receivables	10	10,549	12,703	12,703
Inventories	11	5,526	5,640	5,640
Other	12	1,385	1,776	1,776
Total Current Assets		**36,294**	**31,842**	**38,059**
Non- Current Assets				
Land & Buildings		1,235,686	1,159,999	1,104,731
Plant & equipment		44,942	65,804	48,499
Total Non- Current Assets	13	**1,280,628**	**1,225,803**	**1,153,230**
Total Assets		**1,316,922**	**1,257,645**	**1,191,289**
LIABILITIES				
Current Liabilities				
Payables	14	24,495	21,003	31,868
Provisions	15	37,677	32,979	32,979
Other	16	1,928	-	-
Total Current Liabilities		**64,100**	**53,982**	**64,847**
Non-Current Liabilities				
Provisions	15	27,799	29,082	29,082
Total Non-Current Liabilities		**27,799**	**29,082**	**29,082**
Total Liabilities		**91,899**	**83,064**	**93,929**
Net Assets		**1,225,023**	**1,174,581**	**1,097,360**
EQUITY				
Reserves		442,401	358,744	358,744
Accumulated funds		782,622	815,837	738,616
Total Equity	17	**1,225,023**	**1,174,581**	**1,097,360**

The accompanying notes form part of these statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2004

	NOTES	ACTUAL 2004 $'000	BUDGET 2004 $'000	ACTUAL 2003 $'000
CASH FLOW FROM OPERATING ACTIVITIES				
Payments				
Employee related		(446,131)	(458,325)	(410,459)
Grants and subsidies		(3,909)	(3,891)	(3,760)
Other		(184,442)	(170,344)	(166,574)
Total Payments		**(634,482)**	**(632,560)**	**(580,793)**
Receipts				
Sale of goods and services		29,685	28,079	22,000
Interest received		1,207	1,365	945
Other		34,195	26,934	33,270
Total Receipts		**65,087**	**56,378**	**56,215**
Cash Flows from Government				
Recurrent appropriation		547,403	553,203	501,923
Capital appropriation		82,170	107,270	120,008
Asset sale proceeds transferred to the Crown Entity		-	-	-
Cash Transfer to the Consolidated Fund		-	-	(1,432)
Cash reimbursement from the Crown Entity		22,429	19,043	18,012
Net Cash Flows from Government		**652,002**	**679,516**	**638,511**
NET CASH FLOWS FROM OPERATING ACTIVITIES	21	**82,607**	**103,334**	**113,933**
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale of land and buildings, plant and equipment		3	-	5,470
Purchases of land and buildings, plant & equipment		(81,716)	(109,551)	(120,676)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(81,713)**	**(109,551)**	**(115,206)**
NET INCREASE \ (DECREASE) IN CASH		894	(6,217)	(1,273)
Opening cash and cash equivalents		17,940	17,940	19,213
CLOSING CASH AND CASH EQUIVALENTS	9	**18,834**	**11,723**	**17,940**

The accompanying notes form part of these statements.

PROGRAM STATEMENT–EXPENSES AND REVENUE FOR THE YEAR ENDED 30 JUNE 2004

AGENCY'S EXPENSES & REVENUES	**Program 47.1.1 #**		**Program 47.2.1 #**		**Program 47.3.1 #**		**Not Attributable**		**Total**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Expenses										
Operating expenses										
Employee related	322,854	325,943	86,336	74,984	62,227	51,309	-	-	471,417	452,236
Other operating expenses	101,306	90,598	17,558	30,837	17,616	11,898	-	-	136,480	133,333
Maintenance	20,006	14,883	1,660	3,424	174	121	-	-	21,840	18,428
Depreciation	35,013	29,200	1,813	6,718	990	391	-	-	37,816	36,309
Grants and subsidies	-	-	3,909	1,515	-	2,245	-	-	3,909	3,760
Other expenses	280	270	37	33	81	6	-	-	398	309
Total expenses	**479,459**	**460,894**	**111,313**	**117,511**	**81,088**	**65,970**	**-**	**-**	**671,860**	**644,375**
Retained Revenues							**-**	**-**		
Sale of goods and services	7,509	11,335	17,590	13,494	1,292	88	-	-	26,391	24,917
Investment Income	620	1,351	166	0	122		-	-	908	1,351
Grants and contributions	802	1,369	3,762	2,844	2,892	930	-	-	7,456	5,143
Other Revenue	2,963	225	709	202	522		-	-	4,194	427
Total Retained Revenues	**11,894**	**14,280**	**22,227**	**16,540**	**4,828**	**1,018**	**-**	**-**	**38,949**	**31,838**
Gain / (loss) on sale of non-current assets	(149)	1,750	-	402	-	7	-	-	(149)	2,159
NET COST OF SERVICES	**467,714**	**444,864**	**89,086**	**100,569**	**76,260**	**64,945**	**-**	**-**	**633,060**	**610,378**
Government Contributions*							677,073	677,204	677,073	677,204
NET EXPENDITURE / (REVENUE)	**467,714**	**444,864**	**89,086**	**100,569**	**76,260**	**64,945**	**(677,073)**	**(677,204)**	**(44,013)**	**(66,826)**

The name and purpose of each program is summarised in Note 8

* Appro
the "Not Attributable" column.

SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES FOR THE YEAR ENDED 30 JUNE 2004

	2004				2003			
	Recurrent Appropriation $'000	Expenditure / Net Claim on Consolidated Fund $'000	Capital Appropriation $'000	Expenditure / Net Claim on Consolidated Fund $'000	Recurrent Appropriation $'000	Expenditure / Net Claim on Consolidated Fund $'000	Capital Appropriation $'000	Expenditure / Net Claim on Consolidated Fund $'000
Original Budget Appropriation / Expenditure								
Appropriation Act	553,368	547,403	107,270	80,242	515,362	501,135	117,122	117,122
Section 24 PF&A Act	(165)	-	-	-	-	-	-	-
	553,203	**547,403**	**107,270**	**80,242**	**515,362**	**501,135**	**117,122**	**117,122**
Other Appropriations / Expenditure								
Treasurer's Advance	-	-	-	-	255	255	-	-
Section 25 - transfers from other agencies	-	-	-	-	533	533	2,886	2,886
	-	**-**	**-**	**-**	**788**	**788**	**2,886**	**2,886**
Total Appropriations / Expenditure / Net Claim on Consolidated Fund (includes transfer payments)	553,203	547,403	107,270	80,242	516,150	501,923	120,008	120,008
Amount drawn down against Appropriation		**547,403**		**82,170**		**501,923**		**120,008**
Liability to Consolidated Fund		**-**		**1,928**		-		-

The Summary of Compliance is based on the assumption that Consolidated Funds moneys are spent first (except where otherwise identified or prescribed)
The Liability to Consolidated Fund represents the difference between the "Amount Drawndown Against Appropriation" and the "Total Expenditure/Net Claim on Consolidated Fund".

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Department of Corrective Services, as a reporting entity, comprises all the entities under its control, including Corrective Services Industries. The Department is responsible for the protection of the community by managing offenders in a safe, secure, fair and humane environment and to actively encourage personal development of offenders through correctional programs in preparation for their return into the community as law-abiding citizens.

The Department provides offenders with work experience and trade skills through Corrective Services Industries and also a range of community based offender programs through the Community Offenders Service.

In the process of preparing the consolidated financial statements for the economic entity consisting of the controlling and controlled entities, all inter-entity transactions and balances have been eliminated.

The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

(b) Basis of Accounting

The Department's financial statements are a general-purpose financial report, which has been prepared on an accrual basis and in accordance with:

- applicable Australian Accounting Standards;
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB);
- Urgent Issues Group (UIG) Consensus Views;
- the requirements of the Public Finance and Audit Act and Regulations; and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer under section 9(2)(n) of the Act.

Where there are inconsistencies between the above requirements, the legislative provisions have prevailed.

In the absence of a specific Accounting Standard, other authoritative pronouncements of the AASB or UIG Consensus View, the hierarchy of other pronouncements as outlined in AAS 6 "Accounting Policies" is considered.

Except for long service leave expense, land, buildings and plant and equipment, which are recorded at valuation, the financial statements are prepared in accordance with the historical cost convention.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Revenue Recognition

Revenue is recognised when the Department has control of the good or right to receive, it is probable that the economic benefits will flow to the Department and the amount of revenue can be measured reliably. Additional comments regarding the accounting policies for recognition of revenue are discussed below:

(i) Parliamentary Appropriations and Contributions from Other Bodies

Parliamentary appropriations and contributions from other bodies (including grants and donations) are generally recognised as revenues when the Department obtains control over the assets comprising the appropriations/contributions. Control over appropriations and contributions is normally obtained upon the receipt of cash.

An exception to the above is when appropriations are unspent at year-end. In this case, the authority to spend the money lapses and generally the unspent amount must be repaid to the Consolidated Fund in the following financial year. As a result, unspent appropriations are accounted for as liabilities rather than revenue.

The liability is disclosed in Note 16 as part of 'current liabilities – other". The amount will be repaid and the liability will be extinguished next financial year.

(ii) Sale of Goods and Services

Revenue from the sale of goods and services comprises revenue from the provision of products or services, ie user charges. User charges are recognised as revenue when the Department obtains control of the assets that result from them.

(iii) Investment Income

Interest revenue is recognised as it accrues.

(d) Employee Benefits and other provisions

(i) Salaries and Wages, Annual Leave, Sick Leave and On-Costs

Liabilities for salaries and wages (including non-monetary benefits), annual leave and vesting sick leave are recognised and measured in respect of employees' services up to the reporting date at nominal amounts based on the amounts expected to be paid when the liabilities are settled.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the entitlements accrued in the future.

The outstanding amounts of payroll tax, workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee entitlements to which they relate have been recognised.

(ii) Accrued salaries and wages

Accrued salaries and wages and on-costs are classified as "payables" in the Statement of Financial Position and the related note disclosures. Total employee benefits (including accrued salaries and wages) are reconciled in Note 15 "Provisions".

(iii) Long Service Leave and Superannuation

The Department's liabilities for long service leave and superannuation are assumed by the Crown Entity. The Department accounts for the liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item described as "Acceptance by the Crown Entity of employee benefits and other liabilities".

Long service leave is measured on a present value basis. The present value method is based on the remuneration rates at year-end plus an actuarial assessment of increases for all employees with five or more years of service.

The superannuation expense for the financial year is determined by using the formulae specified in the Treasurer's Directions. The expense for certain superannuation schemes (ie Basic Benefit and First State Super) is calculated as a percentage of employees' salary. For other superannuation schemes (ie State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of employees' superannuation contributions.

(iv) Other Provisions

Other provisions exist when the Department has a present legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events. These provisions are recognised when it is probable that a future sacrifice of economic benefits will be required and the amount can be measured reliably.

Any provisions for restructuring are recognised either when a detailed formal plan has been developed or will be developed within prescribed time limits and where the Department has raised a valid expectation in those affected by the restructuring that it will carry out the restructuring.

(e) Insurance

The Department's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self-insurance for Government agencies. The expense (premium) is determined by the Fund Manager based on past experience.

(f) Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where:

- the amount of GST incurred by the Department as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.
- receivables and payables are stated with the amount of GST included.

(g) Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Department. Cost is determined as the fair value of the assets given as consideration plus the costs incidental to the acquisition.

Assets acquired at no cost or for nominal consideration are initially recognised as assets and revenues at their fair value at the date of acquisition.

Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the acquisition date. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained.

(h) Plant and Equipment

Plant and equipment costing $5,000 and above individually are capitalised. Assets that form part of a network (eg computer systems and office furniture) are aggregated when applying the capitalisation threshold.

(i) Revaluation of Physical Non-Current Assets

Physical non-current assets are valued in accordance with the "Guidelines for the Valuation of Physical Non-Current Assets at Fair Value" (TPP 03-02) This policy adopts fair value in accordance with AASB1041 from financial years beginning on or after 1 July

2003. There is no substantive difference between the fair value valuation methodology and the previous valuation methodology adopted in the NSW public sector.

Where available, fair value is determined having regard to the highest and best use of the asset on the basis of current market selling prices for the same or similar assets. Where market selling price is not available, the asset's fair value is measured as its market buying price ie the replacement cost of the asset's remaining future economic benefits. The Department is a not for profit entity.

Each class of physical non-current assets is valued at least every five years and with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. The last revaluation of land and buildings was completed on 30 June 2002 and was based on an independent assessment.

A factor update has been completed by NSW Department of Commerce, State Projects and Regional Services (formerly State Valuation Office) based on the valuation at 30 June 2002. Although the properties are located in various metropolitan and country areas the application of overall factors ensures that the 2002 valuations are adjusted to Fair Value as at 30 June 2004.

Non –specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

When revaluing non-current assets by reference to current prices for assets newer than those being revalued (adjusted to reflect the present condition of the assets), the gross amount and the related accumulated depreciation is separately restated.

Otherwise, any balances of accumulated depreciation existing at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the surplus/deficit, the increment is recognised immediately as revenue in the surplus/deficit.

Revaluation decrements are recognised immediately as expenses in the surplus / deficit, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Where an asset that has previously been revalued is disposed of, any balance remaining in the asset revaluation reserve in respect of that asset is transferred to accumulated funds.

(j) Depreciation of Non-Current Physical Assets

Except for a limited number of heritage assets, depreciation is provided for on a straight line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the entity.

All material separately identifiable component assets are recognised and depreciated over their shorter useful lives, including those components that in effect represent major periodic maintenance.

Land is not a depreciable asset. Certain heritage assets have an extremely long life, including original artworks and collections and heritage buildings. Depreciation for these items cannot be reliably measured because the useful life and the net amount to be recovered at the end of the useful life cannot be reliably measured. In these cases, depreciation is not recognised. The decision not to recognise depreciation for these assets is reviewed annually.

Depreciation rates applicable are as follows: -

Buildings depreciation varies in accordance with construction type and remaining useful life of each structure and on average are depreciated over 40 to 50 years. Residences 2.5%, Plant & Equipment – general 10%, motor vehicles 33.3 % computer hardware 33.3%, major computer software 20% and office fitouts depending on the term of the lease (10%, 20% & 50%).

(k) Maintenance and repairs

The costs of maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated.

(l) Leased Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets, and operating leases under which the lessor effectively retains all such risks and benefits.

The Department has no finance leases.

Operating lease payments are charged to the Statement of Financial Performance in the periods in which they are incurred.

(m) Receivables

Receivables are recognised and carried at cost based on the original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value, except for livestock, which is stated at net realisable value. The cost is calculated using the weighted average cost or "first in first out" method.

(o) Inmate Funds

Funds are held in public money accounts on behalf of inmates as set out in note 22. As the Department performs only a custodial role in respect of these monies, and because the monies cannot be used for the achievement of the Department's own objectives, these funds are not recognised in the financial statements.

(p) Payables

These amounts represent liabilities for goods and services provided to the Department and other amounts, including interest. Interest is accrued over the period it becomes due.

(q) Budgeted amounts

The budgeted amounts are drawn from the budgets as formulated at the beginning of the financial year and with any adjustments for the effects of additional appropriations, s 21A, s 24 and/or s 26 of the Public Finance and Audit Act 1983.

The budgeted amounts in the Statement of Financial Performance and the Statement of Cash Flows are generally based on the amounts disclosed in the NSW Budget Papers (as adjusted above). However, in the Statement of Financial Position, the amounts vary from the Budget Papers, as the opening balances of the budgeted amounts are based on carried forward actual amounts ie per the audited financial statements (rather than carried forward estimates).

(r) Treasury Managed Fund

TMF normally calculates hindsight premiums each year. However in regard to workers compensation the final hindsight adjustment for the 1997/1998 fund year and an interim adjustment for the 1999/2000 fund year were not calculated until 2003/2004. As a result, the 1998/1999 final and 2000/2001 interim calculations will be paid in 2004/2005.

The basis for calculating the hindsight premium is undergoing review, and it is expected that the problems experienced will be rectified for future payments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000

2. EXPENSES

(a) Employee related expenses comprise the following specific items:		
Salaries and wages (including Recreation Leave)	380,723	357,801
Superannuation	33,729	33,912
Long service leave	13,709	19,492
Workers' compensation insurance	16,726	15,720
Payroll tax and fringe benefits tax	26,530	25,311
	471,417	452,236
Labour Costs of $1,483,000 ($480,000, 2002/03) have been capitalised		
(b) Other operating expenses:		
Auditor's remuneration - audit of the financial reports	253	236
other services	-	19
Bad and doubtful debts	180	101
Operating lease rental expense (minimum lease payments) 7,749	7,749	7,013
Insurance	9,697	8,244
Property & plant outgoings	17,643	17,990
Motor vehicles running	11,345	12,398
Inmate catering	15,907	14,955
Inmate education and welfare	17,098	16,799
Correctional centre management	21,530	21,028
Corrective Services Industries - direct cost of goods sold*	9,829	9,816
Staff uniforms, travel and development	8,689	8,860
Telecommunications	7,374	7,419
General administration	9,186	8,455
	136,480	133,333
* Total cost of goods sold is as follows:		
Direct cost as reported above	9,829	9,816
Indirect costs - determined on a prorata basis comprising salaries and wages, property outgoings, repairs and maintenance and depreciation	2,747	1,933
	12,576	11,749
(c) Depreciation and amortisation expense		
Depreciation		
Buildings	24,025	23,403
Plant & Equipment	13,791	12,906
	37,816	36,309

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000
(d) Grants and subsidies		
Religious attendance on inmates	1,403	1,468
Prisoner after care activities (including community grants)	2,506	2,292
	3,909	3,760
(e) Other expenses		
Other	398	309

3. REVENUES

(a) Sales of goods and services		
Sale of goods		
Corrective Services Industries	13,717	12,641
Canteen sales	842	878
Rendering of services		
ACT Inmates - recovered from the ACT Government	7,862	7,748
Illegal Immigrants - recovered from the Commonwealth Government	113	91
Rent	403	392
Minor user charges	3,454	3,167
	26,391	24,917
(b) Investment Income		
Interest from NSW Treasury	908	1,351
(c) Grants and contributions		
Department of Health	1,680	1,680
Corrections Health Service	-	554
Department of Commerce	1,678	-
Premiers Department	502	300
Department of Education and Training	365	1,085
Attorney General's Department	1,769	1,428
Roads & Traffic Authority	1,270	-
Other	192	96
	7,456	5,143

There are no conditions attached to this funding, which is subject only to annual acquittance.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000
(d) Other Revenue		
Workers' Compensation Insurance hindsight adjustment received	4,835	-
Less: Motor Vehicle Insurance hindsight adjustment paid - refer note 1(r)	(1,146)	-
Other miscellaneous	505	427
	4,194	**427**

4. GAIN / (LOSS) ON DISPOSAL OF NON-CURRENT ASSETS

Gain / (Loss) on disposal of land and buildings, plant and equipment		
Proceeds from sale	3	5,489
Less		
Written down value of assets disposed	(152)	(3,330)
Net gain / (loss) on disposal of land and buildings, plant and equipment	(149)	2,159

5. CONDITIONS ON CONTRIBUTIONS

a) There were contributions of $1,470,000 recognised as revenue during the financial year, which were provided specifically for expenditure over a future period.

b) There were contributions of $229,000 recognised as revenues in a previous financial year, which were obtained for expenditure in respect of the current financial year.

6. APPROPRIATIONS

a) Recurrent appropriations		
Total recurrent drawdowns from Treasury (per Summary of Compliance)	547,403	501,923
Less: Liability to Consolidated Fund (per Summary of Compliance)	-	-
Total	547,403	501,923
Comprising:		
Recurrent appropriations (per Statement of Financial Performance)	547,403	501,923
Transfer Payments	-	-
Total	547,403	501,923
b) Capital appropriations		
Total capital drawdowns from Treasury (per Summary of Compliance)	82,170	120,008
Less: Liability to Consolidated Fund (per Summary of Compliance)	(1,928)	-
	80,242	120.008
Comprising:		
Capital appropriations (per Statement of Financial Performance	80,242	120,008
Transfer payments	-	-
Total	**80,242**	**120,008**

	2004	2003
	$'000	$'000

7. ACCEPTANCE BY THE CROWN ENTITY OF EMPLOYEE ENTITLEMENTS AND OTHER LIABILITIES

The following liabilities and/or expenses have been assumed by the Crown Entity or other government agencies:

Superannuation	33,692	33,892
Long Service Leave	13,709	19,492
Payroll Tax	2,027	1,889
	49,428	**55,273**

8. PROGRAMS / ACTIVITIES OF THE DEPARTMENT

(a) Program 47.1.1	**Containment and Care of Inmates**
Objectives:	To protect society by confining sentenced inmates and others legally detained in an appropriately secure, safe environment and meet individual care needs.
(b) Program 47.2.1	**Assessment, Classification and Development of Inmates**
Objectives:	To classify inmates to the lowest appropriate security level and to deliver developmental programs and specialised care services that provide an opportunity for inmates to successfully return to the community.
(c) Program 47.3.1	**Alternatives to Custody**
Objectives:	To provide pre-sentence assessment and advice to the Courts to assist in appropriately sentencing offenders. To prepare pre-release reports for releasing authorities. To provide sentencers with alternatives to full-time custody. To provide a state wide range of community-based offender management programs.

9. CURRENT ASSETS - CASH

Cash at Bank	18,644	17,754
Cash on Hand	190	186
	18,834	**17,940**

Cash held in respect of the liability to Consolidated Fund (refer note 16) is a restricted asset in that it must be repaid to Treasury and cannot be used for any other purpose by the Department.

10. CURRENT ASSETS - RECEIVABLES

Sale of goods and services	8,512	10,024
Less: Provision for doubtful debts	467	288
	8,045	9,736
Goods and Services Tax recoverable	2,504	2,967
	10,549	**12,703**

Receivables include $100,000 advanced to Inmate Funds to provide working capital for the implementation of a new centralised computer system. Whilst the Department manages the Inmate Funds bank account there are no specific powers within the current legislation that empowers the Department to make such an advance. The amount has since been repaid.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000

11. CURRENT ASSETS – INVENTORIES

Current Inventories		
Raw Materials	2,489	2,938
Work in Progress	500	709
Finished goods	2,168	1,667
Less: Provision for obsolescence	(375)	(375)
	1,793	1,292
Livestock	769	726
Less: Provision for livestock loss	(25)	(25)
	744	701
	5,526	5,640

12. CURRENT ASSETS - OTHER

Prepayments	1,385	1,776

13. NON - CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

Land and Buildings		
At Valuation	1,603,106	1,459,542
Less Accumulated Depreciation	604,108	524,274
	998,998	935,268
Work In Progress at cost	236,688	169,463
Fair Value	1,235,686	1,104,731
Plant and Equipment		
At Cost	134,202	124,528
Less Accumulated Depreciation	89,260	76,029
Fair Value	44,942	48,499
Total Property, Plant and Equipment at Fair Value	1,280,628	1,153,230

	2004	2003
	$'000	$'000

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below.

2004	Land and Building $'000	Plant & Equipment $'000	Work in Progress $'000	Total
Carrying amount at start of year	935,268	48,499	169,463	1,153,230
Additions	--	-	81,715	81,715
Transfers	4,176	10,314	(14,490)	-
Revaluation	83,650	-	-	83,650
Disposals	(71)	(80)	-	(151)
Depreciation expense	(24,025)	(13,791)	-	(37,816)
Total net Non Current Assets	**998,998**	**44,942**	**236,688**	**1,280,628**

On 30 June 2002, all Land and Buildings were revalued by The Department of Public Works, State Valuation Office. This valuation has been reviewed as at 30 June 2004 and adjusted by a factor of 10% for Land and 10.3% for buildings representing increase in rates over the two year period.

Land is valued at market value having regard to current zoning and usage. Correctional centre buildings and all other buildings situated on land zoned for correctional centre use have been valued at written down replacement cost using the most appropriate building materials. Residences situated on land zoned for residential use have been valued at market value. Plant and Equipment have been valued by management at cost, items costing less than $5,000 have been written off. A policy of only capitalising items in excess of $5,000 or where included as part of a network, is standard throughout the Department.

14. CURRENT LIABILITIES – PAYABLES

Accrued salaries wages and oncosts	3,747	11,286
Creditors	18,805	18,094
Employee Related (payroll tax payable)	1,943	2,488
	24,495	**31,868**

15. CURRENT / NON-CURRENT LIABILITIES – PROVISIONS

Employee benefits and related on-costs		
Recreation Leave	51,993	49,368
Sunday and Public Holidays	2,280	2,279
Annual Leave Loading	2,111	1,993
	56,384	53,640

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000
Other provisions		
Payroll tax	9,092	8,422
Total Provisions	**65,476**	**62,062**
Aggregated employee benefits and related on-costs		
Provisions – current	37,677	32,979
Provisions – non-current	27,799	29,082
Accrued salaries, wages and on-costs (note 14)	3,747	11,286
	69,223	**73,347**
Movements in Other provisions		
Movements in each class of provision during the financial year, other than employee benefits, are set out below:		
Carrying amount at the beginning of financial year	8,422	6,072
Additional provisions recognised, including increases to existing provisions	670	2,350
Carrying amount at end of financial year	**9,092**	**8,422**

16. CURRENT / NON-CURRENT LIABILITIES – OTHER

Liability to Consolidated Fund – Current	1,928	-

17. CHANGES IN EQUITY

	Accumulated Funds		Asset Revaluation Reserve		Total Equity	
	2004	2003	2004	2003	2004	2003
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at the beginning of the financial year	738,616	672,653	358,744	367,475	1,097,360	1,040,128
Changes in equity – other than transactions with owners as owners						
Surplus / (deficit) for the year	44,013	66,826	-	-	44,013	66,826
Revaluation Adjustment	-	-	83,650	(9,594)	83,650	(9,594)
Total	44,013	66,826	83,650	(9,594)	127,663	57,232
Transfer within Equity						
Adjustment to Asset Revaluation Reserve on disposal of revalued land & buildings	(7)	(863)	7	863	-	-
Total	(7)	(863)	7	863	-	-
Balance end of the financial year	782,622	738,616	442,401	358,744	1,225,023	1,097,360

18. COMMITMENTS FOR EXPENDITURE

	2004 $'000	2003 $'000
(a) Capital Commitments		
Aggregate capital expenditure for the acquisition of land and and buildings and plant and equipment contracted for at balance date but not provided for:		
Not later than one year	15,901	63,126
Later than one year but not later than 5 years	-	4,236
Later than 5 years	-	-
Total (including GST)	**15,901**	**67,362**
(b) Other Expenditure Commitments		
Aggregate other expenditure for the acquisition of maintenance contracts and correctional centre management fees contracted for at balance date but not provided for date but not provided for:		
Not later than one year	25,614	28,196
Later than one year but not later than 5 years	18,727	54,277
Later than 5 years	-	10,528
Total (including GST)	44,341	93,011
(c) Operating Lease Commitments		
Future non-cancellable operating lease rentals not provided for and payable		
Not later than one year	11,884	12,993
Later than one year but not later than 5 years	12,539	13,673
Later than 5 years	249	641
Total (including GST)	24,672	27,307

These operating lease commitments are not recognised in the financial statements as liabilities.
The above amounts are in respect of accommodation leases, motor vehicles and computer equipment.
The commitments disclosed above include input tax credits (GST) of $7.719 million, which is expected to be recovered from the Australian Taxation Office.

19. CONTINGENT LIABILITIES

Claims made against the Department in respect of compensation and litigation arising from normal operations are fully covered by the NSW Treasury Managed Fund. At balance date the insurer's estimate of the value of outstanding claims was $35,000 (2003 $35,000). The claims principally relate to personal injury and property damage. Liabilities that may arise from claims made prior to 1st July 1989 are covered by the Solvency Fund held by the Insurance Ministerial Corporation.

20. BUDGET REVIEW

Net Cost of Services

Compared to Budget, the actual net cost of services was higher than budget by $1 million with an increase in total expenses of $6.4 million which was offset by an increase in retained revenue of $5.4 million.

The main variations in expenses, amounting to $1 million, were: -

Employee related mainly due to a decrease in salaries & wages	($5.8 million)
of ($16.7m), offset by an increase in overtime of $10.9m	
Insurance premium to managed funds	$0.9 million
Operating leases	$1.5 million
Telephone and other related telecommunications	$0.9 million
General administration costs	$6.1 million
Maintenance expenditure	$2.0 million
Depreciation expense	$0.8 million

The net increase in retained revenue of $5.4 million came from: -

Income from sale of services and Interest being below budget by	($2.2 million)
Grants and contributions being above budget by	$3.5 million
Insurance Hindsight adjustments and other minor income	$4.1 million

Assets and Liabilities

Current Assets

Current assets were over budget by $4.6 million. This was caused by an increase in cash of $7.1 million, and a decrease in Receivables, of $2.2 million.

Non Current Assets

Compared to budget, non current assets increased by $54.8 million. The variance was mainly due to an increase of $83.6m arising from the indexed revaluation of land and buildings less the deferment of the development of new correctional facilities.

Current Liabilities

Current liabilities rose by $10.1 million against budget. This amount includes increase in payables of $3.5 million, provisions of $4.7 million and lapsed appropriations of $1.9 million.

Non Current Liabilities

Employee related provisions were less than budget by $1.3 million.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000

21. CASH FLOWS

RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET COST OF SERVICES

Net cash from operating activities	82,607	113,933
Add: -		
Depreciation	(37,816)	(36,309)
Decrease / (Increase) in current provisions	(4,699)	(3,525)
Decrease / (Increase) in non - current provisions	1,283	(8,166)
Increase / (Decrease) in Receivables	(3,047)	2,429
Increase / (Decrease) in Inventories	(114)	13
Decrease / (Increase) in non capital Creditors	7,577	(5,140)
Recurrent Appropriation	(547,403)	(501,923)
Capital Appropriation	(82,170)	(120,008)
Acceptance by the Crown Entity of employee entitlements and other liabilities	(49,129)	(55,273)
Repayment of Liability to Consolidated Fund	-	1,432
Net Gain / (Loss) on Disposal of Plant, Property and Equipment	(149)	2,159
Net Cost of Services	**(633,060)**	**(610,378)**

22. INMATE FUNDS

Funds are held in Public Monies Accounts on behalf of inmates. Interest earned is brought to account in the financial statements and used for the benefit of inmates.

Cash balance at the beginning of the financial year	1,694	1,848
Add: Receipts	26,915	25,896
Less: Expenditure	26,478	26,050
Cash balance at the end of the reporting period	2,131	1,694

23. CORRECTIONAL MEDICAL SERVICES

The Corrections Health Service is administered under the Health Services Act 1987 through the Department of Health.
The cost of medical services provided to offenders for the year ended 30 June 2004 was $64,025,000 (2003 $52,528,000). This amount is not included in the Department's operating result for the year.

24. FINANCIAL INSTRUMENTS

Cash

Cash comprises cash on hand and bank balances within the Treasury banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11am unofficial cash rate adjusted for a management fee to Treasury.

Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable, are written off. A provision for doubtful debts is raised when some doubts as to collection exist. The credit risk is the carrying amount (net of any provision for doubtful debts). No interest is earned on trade debtors. The carrying amount approximates net fair value. Sales are made on 30-day terms.

Trade Creditors and Accruals

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with policy set out in Treasurer's Directions 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment.

25. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Department will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

The Department is managing the transition to the new standards by engaging consultants to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding polices, procedures, system and financial impacts affected by the transition.

As a result of this exercise, the Department has taken the following steps to manage the transition to the new standards:

- The Department's Audit Committee is oversighting the transition, The Executive Director Finance and Asset Management is responsible for the project and reports regularly to the Committee on progress against the plan
- The following phases that need to be undertaken have been identified:
  - Documenting the existing accounting policies
  - Documenting the requirements of IFRS
  - Identify any differences between current and future accounting treatments
  - Selecting new accounting policy and obtaining approval of management
  - Obtain sign-off on proposed accounting from NSW Auditor General
  - Measure the impact of any changeo
  - Identify (if necessary) any changes that are required to systems to capture information
- To date a report has been prepared by PriceWaterhouseCoopers, which identifies the valuation of Property, Plant and Equipment as the most critical area.
- Completion is planned for 1 July 2005 and estimated consultant costs are $15,000

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandates of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

The Department has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised the Department of options it is likely to mandate, and will confirm these during 2004-05. This disclosure reflects these likely mandates.

The Department's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS.

- AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit and loss, unless a new standard mandates otherwise.
- AASB 116 *Property, Plant and Equipment* requires the cost and fair value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Major inspection costs must be capitalised and this will require the fair value and depreciation of the related asset to be re-allocated.

- AASB 117 *Leases* requires operating lease contingent rentals to be recognised as an expense on a straight-line basis over the lease term rather than expensing in the financial year incurred.
- AASB 1004 *Contributions* applies to *not-for-profit entities* only. Entities will either continue to apply the current requirements in AASB 1004 where grants are normally recognised on receipt, or alternatively apply the proposals on grants included in ED

125 *Financial Reporting by Local Governments*. If the ED 125 approach is applied, revenue and/or expense recognition will be delayed until the agency supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied.

- AASB136 *Impairment of Assets* requires an entity to assess at each reporting date whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the entity must estimate the recoverable amount. However, the effect of this Standard should be minimal because all the substantive principles of AASB 136 are already incorporated in Treasury's policy *Valuation of Physical Non-Current Assets at Fair Value*.
- AASB 138 *Intangibles* requires that all research costs must be expensed and restricts capitalisation of development costs. Some previously recognised internally generated intangible assets may need to be derecognised. Further, intangible assets can only be revalued where there is an active market, which is unlikely to occur. As a result it is likely that any revaluation increments will need to be derecognised and intangible assets recognised at cost.
- AASB 139 *Financial Instrument Recognition and Measurement* results in the recognition of financial instruments that were previously off balance sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit or loss or equity, respectively. Previously they were recognised at cost. This may increase the volatility of the operating result and balance sheet.

END OF AUDITED FINANCIAL STATEMENTS