

Defence SA

Financial report
for the year ended
30 June 2019

INDEPENDENT AUDITOR'S REPORT

To the Chief Executive Defence SA

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the financial report of Defence SA for the financial year ended 30 June 2019.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Defence SA as at 30 June 2019, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2019
- a Statement of Financial Position as at 30 June 2019
- a Statement of Changes in Equity for the year ended 30 June 2019
- a Statement of Cash Flows for the year ended 30 June 2019
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chief Executive and the Manager, Finance.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of Defence SA. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 Code of Ethics for Professional Accountants have been met.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive for the financial report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Defence SA's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.



Andrew Richardson

Auditor-General

30 August 2019

DEFENCE SA

Certification of the Financial Statements

We certify that the attached general purpose financial statements for Defence SA:

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of Defence SA; and
- present a true and fair view of the financial position of Defence SA as at 30 June 2019 and the results of its operation and cash flows for the financial year.

We certify that the internal controls employed by Defence SA for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.



Richard Price
Chief Executive

29 August 2019



Peter Murdock
Manager, Finance

28 August 2019

DEFENCE SA

STATEMENT OF COMPREHENSIVE INCOME**for the year ended 30 June 2019**

	Note	2019 \$' 000	2018 \$' 000
Expenses			
Employee benefits expenses	2.3	3,721	5,316
Supplies and services	3.1	3,621	5,870
Depreciation and amortisation	3.2	3	3
Grants and subsidies	3.3	4,694	5,517
Resources received free of charge	4.5	45	66
Impairment loss on receivables	6.2	-	139
Other expenses	3.4	100	527
Total expenses		12,184	17,438
Income			
Fees and charges	4.2	174	1,799
Grants	4.3	1,310	1,797
Recoveries	4.4	330	831
Resources received free of charge	4.5	45	66
Other income	4.6	8	3
Total income		1,867	4,496
Net cost of providing services		(10,317)	(12,942)
Revenues from/(payments to) SA Government			
Revenues from SA Government	4.1	10,516	19,467
Payments to SA Government	4.1	(1,980)	(160,010)
Net result		(1,781)	(153,485)
Total comprehensive result		(1,781)	(153,485)

The accompanying notes form part of these financial statements.

The net result and total comprehensive result are attributable to the SA Government as owner.

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STATEMENT OF FINANCIAL POSITIONas at 30 June 2019

	Note	2019 \$' 000	2018 \$' 000
Current assets			
Cash	6.1	9,152	10,005
Receivables	6.2	468	1,115
Total current assets		<u>9,620</u>	<u>11,120</u>
Non-current assets			
Property, plant and equipment	5.1	6	9
Total non-current assets		<u>6</u>	<u>9</u>
Total assets		<u>9,626</u>	<u>11,129</u>
Current liabilities			
Payables	7.1	1,215	1,209
Unearned revenue	7.3	328	100
Employee benefits	2.4	542	481
Provisions	7.2	3	4
Total current liabilities		<u>2,088</u>	<u>1,794</u>
Non-current liabilities			
Payables	7.1	13	13
Employee benefits	2.4	207	222
Provisions	7.2	5	6
Total non-current liabilities		<u>225</u>	<u>241</u>
Total liabilities		<u>2,313</u>	<u>2,035</u>
Net assets		<u>7,313</u>	<u>9,094</u>
Equity			
Retained earnings		7,313	9,094
Total equity		<u>7,313</u>	<u>9,094</u>

The accompanying notes form part of these financial statements.
The total equity is attributable to the SA Government as owner.

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STATEMENT OF CHANGES IN EQUITY**for the year ended 30 June 2019**

	Note	Contributed capital	Retained earnings	Total equity
		\$' 000	\$' 000	\$' 000
Balance at 1 July 2017		101,823	162,579	264,402
Net result for 2017-18		-	(153,485)	(153,485)
Total comprehensive result for 2017-18		-	(153,485)	(153,485)
Transactions with SA Government as owner				
Equity contribution repaid	4.1	(101,823)	-	(101,823)
Balance at 30 June 2018		-	9,094	9,094
Net result for 2018-19		-	(1,781)	(1,781)
Total comprehensive result for 2018-19		-	(1,781)	(1,781)
Balance at 30 June 2019		-	7,313	7,313

The accompanying notes form part of these financial statements.
All changes in equity are attributable to the SA Government as owner.

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STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	Note	2019	2018
		\$' 000	\$' 000
		Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Cash outflows			
Employee benefits payments		(3,694)	(5,685)
Payments for supplies and services		(3,670)	(7,163)
Payments of grants and subsidies		(5,366)	(6,260)
GST paid to the ATO		-	(21,776)
Other payments		(12)	(511)
Cash used in operations		<u>(12,742)</u>	<u>(41,395)</u>
Cash inflows			
Grants		2,447	2,692
Fees and charges		31	2,491
Recoveries		155	799
GST recovered from the ATO		698	-
GST from sale of property, plant and equipment		-	23,000
Receipts for paid parental leave scheme		13	-
Other receipts		9	167
Cash generated from operations		<u>3,353</u>	<u>29,149</u>
Cash flows from SA Government			
Receipts from SA Government		10,516	19,467
Payments to SA Government		(1,980)	(160,010)
Cash generated from SA Government		<u>8,536</u>	<u>(140,543)</u>
Net cash provided by/(used in) operating activities		<u>(853)</u>	<u>(152,789)</u>
Cash flows from investing activities			
Cash inflows			
Proceeds from sale of property, plant and equipment		-	230,000
Cash generated from investing activities		<u>-</u>	<u>230,000</u>
Net cash provided by/(used in) investing activities		<u>-</u>	<u>230,000</u>
Cash flows from financing activities			
Cash outflows			
Capital contributions repaid to government		-	(101,823)
Cash used in financing activities		<u>-</u>	<u>(101,823)</u>
Net cash used in financing activities		<u>-</u>	<u>(101,823)</u>
Net increase/(decrease) in cash		<u>(853)</u>	<u>(24,612)</u>
Cash at the beginning of the period		10,005	34,617
Cash at the end of the period	6.1	<u>9,152</u>	<u>10,005</u>

The accompanying notes form part of these financial statements.

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1 About Defence SA

Defence SA is a not-for-profit government agency of the State of South Australia, established pursuant to the *Public Sector Act 2009*. Defence SA is an administrative unit acting on behalf of the Crown.

Defence SA does not control any other entity and has no interests in unconsolidated structured entities.

1.1 Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- section 23 of the *Public Finance and Audit Act 1987*;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards with reduced disclosure requirements.

In preparing the 2018-19 financial statements Defence SA adopted *AASB 9 Financial Instruments* and is required to comply with new Treasurer's Instructions (Accounting Policy Statements) issued on 22 March 2019. Further information is provided in notes 8.1 and 8.2.

The financial statements have been prepared based on a 12 month reporting period and presented in Australian currency.

The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with that item.

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

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from the investing and financing activities, which is recoverable from, or payable to the ATO is classified as part of operating cash flows.

1.2 Objectives and programs

Defence SA is South Australia's lead government agency for all defence and space related matters. Defence SA's mission is to maximise investment and jobs from the defence and space sectors. Working closely with the Australian Government and industry, Defence SA targets investment and expansion opportunities, drives and supports the delivery of major projects and facilities, and pursues the location of additional defence and space capabilities in the state.

Defence SA plays a key role in supporting the Australian Government's strategic defence policy by increasing local industry participation and ensuring that a highly skilled, industry ready workforce is in place to underpin defence projects.

Defence SA is working towards capturing further investment opportunities in the shipbuilding, cyber and systems, defence science and research and space domains.

Launched in September 2017, the South Australian Space Industry Centre (SASIC) is the nation's first dedicated centre to grow the local space economy and create future high tech jobs. SASIC drives space industry innovation, research and entrepreneurial development and collaborates with the Australian Space Agency to play a key role in the national space agenda.

In achieving its objectives Defence SA provides a range of services classified into the following programs:

Program 1 - Defence Industry Development

This program delivers strategy and policy development that provides leadership across government on all defence related matters.

It targets national and international business development opportunities and supports Defence SA's administrative, financial and operational services.

The program seeks to maximise local industry participation and ensures that a highly skilled, industry ready workforce is in place and the necessary infrastructure exists to underpin defence projects.

This program seeks to support the growth of Defence and sustainable defence industries in South Australia across shipbuilding, cyber and systems and defence science and research domains.

The program also incorporates the state's initiatives to promote the growth of defence research and development activity in South Australia through the Defence Innovation Partnership established in collaboration with the Australian Government and the three South Australian based universities.

Program 2 - South Australian Space Industry Centre

The South Australian Space Industry Centre (SASIC) facilitates industry collaboration within the space sector at all levels, locally, nationally and internationally and in particular with the Australian Space Agency to play a key role in the national space agenda.

Through the Space Innovation Fund SASIC supports space entrepreneurs to create an environment where new space technologies can be rapidly developed and brought to market. The fund supports initiatives in three key areas; space scholarships, a space incubator program and a space accelerator program.

Program 3 – Techport Australia

This program has delivered the state's shipbuilding and infrastructure commitment to the Air Warfare Destroyer project through establishment and operation of the former Techport as Australia's premier naval industry hub.

In May 2017, a Memorandum of Understanding was signed to transfer the state owned Techport and its assets to the Australian Government. The transfer included the Common User Facility (CUF) and all associated infrastructure and equipment, the Maritime Skills Centre, the CUF expansion land and vacant land within and adjacent to the Techport Australia Suppliers precinct.

Following disposal of the Techport assets in November 2017, Defence SA has focused on finalising the residual state commitments under the Memorandum of Understanding.

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1.2 Objectives and programs (continued)

Expenses and income by program

for the year ended 30 June 2019

	Defence Industry Development		South Australian Space Industry Centre		Techport Australia		Total Defence SA	
	2019 \$' 000	2018 \$' 000	2019 \$' 000	2018 \$' 000	2019 \$' 000	2018 \$' 000	2019 \$' 000	2018 \$' 000
Expenses								
Employee benefits expenses	3,339	3,793	377	456	5	1,067	3,721	5,316
Supplies and services	2,576	2,400	678	689	367	2,781	3,621	5,870
Depreciation and amortisation	3	3	-	-	-	-	3	3
Grants and subsidies	4,055	5,395	639	122	-	-	4,694	5,517
Resources received free of charge	45	66	-	-	-	-	45	66
Impairment loss on receivables	-	-	-	-	-	139	-	139
Other expenses	66	92	-	-	34	435	100	527
Total expenses	10,084	11,749	1,694	1,267	406	4,422	12,184	17,438
Income								
Fees and charges	154	52	20	30	-	1,717	174	1,799
Grants	1,310	1,585	-	198	-	14	1,310	1,797
Recoveries	130	81	180	7	20	743	330	831
Resources received free of charge	45	66	-	-	-	-	45	66
Other income	1	1	7	2	-	-	8	3
Total income	1,640	1,785	207	237	20	2,474	1,867	4,496
Net cost of providing services	(8,444)	(9,964)	(1,487)	(1,030)	(386)	(1,948)	(10,317)	(12,942)
Revenues from/(payments to) SA Government								
Revenues from SA Government ⁽¹⁾	10,516	19,467	-	-	-	-	10,516	19,467
Payments to SA Government	(1,980)	(160,010)	-	-	-	-	(1,980)	(160,010)
Net result	92	(150,507)	(1,487)	(1,030)	(386)	(1,948)	(1,781)	(153,485)

⁽¹⁾ Revenues from SA Government are provided to fund the operating activities of Defence SA and have not been allocated between activities.

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1.2 Objectives and programs (continued)

Assets and liabilities by program

as at 30 June 2019

	Defence Industry Development		South Australian Space Industry Centre		Techport Australia		Total Defence SA	
	2019 \$' 000	2018 \$' 000	2019 \$' 000	2018 \$' 000	2019 \$' 000	2018 \$' 000	2019 \$' 000	2018 \$' 000
Assets								
Cash ⁽¹⁾	9,152	10,005	-	-	-	-	9,152	10,005
Receivables	224	1,088	224	6	20	21	468	1,115
Property, plant and equipment	6	9	-	-	-	-	6	9
Total assets	9,382	11,102	224	6	20	21	9,626	11,129
Liabilities								
Payables	684	1,048	486	129	58	45	1,228	1,222
Unearned revenue	328	100	-	-	-	-	328	100
Employee benefits	644	555	105	109	-	39	749	703
Provisions	8	10	-	-	-	-	8	10
Total liabilities	1,664	1,713	591	238	58	84	2,313	2,035
Net assets	7,718	9,389	(367)	(232)	(38)	(63)	7,313	9,094

⁽¹⁾ Cash has not been allocated between activities.

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1.3 Budget performance

The budget performance table compares Defence SA's outcomes against budget information presented to Parliament (2018-19 Budget Paper 4). The budget amounts have not been adjusted to reflect revised budgets or administrative restructures. The budget process is not subject to audit.

Statement of Comprehensive Income	Note	Original budget 2019 \$' 000	Actual 2019 \$' 000	Variance ⁽¹⁾ \$' 000
Expenses				
Employee benefits expenses		4,337	3,721	616
Supplies and services		3,998	3,621	377
Depreciation and amortisation		-	3	(3)
Grants and subsidies	(a)	12,889	4,694	8,195
Resources received free of charge		-	45	(45)
Other expenses		182	100	82
Total expenses		21,406	12,184	9,222
Income				
Fees and charges		-	174	174
Grants	(b)	9,442	1,310	(8,132)
Recoveries		-	330	330
Resources received free of charge		-	45	45
Other income		179	8	(171)
Total income		9,621	1,867	(7,754)
Net cost of providing services		(11,785)	(10,317)	1,468
Revenues from/payments to SA Government				
Revenues from SA Government		10,516	10,516	-
Payments to SA Government	(c)	-	(1,980)	(1,980)
Net result		(1,269)	(1,781)	(512)
Total comprehensive result		(1,269)	(1,781)	(512)

⁽¹⁾ The use of brackets identifies an adverse variance

Explanations are provided for variances where the variance exceeds the greater of 10% of the original budgeted amount and 5% of original budgeted total expenses.

- (a) The \$8.195 million grant expenditure variance is due to:
- delays in achievement of program milestones \$9.013 million
 - new programs not included in the original budget (\$0.718 million)
 - 2017-18 programs completed in 2018-19, due to delays in project completion (\$0.100 million)
- (b) The (\$8.132 million) grant revenue variance is due to:
- Change in grant funding source from the Economic Investment Fund to appropriation (\$8.667 million)
 - New programs not included in the original budget \$0.535 million
- (c) Surplus cash returned to Department of Treasury and Finance \$1.980 million

2 Advisory board, committees and employees

The Defence SA Advisory Board (Board) plays a key role in guiding the state's defence industry strategy and provides high-level advice to the South Australian Government to promote the growth of the defence industry in South Australia.

The Board has a core skills base made up of strategic defence expertise and networking capability across the full range of defence capabilities and extensive knowledge of the tertiary education and research sector. Defence SA has recruited staff from Defence, defence industry and organisations involved in research providing unique skills and experience to facilitate industry engagement with a view to attracting major Defence projects to the State.

2.1 Key management personnel

Key management personnel of Defence SA include the Premier, the Chief Executive and members of the Executive Team who have the responsibility for the strategic direction and management of Defence SA.

Total compensation paid by Defence SA for key management personnel was \$1.041 million (\$1.190 million). The compensation disclosed in this note excludes salaries and other benefits the Premier receives. The Premier's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 of the *Parliamentary Remuneration Act 1990*.

Transactions with key management personnel and other related parties

Defence SA had no transactions with key management personnel and other related parties other than those in the normal course of business.

2.2 Advisory Board and committee members

Members of the Defence SA Advisory Board during the financial year were:

ACM Sir A Houston AK AFC (Ret'd) (Chair)
 Hon S Marshall MP Premier *
 VADM R Crane AO CSM RANR (Ret'd)
 S Ludlam FREng
 Prof T Monro (retired 31 August 2018)
 R Price **
 Prof P Quester
 RADM T Ruting AM CSC RAN (Ret'd)

Members of the Audit and Risk Management Committee during the financial year were:

C McSporran (independent member/chair) **
 R Barnett **
 P Robertson (retired 31 August 2018)
 J Holmes (independent member) **
 S Ludlam FREng (independent member)

Advisory Board and committee remuneration

The number of members whose remuneration received or receivable falls within the following bands is:

	2019	2018
	No.	No.
\$1 to \$19 999	2	2
\$20 000 to \$39 999	4	6
\$60 000 to \$79 999	1	1
Total number of members	<u>7</u>	<u>9</u>

Total remuneration received or receivable, by board and committee members was \$221 000 (\$338 000). Remuneration of members includes sitting fees, superannuation contributions, salary sacrifice benefits, fringe benefits and related fringe benefits tax.

* The Premier the Hon Stephen Marshall MP did not receive any remuneration for board duties during the period.

** Pursuant to the Department of Premier and Cabinet Circular PC016, government employees did not receive any remuneration for board/committee duties during the financial year.

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2.3 Employee benefits expenses

	2019 \$' 000	2018 \$' 000
Salaries and wages	2,727	3,974
Targeted Voluntary Separation Packages	-	122
Long service leave	69	(86)
Annual leave	201	221
Skills and experience retention leave	7	5
Employment on-costs - superannuation ⁽¹⁾	306	417
Employment on-costs - other	169	248
Advisory Board and committee fees (refer note 2.2)	202	309
Workers compensation	(1)	8
Other employee related expenses	41	98
Total employee benefits expenses	3,721	5,316

⁽¹⁾ The superannuation employment on-cost charge represents Defence SA's contribution to superannuation plans in respect of current services of current employees.

Executive remuneration

	2019 \$' 000	2018 \$' 000
The number of employees whose remuneration received or receivable falls within the following bands:	No	No
\$151 001 to \$171 000	-	2
\$171 001 to \$191 000	1	1
\$191 001 to \$211 000	3	3
\$211 001 to \$231 000	1	2
\$231 001 to \$251 000	1	-
\$251 001 to \$271 000	1	-
\$271 001 to \$291 000	-	1
\$311 001 to \$331 000	-	1
\$331 001 to \$351 000	1	-
\$391 001 to \$411 000*	-	1
Total number of employees	8	11

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year.

Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits.

* Total of salaries and contract termination payments paid to executives whose contracts were terminated during the year.

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2.3 Employee benefits expenses (continued)

Targeted Voluntary Separation Packages

The number of employees who received a Targeted Voluntary Separation Package during the reporting period was nil (2).

	2019	2018
	\$' 000	\$' 000
Amount paid to separated employees:		
Targeted Voluntary Separation Packages	-	122
Leave paid to those employees	-	57
Total Targeted Voluntary Separation Packages	-	179

2.4 Employee benefits liability

	2019	2018
	\$' 000	\$' 000
Current		
Accrued salaries and wages	54	56
Annual leave	174	186
Long service leave	303	233
Skills and experience retention leave	11	6
Total current employee benefits - liability	542	481
Non-current		
Long service leave	207	222
Total non-current employee benefits - liability	207	222
Total employee benefits - liability	749	703

Employee benefits accrue as a result of services provided up to the reporting date that remain unpaid.

Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

Salaries and wages, annual leave, skills and experience retention leave and sick leave

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date.

The annual leave liability and the skills and experience retention leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave expected to be taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Details about the measurement of long service leave liability is provided in note 10.1.

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3 Expenses

Employee benefits expenses are disclosed in note 2.3

3.1 Supplies and services

	2019 \$' 000	2018 \$' 000
Accommodation and service costs	332	322
Consultants	137	154
Contractors	301	1,394
Electricity	10	738
Gas and gas equipment	-	61
Insurance	4	40
Legal fees	182	204
Minor plant and equipment	17	39
Promotion and events	1,632	1,370
Property	184	133
Provision of corporate services under Service Level Agreements	136	216
Security services	5	259
Staff safety, development and recruitment	62	105
Travel and related expenses	244	359
Other expenses	375	476
Total supplies and services	3,621	5,870

Operating lease payments

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Consultants

The number of consultancies and dollar amount paid/payable that fell within the following bands:

	2019		2018
	No	\$' 000	No
			\$' 000
Below \$10 000	-	-	-
\$10 000 and above	2	137	3
Total paid/payable to the consultants engaged	2	137	3

3.2 Depreciation and amortisation

	2019 \$' 000	2018 \$' 000
Plant and equipment	3	3
Total depreciation and amortisation	3	3

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential.

Leasehold improvements are amortised over the remaining term of the lease or the estimated useful life of each improvement, whichever is shorter.

Review of accounting estimates

Assets' residual values, useful lives and depreciation and amortisation methods are reviewed and adjusted if appropriate, on an annual basis.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate.

Useful life

Depreciation/amortisation is calculated on a straight line basis over the estimated useful life of the classes of assets as follows:

Class of asset	Useful life (years)
Leasehold improvements	Life of lease
Plant and equipment	4

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3.3 Grants and subsidies

	2019	2018
	\$' 000	\$' 000
AWD program	687	1,950
Industry development	1,368	1,000
Industry assistance	1,700	1,400
Research programs	874	662
Intra-government payments	65	505
Total grants and subsidies	4,694	5,517

3.4 Other expenses

	2019	2018
	\$' 000	\$' 000
Audit fees - Auditor General	41	41
Internal audit	24	76
Donated land ⁽¹⁾	35	-
Other ⁽²⁾	-	410
Total other expenses	100	527

⁽¹⁾ During the 2018-19 year land was acquired from Renewal SA for \$35 000 and transferred to Australian Naval Infrastructure Pty Ltd for nil consideration in accordance with the Memorandum of Understanding for the transfer of Techport Australia Common User Facility assets.

⁽²⁾ During the 2016-17 year spare parts and components to the value of \$407 000 were ordered for the Techport Australia Common User Facility; these were delivered during the 2017-18 year and included in the transfer of the facility to Australian Naval Infrastructure Pty Ltd (Australian Government entity). In line with Australian Accounting standard AASB 116 these were expensed in the 2017-18 year.

4 Income

Defence SA is primarily funded through appropriations received from the SA government. Additional income sources included grant funding from other SA government departments, event participation revenue and cost recoveries.

4.1 Net revenues from SA Government

	2019	2018
	\$' 000	\$' 000
Revenues from SA Government		
Appropriations from Consolidated Account pursuant to the <i>Appropriation Act 2018</i>	10,516	18,457
Transfers received - Department of Treasury and Finance	-	1,010
Total revenues from SA Government	10,516	19,467
Payments to SA Government		
Return of surplus cash pursuant to cash alignment policy	(1,980)	(1,456)
Return of accrual appropriation associated with the transfer of assets	-	(30,377)
Proceeds from the sale of Techport Australia assets ⁽¹⁾	-	(128,177)
Total payments to SA Government	(1,980)	(160,010)

Appropriations

Appropriations are recognised on receipt.

Where money has been appropriated in the form of an equity contribution, the Treasurer has acquired a financial interest in the net assets of Defence SA and the appropriation is recorded as contributed capital. Refer to the Statement of Changes in Equity.

⁽¹⁾ In 2017-18 proceeds from the sale of the Techport Australia assets of \$230.000 million were returned to SA Government as a return of contributed capital \$101.823 million and payment to Consolidated Account \$128.177 million.

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4.2 Fees and charges

	2019 \$' 000	2018 \$' 000
Event participation fees	174	82
CUF priority access fee	-	1,139
Techport Australia other fees	-	578
Total fees and charges	174	1,799

4.3 Grants

	2019 \$' 000	2018 \$' 000
Intra-government transfers - industry assistance programs	1,035	1,648
Other	275	149
Total grants	1,310	1,797

4.4 Recoveries

	2019 \$' 000	2018 \$' 000
Techport Australia recoveries	20	743
Defence Innovation Partnership Recoveries	129	78
Property recoveries	180	-
Other recoveries	1	10
Total recoveries	330	831

4.5 Resources received free of charge

	2019 \$' 000	2018 \$' 000
Services received free of charge from Shared Services SA	45	66
Total resources received free of charge	45	66

4.6 Other income

	2019 \$' 000	2018 \$' 000
Sponsorships and other income	8	3
Total other income	8	3

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5 Non-financial assets

5.1 Property, plant and equipment

	2019 \$' 000	2018 \$' 000
Leasehold improvements		
Leasehold improvements at cost	884	884
Accumulated amortisation at the end of the period	(884)	(884)
Total leasehold improvements	-	-
Plant and equipment		
Plant and equipment at cost	27	27
Accumulated depreciation at the end of the period	(21)	(18)
Total plant and equipment	6	9
Total buildings and improvements, plant and equipment	6	9
Total property, plant and equipment	911	911
Total accumulated depreciation/amortisation at the end of the period	(905)	(902)
Total property, plant and equipment	6	9

Property, plant and equipment with a value equal to or in excess of \$10 000 is capitalised.

Property, plant and equipment is recorded at fair value. Detail about Defence SA's approach to fair value is set out in note 10.2.

Impairment

Leasehold improvements and plant and equipment have not been assessed for impairment as they are non-cash generating assets, that are held for continual use of their service capacity.

Reconciliation 2018-19

	Leasehold improvement	Plant and equipment	Total assets
Carrying amount at 1 July 2018	-	9	9
Depreciation and amortisation	-	(3)	(3)
Carrying amount at 30 June 2019	-	6	6

6 Financial assets

6.1 Cash

	2019 \$' 000	2018 \$' 000
Deposits with the Treasurer	5,747	6,578
Deposits with the Treasurer - Accrual Appropriation Excess Funds Account	3,405	3,427
Total cash	9,152	10,005

Deposits with the Treasurer

Defence SA has two deposit accounts with the Treasurer:

- a general operating account; and
- an Accrual Appropriation Excess Funds Account.

Although Defence SA controls the funds in the Accrual Appropriation Account, its use must be approved by the Treasurer. Defence SA does not earn interest on its deposits with the Treasurer.

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6.2 Receivables

	2019	2018
	\$' 000	\$' 000
Current		
Receivables	415	931
Less allowance for doubtful debts	(153)	(153)
Prepayments	106	209
GST recoverable from the ATO	100	128
Total current receivables	<u>468</u>	<u>1,115</u>

Receivables arise in the normal course of business. Receivables are normally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement. Receivables, prepayments and accrued revenues are non-interest bearing.

The net amount of GST receivable from or payable to the ATO is included as part of receivables.

Impairment of receivables

	2019	2018
	\$' 000	\$' 000
Balance as at 30 June 2018 under AASB 139	153	-
Carrying amount at the beginning of the period	<u>153</u>	<u>1</u>
Increase in allowance	-	153
Amounts written off	-	-
Amounts recovered during the year	-	(1)
Carrying amount at the end of the period	<u>153</u>	<u>153</u>

Collectability of receivables is reviewed on an ongoing basis. Bad debts are written off when identified. Refer to note 8.2 for details regarding credit risk and the methodology for determining impairment.

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7 Liabilities

Employee benefits liabilities are disclosed in note 2.4.

7.1 Payables

	2019	2018
	\$' 000	\$' 000
Current		
Creditors and accrued expenses	1,136	1,118
Employment on-costs	78	91
Paid parental leave scheme payable	1	-
Total current payables	<u>1,215</u>	<u>1,209</u>
Non-current		
Employment on-costs	13	13
Total non-current payables	<u>13</u>	<u>13</u>
Total payables	<u>1,228</u>	<u>1,222</u>

Payables and accruals are raised for all amounts owing but unpaid. Sundry payables are normally settled within 30 days from the date the invoice is first received. All payables are non-interest bearing. The carrying amount of payables represents fair value due to their short-term nature.

Employment on-costs

Employee benefits on-costs include payroll tax and superannuation contributions.

Defence SA makes contributions to State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to these superannuation schemes.

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave taken as leave remains unchanged from the 2018 rate (41%) and the average factor for the calculation of employer superannuation cost on-cost has reduced from the 2018 rate (9.9%) to 9.8%.

There is no material financial effect from changes in actuarial assumptions in employment on-costs and employee benefits expense. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of assumptions. A key assumption is the proportion of long service leave taken as leave instead of a lump sum, a result determined by the actuary based on current period data.

Paid parental leave scheme

The paid parental leave scheme payable represents amounts which Defence SA has received from the Australian Government to forward on to eligible employees via Defence SA's standard payroll processes. That is, Defence SA is acting as a conduit through which the payment to eligible employees is made on behalf of the Family Assistance Office.

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7.2 Provisions

	2019	2018
	\$' 000	\$' 000
Current		
Provision for workers compensation	3	4
Total current provisions	<u>3</u>	<u>4</u>
Non-current		
Provision for workers compensation	5	6
Total non-current provisions	<u>5</u>	<u>6</u>
Total provisions	<u>8</u>	<u>10</u>
Movements in provisions		
Carrying amount at the beginning of the period	10	13
Reductions resulting from re-measurement	<u>(2)</u>	<u>(3)</u>
Carrying amount at the end of the period	<u>8</u>	<u>10</u>

A provision has been reported to reflect potential workers compensation claims.

The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2019 provided by a consulting actuary engaged through the Office for the Public Sector. The provision is for the estimated cost for ongoing payments to employees as required under current legislation.

Defence SA is responsible for the payment of workers compensation claims.

7.3 Unearned revenue

	2019	2018
	\$' 000	\$' 000
Current		
Unearned revenue	328	100
Total current unearned revenue	<u>328</u>	<u>100</u>
Total unearned revenue	<u>328</u>	<u>100</u>

8 Changes in accounting policy**8.1 Treasurer's Instructions (Accounting Policy Statements)**

On 22 March 2019 the *Treasurer's Instructions (Accounting Policy Statements) 2019* were issued by the Treasurer under the *Public Finance and Audit Act 1987*. The Accounting Policy Statements replaced the following Accounting Policy Frameworks:

- Purpose and Scope;
- General Purpose Financial Statements Framework;
- Asset Accounting Framework;
- Financial Asset and Liability Framework;
- Income Framework; and
- Definitions.

The new Accounting Policy Statements have largely been prepared on a no-policy change basis. Changes that impact on these financial statements are:

- removal of the additional requirement to report transactions with the SA Government;
- removal of the additional requirement to report a statement of equity for administered items; and
- increasing the bands from \$10 000 to \$20 000 for employee and board member reporting.

These changes do not impact on the amounts reported in the financial statements.

8.2 AASB 9 Financial instruments

AASB 9 Financial Instruments replaces the provisions of AASB 139 that relate to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of AASB 9 from 1 July 2018 resulted in changes in accounting policies but did not impact the amounts recognised in financial statements.

As part of the adoption of AASB 9, Defence SA adopted consequential amendments to other accounting standards and the Treasurer's Instructions (Accounting Policy Statements) arising from the issue of AASB 9 as follows:

- *AASB 101 Presentation of Financial Statements* requires the impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. In prior years, this information was presented as part of other expenses; and
- *AASB 7 Financial Instruments: Disclosures* requires amended disclosures due to changes arising from AASB 9. The implementation of the incurred credit loss model resulted in no change to the loss allowance on receivables due to the low credit risk associated with the types of receivables held by Defence SA.

Impairment of financial assets

AASB 9 replaces the incurred loss model in AASB 139 with an expected credit loss model. The following financial assets of Defence SA are subject to AASB 9's new expected credit loss model:

- receivables from provision of goods and services

This model generally results in earlier recognition of credit losses than the previous one.

Defence SA has assessed the expected credit loss on financial instruments to be nil.

Receivables

New impairment requirements result in a provision being applied to all receivables rather than only on those receivables that are credit impaired. Defence SA has assessed the risk to be minimal due to the nature of the receivables.

There are no additional impairment provisions for State, Territory, or Australian Government receivables due to government's high quality credit risk.

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9 Outlook

9.1 Unrecognised contractual commitments

Commitments include operating, outsourcing and leasing arrangements arising from contractual sources and are disclosed at their nominal value.

Unrecognised contractual commitments are disclosed net of the amount of GST recoverable from, or payable to the ATO. If GST is not payable to, or recoverable from the ATO, the commitments are disclosed on a gross basis.

Expenditure commitments

	2019 \$' 000	2018 \$' 000
Within 1 year	14,288	7,626
Later than 1 year but not longer than 5 years	8,086	10,357
Total expenditure commitments	22,374	17,983

Defence SA's operating expenditure commitments reflect grant and fee for service contracts for defence and space industry development.

Operating lease commitments

	2019 \$' 000	2018 \$' 000
Within 1 year	578	364
Later than 1 year but not longer than 5 years	1,865	776
Later than 5 years	2,257	-
Total lease commitments*	4,700	1,140

* The commitments figures for operating leases include a current lease for the Defence SA office space and two leases for which Defence SA has signed agreements to lease and which are expected to commence during the 2019-20 financial year:

	2019 \$' 000
Defence SA office space, lease in existence 1 July 2019	670
Defence landing pad, to commence 1 October 2019	178
Space Innovation Hub, to commence 1 January 2020	3,852
Total lease commitments	4,700

9.2 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Unrecognised contingencies are disclosed net of the amount of GST recoverable from, or payable to the ATO. If GST is not payable to, or recoverable from the ATO, the contingencies are disclosed on a gross basis.

	2019 \$' 000	2018 \$' 000
Contingent liabilities to which a value can be assigned	3,540	2,898
Total	3,540	2,898

Techport Australia Commercial Campus (Stage One)

Defence SA facilitated the private sector delivery of the Techport Australia Commercial Campus pursuant to its commitments to the AWD project and development of Techport Australia as Australia's premier naval industry hub. This development includes the AWD Alliance's AWD Systems Centre, Raytheon Australia's SA Engineering Centre and supporting commercial and retail accommodation.

Related contractual commitments require Defence SA to accept novation of the residual lease period should ASC AWD Shipbuilder Pty Ltd elect to vacate the premises between December 2019 and expiration of its initial 10-year lease term in May 2020, which is considered unlikely.

Birdon Pty Ltd - Claims for recoupment of costs associated with the maintenance dredging contract at the Techport Australia Common User Facility

Birdon Pty Ltd were contracted to undertake dredging works at the Techport Australia Common User Facility prior to its transfer to the Australian Government. Defence SA has paid all contracted sums in full, however, subsequent to completing the works, Birdon submitted several variation claims totalling \$2.540 million for additional costs and downtime incurred during the works. Defence SA does not accept liability for the claims and will defend the claims.

Continuous Naval Shipbuilding

In May 2017 the state signed a Memorandum of Understanding (MoU) to transfer the Techport Australia Common User Facility and associated assets to Australian Naval Infrastructure Pty Ltd (Australian Government entity) during the 2017-18 year.

Under the MoU the state is responsible for construction of overpass(es) to provide pedestrian access to the shipyard. The value cannot be determined until designs are finalised and costing completed.

9.3 Impact of standards and statements not yet effective

Defence SA has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations not yet effective. These impacts are outlined below.

AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not for Profit Entities

Defence SA will adopt *AASB 15 Revenue from Contracts with Customers* and *AASB 1058 Income of Not for Profit Entities* from 1 July 2019.

AASB 15 introduces a 5-step approach to revenue recognition. The objective of AASB 15 is that recognition of revenue depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. It provides extensive guidance as to how to apply this revenue recognition approach to a range of scenarios.

AASB 15 Revenue from Contracts replaces *AASB 111 Construction Contracts* and *AASB 118 Revenue*.

AASB 1058 introduces consistent requirements for the accounting of non-reciprocal transactions by not-for-profit entities, in conjunction with AASB 15. These requirements closely reflect the economic reality of not-for-profit entity transactions that are not contracts with customers. AASB 1058 replaces parts of *AASB 1004 Contributions*.

Impact on 2019-20 financial statements

Adopting AASB 15 and AASB 1058 is not expected to have a material impact on the timing of recognition of revenue by Defence SA.

9.3 Impact of standards and statements not yet effective (continued)

AASB 16 Leases

Defence SA will adopt *AASB 16 Leases* from 1 July 2019.

AASB 16 sets out a comprehensive model for lease accounting that addresses recognition, measurement, presentation and disclosure of leases. The outcome will be that lease information disclosed will give users of financial statements a basis to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. *AASB 16 Leases* replaces *AASB 117 Leases* and *Interpretation 4 Determining whether an Arrangement contains a Lease*, *Interpretation 115 Operating Leases Incentives and Interpretation*, and *Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Impact on 2019-20 financial statements

Defence SA has assessed the estimated impact on the Statement of Financial Position of adopting AASB 16 with the transition requirements mandated by the *Treasurer's Instructions (Accounting Policy Statements) 2019*.

AASB 16 requires lessees to recognise assets and liabilities for all leases, not subject to a recognition exemption or scoped out of the application of AASB 16. Applying AASB 16 will result in leases previously classified as operating leases having right-of-use assets and related lease liabilities recognised in the Statement of Financial Position for the first time. Lease incentive liabilities previously recognised will be written off against the right-of-use assets or retained earnings depending on the nature of the incentive.

AASB 16 is expected to have a material impact on the Statement of Financial Position. Defence SA has estimated the impact of this change as at 1 July 2019.

The estimated impact is based on applying AASB 16's transition approach to those leases identified as leases by Defence SA prior to 1 July 2019. The incremental borrowing rates applied to estimate the lease liability were SAFA's interest rates for principal and interest loans to SA Government agencies.

The estimated impacts provided below include non-lease components. Further work is required to separate these components prior to recognition of the right of use assets and lease liabilities on 1 July 2019.

	as at 1 July 2019
	\$' 000
Assets	
Right of use assets	674
Liabilities	
Lease Liabilities	(674)
Net impact on equity	<u>-</u>
Reconciliation to lease commitments	
Lease Liability	(674)
Interest on lease	(9)
Lease Commitment	<u>(683)</u>

AASB 16 will also impact on the Statement of Comprehensive Income. The operating lease expense previously included in supplies and services will be replaced with:

- a depreciation expense that represents the use of the right-of-use asset; and
- borrowing costs that represent the cost associated with financing the right-of-use asset.

The estimated impact on 2019-20 Statement of Comprehensive Income is set out below.

	2020
	\$' 000
Depreciation and amortisation	352
Supplies and services	(351)
Borrowing costs	7
Net impact on net cost of providing services	<u>8</u>

The operating lease to be included on both the Statement of Financial Position and Statement of Comprehensive Income is for the lease of office space.

9.3 Impact of standards and statements not yet effective (continued)

Related accounting policies

The Treasurer's Instructions (Accounting Policy Statements) 2019 sets out key requirements that Defence SA must adopt for the transition from *AASB 117 Leases* to *AASB 16 Leases*. These requirements include that Defence SA will:

- apply AASB 16 retrospectively. The cumulative effect of initially applying the Standard will be recognised at 1 July 2019. Comparatives will not be restated;
- only apply AASB 16 to contracts that were previously identified as containing a lease applying AASB 117 and related interpretations; and
- not transition operating leases for which the lease term ends before 30 June 2020.

The Treasurer's Instructions (Accounting Policy Statements) 2019 also sets out requirements for on-going application. These requirements include that Defence SA will:

- not apply AASB 16 to leases of intangible assets;
- adopt \$15 000 as the threshold to determine whether an underlying asset is a low value asset and must apply the low value asset recognition exemption to all low value assets;
- apply the short-term leases recognition exemption for all classes of underlying asset;
- separate non-lease components from lease components;
- adopt the revaluation model, where permitted;
- where required, apply the relevant lessee's incremental borrowing rate published by the Department of Treasury and Finance; and
- on initial recognition not record at fair-value, leases that have significantly below-market terms and conditions principally to enable Defence SA to further its objectives, unless they have already been recorded at fair-value prior to 1 July 2019.

9.4 Events after the reporting period

Adjustments are made to amounts recognised in the financial statements where an event occurs after 30 June and before the date the financial statements are authorised for issue, where the event provides information about conditions that existed at 30 June.

Note disclosure is made about events between 30 June and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June and which may have a material impact on the results of subsequent years.

On 1 July 2019 responsibility for the Veteran's Affairs program was transferred from the Department of the Premier and Cabinet to Defence SA under a machinery of government process. The estimated impact of this change is an increase in Defence SA's net cost of providing service by \$1.500 million in 2019-20.

10 Measurement and risk

10.1 Long service leave liability - measurement

AASB 119 Employee Benefits describes the calculation methodology for long service leave liability.

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities.

AASB 119 Employee Benefits requires the use of the yield on long-term Australian Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has decreased from 2018 (2.5%) to 2019 (1.25%).

This decrease in the bond yield, which is used as the rate to discount future long service leave cash flows, results in an increase in the reported long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is an increase in the long service leave liability of \$54 000 and employee benefits expense of \$54 000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions including the long term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4% for long service leave liability. As a result, there is no financial effect resulting from changes in the salary inflation rate.

The unconditional portion of the long service leave provision is classified as current as Defence SA does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payments arising after 10 years service.

10.2 Fair value

AASB 13 Fair Value Measurement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date

Initial recognition

Non-current assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

Where assets are acquired at no value, or minimal value, they are recorded at fair value in the Statement of Financial Position.

If the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements then the assets are recognised at book value, i.e. the amount recorded by the transferor public authority immediately prior to the restructure.

Revaluation

Property, plant and equipment are subsequently measured at fair value less accumulated depreciation.

Assets held by Defence SA have not been revalued as they are either fully written down or are of an immaterial value. The carrying value of these items are deemed to approximate fair value.

10.3 Financial instruments

Financial risk management

Risk management is exercised by Defence SA's corporate services section.

Defence SA's risk management policies are in accordance with the *Risk Management Policy Statement* issued by the Premier and Treasurer and the principles established in the Australian Standard *Risk Management*

Defence SA's exposure to financial risk (liquidity risk, credit risk and market risk) is low due to the nature of financial instruments held.

Liquidity Risk

Defence SA is funded principally from appropriation by the SA Government. Defence SA works with the Department of Treasury and Finance to determine the cash flows associated with its Government approved program of work and to ensure funding is provided through SA Government budgetary process to meet the expected cash flows.

Refer note 7.1 for further information