

TESTING LABORATORY REGISTRATION COUNCIL STATEMENT OF INTENT 2005-2006

CONTENTS

| Section | Page |
|--|-------------|
| 1 Introduction | 2 |
| 2 Testing Laboratory Registration Council | 4 |
| 3 Functions | 5 |
| 4 Nature and Scope of Activities | 6 |
| 5 Operating Environment | 9 |
| 6 Statement of Responsibility | 11 |
| 7 Statement of Objectives | 12 |
| 8 Statement of Financial Performance | 13 |
| 9 Statement of Movement in Equity | 14 |
| 10 Forecast Statement of Financial Position | 15 |
| 11 Statement of Cash Flows | 16 |
| 12 Fixed Assets | 17 |
| 13 Statement of Reconciliation of Reported Operation Surplus with Net Cash Flow from Operating Activities | 18 |
| 14 Statement of Accounting Policies | 19 |

TESTING LABORATORY REGISTRATION COUNCIL

STATEMENT OF INTENT 2005-2006

1. INTRODUCTION

Each year, the role of the Testing Laboratory Registration Council grows in importance as greater public concern is raised about many health, environmental and safety issues. Through its accreditation and certification activities, the Council provides assurance to many regulators and businesses, much of which goes unnoticed by the public in general. Yet, without the Council, the quality of essential services and overall business performance would be well below public expectations. Also, our ability to trade effectively in global markets would be considerably handicapped.

The Council plays a large part in assisting New Zealand businesses to trade successfully in international markets. International Accreditation New Zealand (IANZ) accreditation for laboratories is recognised in forty-one economies around the world where New Zealand companies trade; and IANZ accredited inspection body reports are now recognised in fifteen Asia Pacific economies. The demand for test and inspection reports to be from accredited laboratories and inspection bodies continues to grow, and the number of countries seeking to become signatories to the global and regional mutual recognition arrangements is also growing. Many of the new signatories are expected to be accreditation authorities from countries in Latin America and the Middle East.

Accreditation of laboratories and inspection bodies is particularly critical for international trade in meat, wool and dairy products, as it is with manufactured items such as building materials, steel and aluminium, electrical goods, and even toys.

Growth of accreditation services

During the 2005-2006 financial year, IANZ expects to increase the number of accreditations it processes by some five percent. This growth will come from a number of sectors.

Regulatory requirements for breast screening are resulting in an increased demand for accredited radiology practices. IANZ is also working with the National Screening Unit on other new initiatives.

Test results for factory (stack) emissions relating to air quality, and water discharge tests for water quality, must be from accredited laboratories to have credibility in any legal proceedings. This has seen an increased demand for such laboratories to become accredited.

New regulations from Taiwan require that all beer and wine imported into Taiwan must be tested in accredited laboratories, for both sulphur dioxide and methanol contents. The Taiwan regulator recognises IANZ accreditation in this regard.

Similarly, overseas market requirements for meat products stipulate additional test methods for chemical and biological testing of water used in meat processing plants. Laboratories must be accredited for these new test methods for the processed meat to be allowed entry into these markets.

The Department of Building and Housing is finalising the requirements for IANZ accreditation of building consent authorities, which is expected to commence in February 2006.

To meet mandatory requirements, many regulators require all testing to be undertaken in accredited laboratories. It is the rigour and robustness of the Council's accreditation process that gives regulators confidence in the competence of laboratories, inspection bodies, and other organisations; and in the reliability of the results reported.

Global growth in certification

Many businesses competing in a global market depend on maintaining robust management systems to sustain their on-going profitability. Over 600,000 organisations worldwide have implemented ISO 9000 (quality management systems) or ISO 14001 (environmental management systems) standards, with the numbers continuing to increase each year.

ISO 9001 certifications continue to be the mainstay of Telarc Limited and will contribute half of its revenue in the coming year. Overall, Telarc's revenue will increase by seven percent, with growth expected from certifications for environmental management (ISO 14001), products, and health and safety. In addition, Telarc's new propriety programme, Customer 1st™, has now gained significant interest among New Zealand businesses and a fifty percent increase in clients is expected this year. Customer 1st will be the major sponsor of the inaugural New Zealand Customer Excellence Awards in 2005.

Training

A continuing strong client demand is expected for training in accreditation and certification standards and practices, management systems and auditing skills provided by the New Zealand Quality College. New regulatory requirements mentioned above will provide opportunities for additional courses from 2006 onwards. The College is part of IANZ,

Competition

The Council is concerned with the recent competition for inspection body accreditation. The fundamental nature of accreditation, as the ultimate guarantee of competence on behalf of government, risks being undermined if this competition is allowed to continue. This is especially so in regulated areas critical to safety (such as cranes and pressure equipment); in areas that are critical to public health (such as food safety); and in export situations, where overseas regulators seek the assurance given by a single national accreditation authority. During the coming year, the Council will continue working with the Ministry of Economic Development to resolve this issue.

International conference

This year, IANZ will host the annual general meetings of the two global accreditation co-operations, International Laboratory Accreditation Cooperation and International Accreditation Forum, in Auckland. The main focus of these meetings is to grow the number of economies participating in mutual recognition arrangements, and to assist regulators worldwide to accept the arrangements through understanding the benefits of international accreditation. Some 220 delegates are expected to attend throughout the thirteen days this event will run in September 2005.

Summary

Now in its thirty-second year, the Council is unique in that it delivers this valuable assistance to the New Zealand economy without any government funding. Over the past decade, modest surpluses have been invested in increasing the scope of the Council's operations and the quality of its service delivery, and in securing international arrangements for the benefit of New Zealand trade.

Dr Geoff Page
Chairman, Testing Laboratory Registration Council
June 2005

2. TESTING LABORATORY REGISTRATION COUNCIL

- 2.1 The Testing Laboratory Registration Council is a user-funded statutory body, established by the Testing Laboratory Registration Act, 1972 to make provision for the registration of testing laboratories. The Act was amended in 1988 to make provision for the registration of suppliers of goods and services.

The Council reports annually to Parliament through the Minister of Commerce. It receives partial crown funding for its involvement in international activities.

- 2.2 The purpose of the Council is to contribute to the safeguarding of the health and well being of New Zealanders; and helping to ensure that New Zealand products and services meet domestic and overseas regulatory and customer requirements. This the Council achieves through independent recognition of competence given by accreditation of testing, inspection and certification.
- 2.3 The basis for the Council's performance targets and measures are its primary functions, namely promoting the development of and maintaining good practice in testing, inspection and certification, and good quality assurance practice in the supply of goods and services. The number of accreditations and certifications granted by the Council is dependent upon the demand for these services from secondary customers and regulators, and on the level of preparedness of applicants. These factors will influence the rate at which accreditations and registrations will be granted.
- 2.4 The Council's conformity, accreditation and certification procedures are in line with best international practice and are subject to regular peer review. Staff participate in international working groups reviewing procedures and evaluating other accreditation bodies; and regularly monitor overseas conformance trends that may impact on New Zealand.
- 2.5 The Council's revenue is derived in the main from the sale of its accreditation, registration, certification and training services. The Council has resolved to operate these programmes to recover all costs and, together with other income, to generate a surplus of income over expenditure which will be directed towards meeting national interest requirements, including international recognition; and towards programme growth and development.

3. FUNCTIONS

The functions of the Council are to:

1. Promote the development and maintenance of good laboratory practice, and maintain a scheme for the accreditation of testing and calibration laboratories.
2. Promote the development and maintenance of good quality assurance and environmental management practice in the supply of goods and services; and maintain a scheme for the registration of suppliers for ISO 9001 (quality management systems) and ISO 14001 (environmental management systems) certifications.
3. Promote the development and maintenance of good inspection body practice, and maintain a scheme for the accreditation of inspection bodies.
4. Promote product and management systems certification through accreditation activities. (This latter activity is no longer actively promoted following discussions with Ministry of Economic Development officials regarding the possibility of legislative amendment).

Functions 1, 3 & 4 are produced by International Accreditation New Zealand.

Telarc Limited produces Function 2.

4. NATURE AND SCOPE OF ACTIVITIES

The activities of the Council are provided by:

- 4.1 International Accreditation New Zealand** is the national authority for accrediting testing and calibration laboratories, radiology services, and inspection bodies. IANZ Accreditation is the means by which the integrity and technical competence of organisations are formally recognised.

The Council's Chief Executive is also the Chief Executive Officer of International Accreditation New Zealand.

IANZ's function is to develop and maintain good practice in testing, measuring, inspection and certification through formal recognition, against agreed international criteria standards, of the technical and management systems capabilities of New Zealand enterprises, which may also support regulatory requirements. It performs to, and regularly peer-assessed against, ISO/IEC 17011 by Asia Pacific Laboratory Accreditation Cooperation (APLA) and by International Laboratory Accreditation Cooperation (ILAC) to meet MLA signatory obligations.

IANZ activities comprise the following accreditation and registration programmes: *(International criteria against which accreditations are judged are in brackets).*

- Testing and Calibration Laboratories (NZN/ISO/IEC 17025)
- Medical Testing Laboratories (NZN/ISO 15189)
- Radiology Services (*based on NZN/ISO/IEC 17025*)
- Inspection Bodies (AS/NZN ISO/IEC 17020)
- *Quality and Environmental Management Systems (*ISO/IEC Guide 62 and ISO/IEC Guide 66*), Product and Personnel Certification Bodies (*ISO/IEC Guide 65 and ISO/IEC 17024*)
- Good Laboratory Practice Compliance Monitoring Programme (*OECD Principles of Good Laboratory Practice*)
- Testing and Inspection Bodies for CE Marking (*European regulatory requirements*), and for other government-to-government mutual recognition agreements such as Singapore
- Proficiency Testing
- Testing laboratories to specific regulatory requirements.

** This activity is no longer promoted; however, existing clients will continue to be serviced.*

IANZ maintains on-going training of assessment staff to ensure its ability to deliver services to existing and new accreditation programmes. Additional staff are recruited only when a shortfall in numbers and/or specialist knowledge arises and for programme sustainability.

IANZ represents New Zealand in international technical accreditation fora and maintains close liaison with overseas counterpart agencies. It is active at regional and international levels through regular participation in the following organisations:

- International Laboratory Accreditation Cooperation (ILAC) - founding member
- Asia Pacific Laboratory Accreditation Cooperation (APLAC) – bilateral recognition partner
- European Cooperation for Accreditation (EA)
- ISO Conformity Assessment Committee (CASCO), developing international standards for accreditation, testing, inspection and other conformity assessment activities. IANZ represents Standards New Zealand in this activity.

The Directory of IANZ Accredited Laboratories, Radiology Services, and Inspection Bodies is updated regularly and published on the IANZ Website.

4.2 Telarc Limited provides management systems assessment and recognition that help New Zealand organisations improve their performance. Its functions are to develop and maintain good quality assurance practice in the supply of goods and services. It provides formal recognition against agreed international, national and industry criteria standards of the effectiveness of management systems. These include quality, customer care, environmental, occupational health and safety, food safety, health and disability, and product certification.

Telarc certificates of conformance provide public recognition where organisations conform to standards. Telarc also provides valuable assessment reports that help organisations to identify their areas of strength and areas where performance can be improved.

Activities comprise the following certification and recognition programmes:

(International and national criteria against which certifications are judged are in brackets)

- Quality Management Systems (*ISO 9001:2000 standard and Q-Base Code**)
- Environmental Management Systems (*ISO 14001 standard*)
- Food Safety assessments to New Zealand Food Safety Authority and other regulatory and industry requirements
- Health and Disability Sector Audits to Ministry of Health requirements (*H&DS and related standards*)
- Occupational Health and Safety Management Systems (*NZS 4801 and other industry standards*)
- Customer Management Systems (*Customer 1st™***)
- Product Certification (*SAA/SNZ HB 16.65:1996*)
- ACC Partnership Programme and WSMP audits
- Rail Safety assessment (*Land Transport New Zealand requirements*).

** Q-Base Code is a Telarc proprietary programme and is licensed to certification bodies in Australia and Canada*

*** Customer 1st™ is a Telarc proprietary programme developed in association with Dr Ian Brooks.*

Organisations registered by Telarc to ISO 9001, ISO 14001, and product certification standards are incorporated in the JAS-ANZ Register, published on www.jas-anz.com.au and updated regularly.

Telarc is assessed annually and accredited by the Joint Accreditation System of Australia and New Zealand (JAS-ANZ) to ISO/IEC Guide 62 & 66 for quality and environmental management systems certification; ISO/IEC Guide 65 for product certification; and Health and Disability sector and associated standards.

Telarc Limited is managed by a Chief Executive, who reports to the Telarc Limited Board.

4.3 New Zealand Quality College provides professional training courses on topics complimentary to the services provided by International Accreditation New Zealand and Telarc Limited. NZQC is evaluated as a Private Training Organisation on a regular basis by the New Zealand Qualifications Authority. The manager of the College reports to the IANZ Chief Executive.

Training courses of up to five days duration are provided within New Zealand and throughout Asia Pacific (in conjunction with MRA partners) in the following topics:

- Laboratory accreditation and management
- Inspection body accreditation
- Medical testing accreditation
- Management systems
- Environmental management
- Health and safety
- Food safety
- Auditing skills.

5. OPERATING ENVIRONMENT

5.1 Domestic regulations

Independent assurances of competence and accuracy in testing, measurement and inspection and of management systems meeting regulatory requirements are important components of domestic commerce and external trade.

Government actions to improve public and occupational health and safety in New Zealand are increasingly incorporating international standards and third-party verification as a significant tool for managing the process. Recent examples include food and water safety, workplace health and safety, health and disability services, and building safety. Government funding of medical testing laboratories is conditional on IANZ accreditation.

The Council, through **International Accreditation New Zealand**, is continuing to advise government and industry regulators on the suitability of incorporating international standards and third-party verification to ensure the high level of assurance they require. In particular, IANZ is in regular dialogue with and provides assistance to the following ministries:

Ministry of Economic Development with regard to the:

- NZ-European Community Mutual Recognition Agreement on Conformity Assessment, and the NZ-Singapore CEP. IANZ is the New Zealand Designating Body for both these Agreements.
- APEC Telecommunications MRA and APEC Electrical MRA.

Ministry of Foreign Affairs and Trade with technical support in trade negotiations with other governments.

Ministry of Health with regard to:

- Drinking water testing and drinking water supplies inspection
- Medical testing, cervical screening, and health and disability sector requirements.

Accident Compensation Commission with regard to contractual requirements for specialist medical imaging.

New Zealand Food Safety Authority with regard to food safety inspection (domestic and export); and meat, shellfish, dairy, and wine testing programmes.

Department of Labour / OSH with regard to pressure equipment, gas cylinder testing, and pipeline inspection activities.

Department of Building and Housing with regard to Building Consent Authority accreditation as inspection bodies.

Through its participation at international accreditation fora, IANZ is well qualified to keep regulators and industry in general abreast with international accreditation standards and requirements.

5.2 Commerce

Businesses, in many instances, are reluctant to go through an accreditation or certification process unless required to by regulation or by customers. Those that do, realise the improvements that the process can make on their organisation's performance and the competitive advantage they can gain in the market place.

New certifications to ISO 9001 for quality management systems have remained steady in recent years, with around 1% of total New Zealand companies currently certified. Large, export-focused companies continue to be a significant proportion of registrations.

Interest in achieving certifications to ISO 14001 (environmental management systems), health and safety standards, and food safety requirements, has increased in the last two years and is expected to continue growing.

5.3 World trade

New Zealand exporters are required to meet technical requirements for entry into overseas markets. The World Trade Organisation's Agreements on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS) set rules for the management of technical requirements and encourage the use of international standards and systems for assessing conformity to standards.

Most of New Zealand's trade is in areas that are regulated, such as dairy products, meat, timber and electrical products. Some regulators around the world now recognise acceptance when such products are tested in laboratories that are accredited by an internationally recognised accreditation authority as an essential requirement for market access. In the non-regulated sector, international markets for products such as wool, steel and aluminium increasingly require testing to be carried out in an accredited laboratory before acceptance by the market.

Regulators in some overseas countries recognise their national accreditation body as a means of assuring the competence of independent inspection and testing reports to meet their own (regulatory) requirements. Increasingly, these authorities accept New Zealand test and inspection reports endorsed by IANZ as being equivalent to those provided locally.

The Council maintains Mutual Recognition Arrangements (MRAs) for testing and calibration reports with fifty-three accreditation bodies in the following forty-one economies: Australia; Austria; Belgium; Brazil; Canada; People's Republic of China; Chinese Taipei; Hong Kong, China; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; India; Indonesia; Ireland; Israel; Italy; Japan; Republic of Korea; Latvia; Lithuania; Malaysia; The Netherlands; Norway; Poland; Portugal; Romania; Singapore; Slovak Republic; Slovenia; South Africa; Spain; Sweden; Switzerland; Thailand; United Kingdom; United States of America; and Vietnam.

Accreditation authorities in Egypt, Cuba and Argentina are likely to become MRA partners during this year.

MRAs for accredited inspection bodies are in place as part of the new APLAC MRA for accreditation of inspection bodies, recognised by all twenty APLAC signatories in fifteen economies throughout the Asia Pacific region.

IANZ is working with the regional and international cooperation to grow the number of economies accepting accredited laboratory and inspection reports from New Zealand, and to increase the regulatory acceptance of accreditation in other economies.

6. STATEMENT OF RESPONSIBILITY

For the financial year ended 30 June 2006, the Council and management accept responsibility for the preparation of the financial forecasts and the judgements used therein.

The Council and management accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial forecasting.

In the opinion of the Council and management, the financial forecasts for the financial year reflect fairly the financial position and operations of Council.



Dr G Page
Chairperson
June 2005



Dr W L Richards
Chief Executive Officer
June 2005

7. STATEMENT OF OBJECTIVES

Output 1

Accreditation services

This output involves the accreditation of testing and calibration laboratories, radiology services and inspection bodies to international and national standards by International Accreditation New Zealand (IANZ).

Output 1 performance measures set for 2005/2006 are:

- 1,770 active assessment units
- Gross revenue of \$3,677K
- Net revenue of \$(110K)

Output 2

Certification services

This output, performed by Telarc Limited, involves the certification of management systems, including quality, customer care, environmental, occupational health and safety, health and disability, food safety and rail safety, to international, national and industry standards.

Output 2 performance measures set for 2005/2006 are:

- 3,400 assessments
- 2,200 certifications
- Gross revenue of \$4,667K
- Net revenue of \$124K

Output 3

Training services

This output, performed by the New Zealand Quality College (NZQC), provides short courses on topics complimentary to the Council's accreditation and certification functions.

Output 3 performance measures set for 2005/2006 are:

- 3,000 training days
- Gross revenue of \$875K
- Net revenue of \$185K

Output 4

International recognition

This output involves the Council's participation in the international conformity assessment fora, including mutual recognition arrangements with accreditation bodies worldwide, and standing on technical working groups for standards and government-to-government trade agreements. The international recognition services are maintained to meet both domestic regulatory requirements and to underpin international product access requirements. No revenue is earned from this output.

Output 4 performance measures set for 2005/2006 are:

- 56 MRA's

8. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June

| | | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|-------------------------|-----------------|-----------------|---------------|-----------------|-----------------|
| | | Actual | Estimate | Budget | Forecast | Forecast |
| | | \$ | \$ | \$ | \$ | \$ |
| IANZ Accreditation Services | | | | | | |
| | Revenue | 3,089,317 | 3,496,647 | 3,697,277 | 3,882,000 | 4,037,000 |
| | Less Cost | 2,961,268 | 3,226,828 | 3,807,898 | 3,819,500 | 3,957,000 |
| | Net Revenue / (Deficit) | 128,049 | 269,819 | (110,621) | 62,500 | 80,000 |
| Training and Other Services | | | | | | |
| | Revenue | 896,870 | 825,847 | 875,120 | 901,000 | 928,000 |
| | Less Cost | 707,091 | 668,724 | 689,727 | 710,000 | 732,000 |
| | Net Revenue / (Deficit) | 189,779 | 157,123 | 185,393 | 191,000 | 196,000 |
| International Recognition Services | | | | | | |
| | Revenue | 2,165 | 39,868 | 250,000 | 200,000 | 200,000 |
| | Less Cost | 607,187 | 562,471 | 502,572 | 503,000 | 505,000 |
| | Net Revenue / (Deficit) | (605,022) | (522,603) | (252,572) | (303,000) | (305,000) |
| Telarc Limited Certification Services | | | | | | |
| | Revenue | 4,521,917 | 4,419,824 | 4,667,272 | 4,837,000 | 5,012,000 |
| | Less Cost | 4,406,856 | 4,297,707 | 4,543,311 | 4,697,500 | 4,855,000 |
| | Net Revenue / (Deficit) | 115,061 | 122,117 | 123,961 | 139,500 | 157,000 |
| Consolidated | | | | | | |
| | Total Revenue | 8,510,269 | 8,782,186 | 9,489,669 | 9,820,000 | 10,177,000 |
| | Less Total Cost | 8,682,402 | 8,755,730 | 9,543,508 | 9,730,000 | 10,049,000 |
| | Net Revenue / (Deficit) | (172,133) | 26,456 | (53,839) | 90,000 | 128,000 |
| | Interest | 76,492 | 95,515 | 85,000 | 90,000 | 92,000 |
| Net Operating Surplus (Deficit) After Tax for the Period | | <u>(95,641)</u> | <u>121,971</u> | <u>31,161</u> | <u>180,000</u> | <u>220,000</u> |

9. STATEMENT OF MOVEMENT IN EQUITY

For the year ended 30 June

| | 2004 Actual \$ | 2005 Estimate \$ | 2006 Budget \$ | 2007 Forecast \$ | 2008 Forecast \$ |
|--|-------------------------------|---------------------------------|-------------------------------|---------------------------------|---------------------------------|
| Equity at 1 July | <u>3,286,453</u> | <u>3,190,812</u> | <u>3,312,783</u> | <u>3,343,944</u> | <u>3,523,944</u> |
| Net operating surplus for the period | (95,641) | 121,971 | 31,161 | 180,000 | 220,000 |
| Total recognised revenues and expenses for the period | <u>(95,641)</u> | <u>121,971</u> | <u>31,161</u> | <u>180,000</u> | <u>220,000</u> |
| Equity at 30 June | <u>3,190,812</u> | <u>3,312,783</u> | <u>3,343,944</u> | <u>3,523,944</u> | <u>3,743,944</u> |

10. STATEMENT OF FINANCIAL POSITION

As at 30 June

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|
| | Actual | Estimate | Budget | Forecast | Forecast |
| | \$ | \$ | \$ | \$ | \$ |
| Equity | | | | | |
| Opening General Funds | 3,286,453 | 3,190,812 | 3,312,783 | 3,343,944 | 3,523,944 |
| Net operating surplus for the period | (95,641) | 121,971 | 31,161 | 180,000 | 220,000 |
| Total Equity | 3,190,812 | 3,312,783 | 3,343,944 | 3,523,944 | 3,743,944 |
| Represented by: | | | | | |
| Current Assets | | | | | |
| Cash and Bank | 1,629,752 | 1,949,098 | 2,040,079 | 2,313,540 | 2,503,140 |
| Receivables and Prepayments | 1,907,334 | 1,836,080 | 1,932,950 | 2,026,750 | 2,108,500 |
| Total Current Assets | 3,537,086 | 3,785,178 | 3,973,029 | 4,340,290 | 4,611,640 |
| Fixed Assets | 1,074,235 | 1,032,520 | 917,415 | 773,654 | 758,304 |
| Total Assets | 4,611,321 | 4,817,698 | 4,890,444 | 5,113,944 | 5,369,944 |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Accounts Payable | 1,199,243 | 1,249,915 | 1,268,500 | 1,299,000 | 1,323,000 |
| Employee Entitlements | 221,266 | 255,000 | 278,000 | 291,000 | 303,000 |
| Total Current Liabilities | 1,420,509 | 1,504,915 | 1,546,500 | 1,590,000 | 1,626,000 |
| Total Liabilities | 1,420,509 | 1,504,915 | 1,546,500 | 1,590,000 | 1,626,000 |
| Total Net Assets | 3,190,812 | 3,312,783 | 3,343,944 | 3,523,944 | 3,743,944 |

11. STATEMENT OF CASH FLOWS

For the year ended 30 June

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Actual | Estimate | Budget | Forecast | Forecast |
| | \$ | \$ | \$ | \$ | \$ |
| Cash Flows From Operating Activities | | | | | |
| Cash provided from: | | | | | |
| Revenues from services provided | 8,112,817 | 9,009,158 | 9,408,158 | 9,752,400 | 10,116,112 |
| Interest | 119,766 | 92,794 | 83,900 | 90,000 | 91,000 |
| GST | | | | | |
| | <u>8,232,583</u> | <u>9,101,952</u> | <u>9,492,058</u> | <u>9,842,400</u> | <u>10,207,112</u> |
| Cash applied to | | | | | |
| Suppliers | 3,777,435 | 4,918,011 | 5,400,402 | 5,246,588 | 5,542,375 |
| Employees | 4,338,963 | 3,509,607 | 3,684,550 | 4,058,095 | 4,162,387 |
| GST | 8,396 | (8,776) | 4,930 | 4,256 | 2,750 |
| | <u>8,124,794</u> | <u>8,418,841</u> | <u>9,089,882</u> | <u>9,308,939</u> | <u>9,707,512</u> |
| Net Cash Flows From Operating Activities | <u>107,789</u> | <u>683,111</u> | <u>402,176</u> | <u>533,461</u> | <u>499,600</u> |
| Cash Flows From Investing Activities | | | | | |
| Cash provided from sale of fixed assets | | 51,972 | 47,505 | 30,000 | 40,000 |
| Cash applied to purchase fixed assets | 623,353 | 415,737 | 358,700 | 290,000 | 350,000 |
| Net Cash Flows From Investing Activities | <u>(623,353)</u> | <u>(363,765)</u> | <u>(311,195)</u> | <u>(260,000)</u> | <u>(310,000)</u> |
| Net Increase (Decrease) in Cash Held | (515,564) | 319,346 | 90,981 | 273,461 | 189,600 |
| Plus Opening Cash | 2,145,316 | 1,629,752 | 1,949,098 | 2,040,079 | 2,313,540 |
| Closing Cash Balance | <u>1,629,752</u> | <u>1,949,098</u> | <u>2,040,079</u> | <u>2,313,540</u> | <u>2,503,140</u> |
| | | | | | |
| Cash and Bank | (12,107) | 69,098 | 70,079 | 68,540 | 68,140 |
| Short Term Investments | 1,641,859 | 1,880,000 | 1,970,000 | 2,245,000 | 2,435,000 |
| Closing Cash Balance | <u>1,629,752</u> | <u>1,949,098</u> | <u>2,040,079</u> | <u>2,313,540</u> | <u>2,503,140</u> |

12. FIXED ASSETS

For the year ended 30 June

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------------------------|------------------|------------------|----------------|-----------------|-----------------|
| | Actual | Estimate | Budget | Forecast | Forecast |
| | \$ | \$ | \$ | \$ | \$ |
| Motor Vehicles (at cost) | 344,425 | 329,871 | 332,371 | 337,371 | 342,371 |
| Accumulated Depreciation | 173,900 | 135,896 | 148,517 | 184,622 | 206,722 |
| Net book value | 170,525 | 193,975 | 183,854 | 152,749 | 135,649 |
| Office Furniture (at cost) | 449,424 | 520,227 | 531,227 | 541,227 | 571,227 |
| Accumulated Depreciation | 321,401 | 368,134 | 406,405 | 441,454 | 477,454 |
| Net book value | 128,023 | 152,093 | 124,822 | 99,773 | 93,773 |
| Leasehold Improvements (at cost) | 385,988 | 405,487 | 405,487 | 405,487 | 405,487 |
| Accumulated Depreciation | 219,606 | 268,308 | 309,558 | 341,808 | 374,058 |
| Net book value | 166,382 | 137,179 | 95,929 | 63,679 | 31,429 |
| Computer Equipment (at Cost) | 1,644,257 | 1,865,733 | 2,110,933 | 2,325,933 | 2,555,933 |
| Accumulated Depreciation | 1,034,952 | 1,316,460 | 1,598,123 | 1,868,480 | 2,058,480 |
| Net book value | 609,305 | 549,273 | 512,810 | 457,453 | 497,453 |
| Total Fixed Assets | 1,074,235 | 1,032,520 | 917,415 | 773,654 | 758,304 |

**13. STATEMENT OF RECONCILIATION OF REPORTED OPERATING SURPLUS
WITH NET CASH FLOW FROM OPERATING ACTIVITIES**

For the year ended 30 June

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Actual | Estimate | Budget | Forecast | Forecast |
| | \$ | \$ | \$ | \$ | \$ |
| Net surplus (deficit) from operations | 154,359 | 121,971 | 31,161 | 180,000 | 220,000 |
| <i>Add (less) non cash item</i> | | | | | |
| Depreciation | 374,018 | 405,480 | 426,300 | 403,761 | 325,350 |
| Total non cash items | <u>374,018</u> | <u>405,480</u> | <u>426,300</u> | <u>403,761</u> | <u>325,350</u> |
| | | | | | |
| Add/ (less) movement in working capitals items | | | | | |
| <i>Plus/ (Less) Movement in Working Capital</i> | | | | | |
| Decrease (increase) in Receivables | (614,534) | 168,450 | (96,870) | (93,800) | (81,750) |
| (Decrease) increase in Payables | 202,613 | (46,524) | 18,585 | 30,500 | 24,000 |
| (Decrease) increase in employee entitlements | 14,914 | 33,734 | 23,000 | 13,000 | 12,000 |
| (Decrease) increase in other provisions | (23,581) | - | - | - | - |
| | | | | | |
| Working capital movements - net | <u>(420,588)</u> | <u>155,660</u> | <u>(55,285)</u> | <u>(50,300)</u> | <u>(45,750)</u> |
| | | | | | |
| <i>Add (less) items classified as investing activities</i> | | | | | |
| Net loss (gain) on disposal of assets | - | - | - | - | - |
| | | | | | |
| Net Cash Flow from Operating Activities | <u>107,789</u> | <u>683,111</u> | <u>402,176</u> | <u>533,461</u> | <u>499,600</u> |

14. STATEMENT OF ACCOUNTING POLICIES

14.1 Reporting Entity

These are the financial statements of Testing Laboratory Registration Council of New Zealand, a Crown entity in terms of the Public Finance Act 1989.

These financial statements have been prepared in accordance with section 20, Testing Laboratory Registration Act 1972, and section 41 of the Public Finance Act 1989.

14.2 Measurement Base

The financial statements have been prepared on an historical cost basis.

14.3 Accounting Policies

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

Basis of Consolidation – purchase method

The consolidated financial statements include the parent Council and its subsidiary. The subsidiary is accounted for using the purchase method, which involves adding together corresponding assets, liabilities, revenues and expenses on a line-by-line basis.

All significant inter-entity transactions are eliminated on consolidation.

Budget figures

The budget figures are those approved by the Council at the beginning of the financial year.

The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of financial statements.

Revenue

The Council derives revenue through the provision of outputs to the Crown, for services to third parties and income from its investments. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Goods and Services Tax

All items in the financial statements are exclusive of GST, with the exception of accounts receivable and accounts payable, which are stated with GST included. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

Taxation

The Council is exempt from income tax in accordance with section 21, Testing Laboratory Registration Act 1972.

Telarc Limited is exempt from income tax in accordance with Part CW 31 Public authorities, of the Income Tax Act 2004.

Accounts Receivable

Accounts receivable are stated at their expected realisable value after providing for doubtful and uncollectible debts.

Investments

Investments are stated at the lower of cost and net realisable value. Any decreases are recognised in the statement of financial performance.

Fixed asset

Fixed assets are recorded at historical cost.

Depreciation

Fixed assets are depreciated at rates that will write off the cost, on a straight-line basis, of the assets to their estimated residual value over their useful life. The useful lives and associated depreciation rates of major classes of assets used in the preparation of these statements are as follows:

| | | |
|---------------------------------|---------------|-----------------------|
| Computer equipment and software | 3-5 years | 20%-33% straight line |
| Leasehold improvements | 6 Years (max) | 16.67% straight line |
| Office equipment and furniture | 5-10 years | 10%-20% straight line |
| Motor vehicles | 5 years | 20% straight line |

Employee entitlements

Provision is made in respect of the Council and group’s liability for annual leave and retirement leave. Annual leave and retirement leave have been calculated on an actual entitlement basis at current rates of pay.

Employees who have completed 20 years’ continuous service may be granted once only four weeks long service leave. No employee currently qualifies for this leave and no provision has been made for any liability that may arise in the future as any liability is considered to be insignificant.

Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership, the leased items are classified as operating leases. Payments under these leases are recognised as expenses in the periods in which they are incurred.

Financial instruments

The Council and group are party to financial instruments as part of 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.

Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which Council and group invest as part of day-to-day cash management.

Operating activities include cash received from all income sources of the Council and group and records 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 the change in equity and debt capital structure of the Council and group.