

TAFE SA

Financial report
for the year ended
30 June 2019



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To the Chair TAFE SA Board

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 32 of the *Public Corporations Act 1993*, I have audited the financial report of TAFE 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 TAFE 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 Chair, TAFE SA Board, the Chief Executive and the Chief Finance Officer

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 TAFE 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 and the TAFE SA Board 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 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 that is free from material misstatement, whether due to fraud or error.

The TAFE SA Board is responsible for overseeing the entity's financial reporting process.

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 the TAFE 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 and the Chair, TAFE SA Board 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.

A handwritten signature in black ink, appearing to read 'A Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson

Auditor-General

17 September 2019

Certification of the Financial Statements

We certify that the attached general purpose financial statements for TAFE 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 the Corporation
- present a true and fair view of the financial position of TAFE 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 TAFE 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.



Jacqui McGill
Chair, TAFE SA Board
11 September 2019



David Coltman
Chief Executive
11 September 2019



Beth McKenzie
Chief Finance Officer
11 September 2019

TAFE SA
Statement of Comprehensive Income
for the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
<u>Expenses</u>			
Employee benefits expense	2.3	237 069	225 502
Supplies and services	3.1	122 702	127 468
Depreciation and amortisation	3.2	4 472	5 005
Grants and subsidies		75	75
Net loss from disposal of non-current assets	3.4	191	61
Other expenses	3.3	1 799	1 260
Total expenses		366 308	359 371
<u>Income</u>			
Grants and subsidies from Department for Innovation and Skills	4.1	258 785	246 211
Student and other fees and charges	4.3	83 936	88 735
Commonwealth grants	4.2	1 494	1 437
Other grants and contributions	4.4	7 828	2 046
Resources received free of charge	4.5	2 196	2 619
Other income	4.6	3 831	2 061
Total income		358 070	343 109
Net cost of providing services		(8 238)	(16 262)
Net result		(8 238)	(16 262)
Total comprehensive result		(8 238)	(16 262)

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the SA Government as owner.

TAFE SA
Statement of Financial Position
as at 30 June 2019

	Note	2019 \$'000	2018 \$'000
<u>Current assets</u>			
Cash and cash equivalents	6.1	58 492	54 801
Receivables	6.2	21 715	19 882
Inventories	5.3	819	838
Total current assets		81 026	75 521
<u>Non-current assets</u>			
Receivables	6.2	44	56
Property, plant and equipment	5.1	15 643	16 468
Intangibles	5.2	9 053	10 564
Total non-current assets		24 740	27 088
Total assets		105 766	102 609
<u>Current liabilities</u>			
Payables	7.1	22 028	16 645
Employee benefits	2.4	21 503	20 732
Provisions	7.2	860	886
Unearned revenue	7.3	2 763	2 869
Other current liabilities		192	259
Total current liabilities		47 346	41 391
<u>Non-current liabilities</u>			
Payables	7.1	5 107	4 789
Employee benefits	2.4	44 976	40 754
Provisions	7.2	1 886	2 056
Total non-current liabilities		51 969	47 599
Total liabilities		99 315	88 990
Net assets		6 451	13 619
<u>Equity</u>			
Contributed capital		20 452	20 452
Retained earnings		(15 353)	(8 185)
Asset Revaluation surplus		1 352	1 352
Total equity		6 451	13 619

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

TAFE SA
Statement of Changes in Equity
for the year ended 30 June 2019

	Note	Revaluation surplus \$'000	Retained earnings \$'000	Contributed capital \$'000	Total equity \$'000
Balance at 1 July 2017		1 352	8 077	20 452	29 881
<u>Net result for 2017-18</u>		-	(16 262)	-	(16 262)
Balance at 30 June 2018		1 352	(8 185)	20 452	13 619
Adjustments on initial adoption of AASB 9	9.2	-	1 070	-	1 070
Adjusted balance at 1 July 2018		1 352	(7 115)	20 452	14 689
<u>Net result for 2018-19</u>		-	(8 238)	-	(8 238)
Balance at 30 June 2019		1 352	(15 353)	20 452	6 451

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

TAFE SA
Statement of Cash Flows
for the year ended 30 June 2019

		2019	2018
		(Outflows)	(Outflows)
		inflows	inflows
	Note	\$'000	\$'000
<u>Cash flows from operating activities</u>			
<i>Cash outflows</i>			
Employee benefit payments		(231 660)	(225 132)
Payments for supplies and services		(126 955)	(135 602)
Payments of grants and subsidies		(75)	(75)
Other payments		(632)	(409)
Cash used in operations		(359 322)	(361 218)
<i>Cash inflows</i>			
Grants and subsidies from Department for Innovation and Skills		259 401	245 881
Student and other fees and charges		86 803	91 999
Commonwealth grants		1 494	1 437
Other grants and contributions		8 057	2 536
Interest received		2	5
GST recovered from the Australian Taxation Office		7 182	8 726
Other receipts		2 590	1 302
Cash generated from operations		365 529	351 886
Net cash provided by / (used in) operating activities	8.1	6 207	(9 332)
<u>Cash flows from investing activities</u>			
<i>Cash outflows</i>			
Purchase of property, plant and equipment		(1 356)	(3 764)
Purchase of intangibles		(1 321)	(2 068)
Cash used in investing activities		(2 677)	(5 832)
<i>Cash inflows</i>			
Proceeds from sale of property, plant and equipment		161	7
Cash generated from investing activities		161	7
Net cash used in investing activities		(2 516)	(5 825)
Net increase / (decrease) in cash and cash equivalents		3 691	(15 157)
Cash and cash equivalents at the beginning of the period		54 801	69 958
Cash and cash equivalents at the end of the period	6.1	58 492	54 801

The accompanying notes form part of these financial statements.

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

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TAFE SA

Notes to and forming part of the financial statements

for the year ended 30 June 2019

1. About TAFE SA

TAFE SA (the Corporation) is a statutory Corporation of the state of South Australia, established pursuant to the *TAFE SA Act 2012*.

The Corporation has a 20% interest in the South Australian Tertiary Admissions Centre SATAC.

SATAC is an arrangement between the three South Australian universities, the Minister for Education and Charles Darwin University in the Northern Territory. SATAC receives and processes undergraduate and postgraduate applications for admission to TAFE SA, Charles Darwin University and the three universities in South Australia.

The interests in this associate are not considered material to the Corporation's core activities. Consequently, as per AASB 128 *Investments in Associates and Joint Ventures*, they have not been taken up in the accounts on an equity basis.

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*
- relevant Australian Accounting Standards.

For the 2018-19 financial statements the Corporation 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 note 9.2.

The financial statements are 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 the item measured.

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, 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
- 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.

Where asset and liability line items combine amounts expected to be realised within 12 months and more than 12 months, the Corporation has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

TAFE SA

Notes to and forming part of the financial statements

for the year ended 30 June 2019

1.2. Objectives and functions

TAFE SA was established as a Public Corporation on 1 November 2012 by the *TAFE SA Act 2012* (the Act). TAFE SA is responsible to the Minister for Education.

The primary objectives of the Corporation are to:

- provide technical and further education in a manner that is efficient, effective and responsive to the needs of industry, students and the general community
- undertake or facilitate research that relates to technical and further education
- provide consultancy or other services, for a fee or otherwise, in any area in which staff of TAFE SA have particular expertise developed (whether wholly or partly) in the course of, or incidental to, the provision of technical and further education
- undertake or provide for the development or use, for commercial, community or other purposes, of any intellectual property, product or process created or developed (whether wholly or partly) in the course of, or incidentally to, the provision of technical and further education
- perform any other function assigned to it by the Minister.

The *Public Corporations Act 1993* applies to TAFE SA and requires a Charter and Performance Statement to be prepared for TAFE SA by the Minister and Treasurer after consultation with TAFE SA.

Functions of TAFE SA

In reference to the functions set out in the *TAFE SA Act 2012* and the *TAFE SA Charter*, the Corporation's functions include:

- delivering government-funded VET services that meet the economic and social needs of South Australia as identified by the Purchasing Minister
- supporting the Purchasing Minister to achieve policy objectives in the development of a competitive market for VET services
- strengthening VET in schools activity in support of the government's policy objectives
- delivering higher education programs
- delivering educational programs and services to international students residing in South Australia
- providing a financial return to government on fee for service activities delivered in Australia; and any other VET commercial ventures as expressly identified in the Minister-approved Business and Strategic Plans.

Funding

The Corporation is predominantly funded by the Department for Innovation and Skills (DIS).

In addition, income is generated from sales and fee for service. These include:

- student fees and charges
- fee for service – industry and enterprises
- global engagement and export
- international student recruitment.

The financial activities of the Corporation are primarily conducted through a Special Deposit Account with the Department of Treasury and Finance (DTF) pursuant to section 8 of the *Public Finance and Audit Act 1987*. The Special Deposit Account is used for funds provided by the *WorkReady* program from DIS, Commonwealth grants and revenues from fees and charges.

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

1.3. Budget performance

The budget performance table compares the Corporation'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.

	Original Budget 2019 \$'000	Actual 2019 \$'000	Variance \$'000
Statement of Comprehensive Income			
Expenses			
Employee benefits expense	224 688	237 069	12 381
Supplies and Services	119 661	122 702	3 041
Depreciation and amortisation	4 908	4 472	(436)
Net Loss from the disposal of non-current assets	-	191	191
Grants and subsidies	75	75	-
Other expenses	961	1 799	838
Total expenses	350 293	366 308	16 015
Income			
Grants and subsidies from Department for Innovation and Skills	244 808	258 785	13 977
Student and other fees and charges	97 859	83 936	(13 923)
Commonwealth grants	2 692	1 494	(1 198)
Other grants and contributions	2 176	7 828	5 652
Resources received free of charge	-	2 196	2 196
Other income	3 169	3 831	662
Total income	350 704	358 070	7 366
Net revenue from / (cost) of providing services	411	(8 238)	(8 649)
Net result	411	(8 238)	(8 649)
Other comprehensive income			
<i>Items that will not be reclassified to net result</i>			
Changes in revaluation surplus	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive result	411	(8 238)	(8 649)

	Original Budget 2019 \$'000	Actual 2019 \$'000	Variance \$'000
Investing expenditure summary			
Total existing projects	352	385	33
Total annual programs	2 560	2 011	(549)
Total investing expenditure	2 912	2 396	(516)

The variance to Original Budget is mainly due to delays in the works at Mount Barker and Murray Bridge campuses and repairs and maintenance expenditure that was not able to be capitalized.

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

1.4. Significant transactions with government related entities

Significant transactions with the SA Government are identifiable throughout this financial report. In addition:

- The Corporation had significant transactions with the Department for Innovation and Skills – refer Note 4.1

2. Board, committees and employees

2.1. Key management personnel

Key management personnel of TAFE SA include the Minister for Education, the Chief Executive Officer and the twelve former and current members of the Executive Team and fourteen former and current non-executive board members who have, or during the year have had, responsibility for the strategic direction and management of TAFE SA.

Total compensation for key management personnel was \$2.3 million in 2018-19 and \$2.5 million in 2017-18.

The compensation disclosed in this note excludes salaries and other benefits the Minister for Education receives. The Minister'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 the *Parliamentary Remuneration Act 1990*.

	2019	2018
	\$'000	\$'000
Compensation		
Salaries and other short term employee benefits	1 871	2 120
Post-employment benefits	296	182
Other long-term employment benefits	77	240
Termination benefits	97	-
Total compensation	2 341	2 542

Transactions with key management personnel and other related parties

There were no transactions with key management personnel and other related parties.

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

2.2. Board and committee members

Members during the 2019 financial year were:

TAFE SA Board

Rick Persse[^] (to December 2018, Chair to November 2018)
Jacqueline McGill (from October 2018, Chair from December 2018)
Andrew Marshall (from November 2018)
Craig Fowler (from October 2018)
David Hughes (from May 2019)
Jennifer Cleary (from November 2018)
Joanne Denley
John Chapman[^] (to December 2018)
Judith Curran (from November 2018)
Lucinda Byers[^] (to October 2018)
Sam Scammell (from October 2018)
Tammie Pribanic[^] (to April 2019)
Tim Goodes[^] (to December 2018)

Academic Board (to December 2018)

Joanne Denley (Chair)
John Chapman[^]

Academic & Quality Committee (from January 2019)

Craig Fowler (Chair)
Joanne Denley
Judith Curran

Audit & Risk Committee

Joanne Denley (Chair)
Andrew Marshall (from November 2018)
John Chapman[^] (to December 2018)
Judith Curran (from November 2018)
Lucinda Byers[^] (to October 2018)
Sam Scammell (from October 2018)

Finance Committee

Tim Goodes[^] (to December 2018, Chair from July 2018 to November 2018)
Jacqueline McGill (from October 2018, Chair from December 2018 to May 2019)
David Hughes (from May 2019, Chair from June 2019)
Andrew Marshall (from November 2018)
Craig Fowler (from October 2018)
Jennifer Cleary (from November 2018)
John Chapman[^] (to December 2018)
Tammie Pribanic[^] (to April 2019)

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

2.2. Board and committee members (continued)

Human Resources Committee (from January 2019)

Jacqueline McGill (Chair)

Joanne Denley

Sam Scammell

Higher Education Academic Board

Craig Fowler (from March 2019, Chair from March 2019)

^In accordance with the Premier and Cabinet Circular No. 16, government employees did not receive any remuneration for board/committee duties during the financial year.

Board and committee remuneration

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

	2019	2018
\$1 - \$19 999	-	6
\$20 000 - \$39 999	5	-
\$40 000 - \$59 999	2	8
\$60 000 - \$79 999	-	1
Total number of members	7	15

The total remuneration received or receivable by members was \$243 000 (2018: \$428 700). Remuneration of members includes sitting fees, superannuation contributions, salary sacrifice benefits, fringe benefits and related fringe benefits tax.

2.3. Employee benefits expense

	2019	2018
	\$'000	\$'000
Salaries and wages (including annual leave)	188 403	181 438
Employment on-costs - superannuation	18 855	17 935
Employment on-costs - other	10 515	10 308
Long service leave	8 862	4 786
Targeted voluntary separation payments	7 507	9 218
Workers compensation	1 098	(152)
Skills and experience retention leave	1 094	919
Board and committee fees	227	395
Other employee related costs	508	655
Total employee benefits expenses	237 069	225 502

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

2.3. Employee benefits expense (continued)

Employment on-costs – superannuation

The superannuation employment on-cost charge represents the Corporation's contributions to superannuation plans in respect of current services of current employees.

Executive remuneration

	2019 Number	2018 Number
The number of employees whose remuneration received or receivable falls within the following bands:		
\$149 000 to \$151 000*	N/A	2
\$151 001 to \$171 000	11	12
\$171 001 to \$191 000	7	6
\$191 001 to \$211 000	5	3
\$211 001 to \$231 000	1	2
\$231 001 to \$251 000	3	1
\$251 001 to \$271 000 ^Δ	3	1
\$271 001 to \$291 000 ^{ΔO}	4	1
\$291 001 to \$311 000 ^{ΔO}	1	1
\$311 001 to \$331 000 ^{ΔO}	2	1
\$331 001 to \$351 000 ^O	-	1
\$371 001 to \$391 000 ^Δ	1	-
\$411 001 to \$431 000 ^Δ	2	-
\$551 001 to \$571 000	-	1
Total	40	32

* This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2018-19

Δ This bandwidth includes employees that have received TVSP termination payments in 2018-19.

O This bandwidth includes employees that have received TVSP termination payments in 2017-18.

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. The total remuneration received by these employees for the year was \$8.9 million (2018: \$6.7 million)

The table includes 10 non-executive employees who received / accepted TVSP termination payments (2018: 4).

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

2.3. Employee benefits expense (continued)

Targeted voluntary separation packages

The number of employees who accepted a TVSP during the reporting period was 99 (2018: 112).

	2019	2018
	\$'000	\$'000
Amount paid to separated employees:		
Targeted Voluntary Separation Packages	7 507	9 218
Leave paid to separated employees	2 117	3 698
Recovery from the Department of Treasury and Finance	(4 638)	(9 344)
Net cost to TAFE SA	4 986	3 572

2.4. Employee benefits liability

	2019	2018
	\$'000	\$'000
<u>Current</u>		
Annual leave	7 688	7 129
Accrued salaries and wages	4 859	4 704
Non-attendance days	4 552	4 533
Long service leave	2 571	2 578
Skills and experience retention leave	1 833	1 788
Total current employee benefits	21 503	20 732
<u>Non-current</u>		
Long service leave	44 976	40 754
Total non-current employee benefits	44 976	40 754
Total employee benefits	66 479	61 486

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, wages, annual leave, skills and experience retention leave (SERL), non-attendance days and sick leave.

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

The annual leave liability and the SERL liability in full is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid. Non-attendance days are accrued annually for employees engaged under the TAFE SA Act but are non-cumulative.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave 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 as note 11.1.

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

3. Expenses

Employee benefits expenses are disclosed in note 2.3.

3.1. Supplies and services

	2019	2018
	\$'000	\$'000
Operating lease payments	55 683	55 809
General administration and consumables	24 740	24 534
Fees - contracted services	12 553	12 784
Books, materials and copyright	9 975	11 199
Minor works, maintenance and equipment	8 605	9 469
Information technology expense	8 253	10 414
Accommodation and telecommunication	1 426	1 397
Funding to external vocational education and training providers	349	465
Consultants	192	280
Legal costs	168	438
Other	758	679
Total supplies and services	122 702	127 468

Operating leases payments

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

Consultants

The number of consultancies and dollar amount paid/payable (included in supplies and services expense) to consultants that fell within the following bands:

	2019	2019	2018	2018
	Number	\$'000	Number	\$'000
Below \$10 000	2	8	3	20
\$10 000 or above	5	184	4	260
Total	7	192	7	280

3.2. Depreciation and amortisation

	2019	2018
	\$'000	\$'000
Depreciation		
Plant and equipment	1 700	1 776
Leasehold improvements	380	206
Library collection	87	931
Intangible assets	2 305	2 092
Total depreciation and amortisation	4 472	5 005

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

3.2. Depreciation and amortisation (continued)

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 capitalised as an asset and depreciated over the remaining term of the lease or estimated useful life of the improvement, whichever is shorter.

Review of accounting estimates

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, on an annual basis. Changes in the expected 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 following classes of assets as follows:

Class of asset	Useful life (years)
Plant and Equipment	1 - 45
Library Collection	3 - 15
Leasehold Improvements	5 - 15
Intangibles	5 - 10

The amortisation period and the amortisation method for intangible assets is reviewed on an annual basis.

3.3. Other expenses

	Note	2019	2018
		\$'000	\$'000
Other*		560	506
Allowance for doubtful debts and debt write-offs	6.2	1 239	754
Total other expenses		1 799	1 260

*Audit fees paid/payable to the Auditor-General's Department relating to work performed under the Public Finance and Audit Act were \$249 100 (2018: \$276 700). No other services were provided by the Auditor-General's Department.

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3.4. Net (loss) from the disposal of property, plant and equipment

	2019	2018
	\$'000	\$'000
<u>Plant and equipment</u>		
Proceeds from disposal	161	7
Less carrying amount of assets disposed	(352)	(68)
Net (loss) from disposal of plant and equipment	(191)	(61)
<u>Total property, plant and equipment</u>		
Total proceeds from disposal	161	7
Less total carrying amount of assets disposed	(352)	(68)
Total net (loss) from disposal of assets	(191)	(61)

4. Income

4.1. Grants and subsidies from the Department for Innovation and Skills

	2019	2018
	\$'000	\$'000
VET subsidies	146 127	113 913
Community services	12 404	12 101
VET capital	4 975	4 289
TVSP reimbursement	-	9 344
Other funding	95 279	106 564
Total grants and subsidies from the Department for Innovation and Skills	258 785	246 211

4.2. Commonwealth grants

	2019	2018
	\$'000	\$'000
Aboriginal projects	550	607
Other specific commonwealth revenue	944	830
Total Commonwealth grants	1 494	1 437

Aboriginal projects including the Aboriginal Torres Strait Islander Rural and Remote Aged Care Training Project contributed \$550 000 in grants revenue during 2019 (2018: \$607 000).

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4.3. Student and other fees and charges

	2019	2018
	\$'000	\$'000
Sales/fee for service revenue	46 314	48 156
Student enrolment fees and charges	32 979	35 714
Other user fees and charges	4 643	4 865
Total student and other fees and charges	83 936	88 735

4.4. Other grants and contributions

	2019	2018
	\$'000	\$'000
Grants and subsidies revenue*	7 638	1 854
Grants from other entities within the SA Government	135	125
Miscellaneous contributions	24	45
Donations	31	22
Total other grants and contributions	7 828	2 046

*Includes \$4.6 million recovery from Department of Treasury and Finance for Targeted Voluntary Separation Packages.

4.5. Resources received free of charge

	2019	2018
	\$'000	\$'000
Services received free of charge - Shared Services SA	2 196	2 619
Total resources received free of charge	2 196	2 619

Financial reporting services were provided free of charge by Shared Services SA as TAFE SA is a non-billable client.

4.6. Other income

	2019	2018
	\$'000	\$'000
Sundry income	3 782	1 990
Recoup of salaries	47	66
Interest	2	5
Total other income	3 831	2 061

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5. Non-financial assets

5.1. Property, plant and equipment

	2019	2018
	\$'000	\$'000
<u>Leasehold improvements</u>		
Leasehold improvements at cost (deemed fair value)	4 574	3 382
Accumulated amortisation	(799)	(418)
Total leasehold improvements	3 775	2 964
<u>Plant and equipment</u>		
Plant and equipment at cost (deemed fair value)	28 945	29 936
Accumulated depreciation	(18 089)	(17 988)
Total plant and equipment	10 856	11 948
<u>Library collection</u>		
Library collection at fair value	16 429	16 341
Accumulated depreciation	(15 671)	(15 584)
Total library collection	758	757
<u>Work in progress</u>		
Capital work in progress at cost	254	799
Total work in progress	254	799
Total property, plant and equipment	15 643	16 468

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

Property plant and equipment is recorded at fair value. Detail about the Corporation's approach to fair value is set out in note 11.2.

Plant and equipment includes \$7.3 million of fully depreciated plant and equipment still in use; and \$400 000 of plant and equipment retired from active use but not classified as held for sale.

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

5.1 Property, plant and equipment (continued)

Reconciliation 2018-19

	Plant and equipment	Library collection	Leasehold improvements	Work in progress	Total
2019	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2018	11 948	757	2 964	799	16 468
Additions	947	88	95	288	1 418
Disposals	(352)	-	-	-	(352)
Transfers between asset classes	-	-	-	276	276
Capitalisation	13	-	1 096	(1 109)	-
Depreciation	(1 700)	(87)	(380)	-	(2 167)
Carrying amount at 30 June 2019	10 856	758	3 775	254	15 643

Reconciliation 2017-18

	Plant and equipment	Library collection	Leasehold improvements	Work in progress	Total
2018	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2017	12 140	1 578	1 430	537	15 685
Additions	1 652	110	-	2 002	3 764
Disposals	(68)	-	-	-	(68)
Capitalisation	-	-	1 740	(1 740)	-
Depreciation	(1 776)	(931)	(206)	-	(2 913)
Carrying amount at 30 June 2018	11 948	757	2 964	799	16 468

TAFE SA
Notes to and forming part of the financial statements
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5.2. Intangible assets

	2019	2018
	\$'000	\$'000
<u>Computer software</u>		
Internally developed computer software	7 218	6 951
Accumulated amortisation	(3 142)	(2 357)
Purchased computer software	14 218	14 220
Accumulated amortisation	(10 957)	(9 437)
Computer software - work in progress	1 716	1 187
Total computer software	9 053	10 564

Intangible assets are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The acquisition of or internal development of software is capitalised only when the expenditure meets the definition and recognition criteria and when the amount of expenditure is greater than or equal to \$10 000.

The internally developed computer software predominantly relates to the Corporation's Student Information System (SIS) with a remaining useful life of (4-7 years) and carrying amount of \$4.0 million.

Reconciliation 2018-19

	Intangibles work		Total
	Intangibles	in progress	
	\$'000	\$'000	\$'000
Carrying amount at 1 July 2018	9 377	1 187	10 564
Additions	-	1 070	1 070
Capitalisations	265	(265)	-
Transfers between asset classes	-	(276)	(276)
Amortisation	(2 305)	-	(2 305)
Carrying amount at 30 June 2019	7 337	1 716	9 053

Reconciliation 2017-18

	Intangibles work		Total
	Intangibles	in progress	
	\$'000	\$'000	\$'000
Carrying amount at 1 July 2017	10 092	496	10 588
Additions	-	2 068	2 068
Capitalisations	1 377	(1 377)	-
Amortisation	(2 092)	-	(2 092)
Carrying amount at 30 June 2018	9 377	1 187	10 564

TAFE SA
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5.3. Inventories

	2019	2018
	\$'000	\$'000
<u>Current - held for distribution at no or nominal amount</u>		
Materials at cost	114	148
<u>Current - held for sale</u>		
Materials at cost	705	690
Total current inventories	819	838
Total inventories	819	838

Inventories held for distribution at no or nominal consideration are measured at cost and adjusted when applicable for any loss of service potential. Inventories held for sale are measured at the lower of cost or their net realisable value.

Cost is assigned to low volume inventory items on a specific identification of cost basis.

Cost of all other inventory is measured on the basis of the first-in, first-out method. Net realisable value is determined using the estimated sales proceeds less costs incurred in marketing, selling and distribution to customers.

6. Financial assets

6.1. Cash and cash equivalents

	2019	2018
	\$'000	\$'000
Deposits with the Treasurer	58 481	54 789
Imprest account / cash on hand	11	12
Total cash and cash equivalents	58 492	54 801

Deposits with the Treasurer

The Corporation has a general operating account with the Treasurer.

TAFE SA
Notes to and forming part of the financial statements
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6.2. Receivables

	2019	2018
	\$'000	\$'000
<u>Current</u>		
Trade receivables		
From government entities	875	1 117
From non-government entities	12 661	14 153
Less allowance for doubtful debts	(1 366)	(2 144)
Total trade receivables	12 170	13 126
GST input tax recoverable	6 646	4 049
Accrued revenue	1 394	1 262
Prepayments	1 487	1 412
Workers' compensation recoveries	18	33
Total current receivables	21 715	19 882
<u>Non-Current</u>		
Workers compensation recoveries	44	56
Total non-current receivables	44	56
Total Receivables	21 759	19 938

Receivables arise in the normal course of selling goods and services to other government agencies and to the public. 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. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost.

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

Other than as recognised in the allowance for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. There is no concentration of credit risk.

Refer to note 11.3 for further information on risk management.

Impairment of receivables

	2019	2018
	\$'000	\$'000
Balance at 30 June 2018 under AASB 139	2 144	2 231
Adjustment on initial adoption of AASB 9	(1 070)	-
Carrying amount at the beginning of the period	1 074	2 231
Increase / (decrease) in the allowance	1 239	754
Amounts written off	(947)	(841)
Carrying amount at the end of the period	1 366	2 144

TAFE SA
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7. Liabilities

7.1. Payables

	2019	2018
	\$'000	\$'000
<u>Current</u>		
Accrued expenses	13 602	8 247
Employment on-costs	4 001	3 895
Trade payables	4 388	4 457
Paid parental leave scheme payable	25	25
Other	12	21
Total current payables	22 028	16 645
<u>Non-current</u>		
Employment on-costs	5 038	4 721
Creditors	69	68
Total non-current payables	5 107	4 789
Total payables	27 135	21 434

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

Employment on-costs include payroll tax, Return to Work SA levies and superannuation contributions and are settled when the respective employee benefits they relate to is discharged.

The Corporation makes contributions to several 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 the South Australian Superannuation Board and externally managed 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 has changed from the 2018 rate (61%) to 62% and the average factor for the calculation of employer superannuation on-costs has also changed from the 2018 rate of 9.9% to 9.8%. These rates are used in the employment on-cost calculation. The net financial effect of the changes in current financial year is immaterial.

Paid parental leave scheme

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

TAFE SA
Notes to and forming part of the financial statements
for the year ended 30 June 2019

7.2. Provisions

	2019	2018
	\$'000	\$'000
<u>Current</u>		
Provision for workers compensation	860	886
Total current provisions	860	886
<u>Non-current</u>		
Provision for workers compensation	1 886	2 056
Total non-current provisions	1 886	2 056
Total provisions	2 746	2 942
Carrying amount at the beginning of the period	2 942	4 344
(Decrease) in provisions recognised	(196)	(1 402)
Carrying amount at the end of the period	2 746	2 942

A provision has been reported to reflect unsettled 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 of the Commissioner for the Public Sector. The provision is for the estimated cost of ongoing payments to employees as required under current legislation.

The Corporation is responsible for the payment of workers' compensation claims.

7.3. Unearned Revenue

	2019	2018
	\$'000	\$'000
<u>Current</u>		
Unearned Revenue - SA Government entities	19	44
Unearned revenue non-SA Government entities	2 744	2 825
Total other liabilities	2 763	2 869

TAFE SA
Notes to and forming part of the financial statements
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8. Other disclosures

8.1. Cash flow

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

	2019	2018
	\$'000	\$'000
Reconciliation of cash and cash equivalents at the end of the reporting period		
Cash and cash equivalents disclosed in the Statement of Financial Position	58 492	54 801
Balance as per the Statement of Cash Flows	58 492	54 801
Reconciliation of net cash provided by / (used in) operating activities to net cost of providing services		
Net cash provided by / (used in) operating activities	6 207	(9 332)
Add / (less) non-cash items		
Depreciation and amortisation	(4 472)	(5 005)
Net (loss) from disposal of non-current and other assets	(191)	(61)
Resources received free of charge	2 196	2 619
Adjustments on initial adoption of AASB 9	(1 070)	-
Other expenses	-	(43)
Supplies and services	(2 196)	(2 619)
Decrease in employee benefits	(4 993)	(2 911)
Movement in assets and liabilities		
Increase in receivables	1 821	510
Decrease in inventories	(19)	(162)
(Increase) in payables	(5 890)	(3)
Decrease / (Increase) in unearned revenue	106	(620)
Decrease / (Increase) in other liabilities	67	(37)
Decrease in provisions	196	1 402
Net cost of providing services	(8 238)	(16 262)

TAFE SA
Notes to and forming part of the financial statements
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9. Changes in accounting policy

9.1. 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
- 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
- increasing the bands from \$10 000 to \$20 000 for employee and board member reporting.

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

The Accounting Policy Statements also set out requirements in relation to Accounting Standards and Statements not yet effective. This is further discussed in note 10.3.

9.2. 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 and adjustments to the amounts recognised in financial statements.

As part of the adoption of AASB 9, TAFE 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 year, this information was presented as part of other expenses.
- *AASB 7 Financial Instruments: Disclosures* requires amended disclosures due to changes arising from AASB 9, these disclosures have been provided for the current year because the comparatives have not been restated.

In accordance with transitional provisions and the *Treasurer's Instructions (Accounting Policy Statements)*, *AASB 9 Financial Instruments* was adopted without restating comparative information for classification and measurement requirements. All adjustments relating to classification and measurement are recognised in retained earnings at 1 July 2018.

The adoption of AASB 9 has not had a significant effect on the recognition, measurement or classification of financial liabilities.

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9.2. AASB 9 Financial instruments (continued)

The total impact on the Corporation's retained earnings as at 1 July 2018 is as follows:

	2018
	\$'000
Closing retained earnings 30 June 2018 – AASB 139	<u>(8 185)</u>
Increase in provision for trade receivables	-
Adjustment to retained earnings from adoption of AASB 9	1 070
Adjustment to retained earnings from application of Treasurer's Instructions	<u>-</u>
Opening retained earnings 1 July 2018 – AASB 9	<u>(7 115)</u>

On 1 July 2018, TAFE SA has assessed its financial assets and the appropriate AASB 9 categories based on the business model and contractual cash flow characteristics applying to the asset. AASB 9 eliminates the AASB 139 categories of held to maturity, loans and receivables and available for sale.

The classification of TAFE SA's financial instruments did not change on the date of initial application of AASB 9.

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 the department are subject to AASB 9's new expected credit loss model:

- trade receivables from provision of services

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

Trade receivables

New impairment requirements result in a provision being applied to all receivables rather than only on those receivables that are credit impaired. TAFE SA has adopted the simplified approach under *AASB 9 Financial Instruments* and measured lifetime expected credit losses on all trade receivables using a provision matrix approach as a practical expedient to measure the impairment provision. This resulted in a decrease of the loss allowance on 1 July 2018 of \$1.1 million for trade receivables external to government.

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

Trade and other receivables that were classified as loans and receivables under AASB 139 are now classified at amortised cost as they meet the appropriate criteria under AASB 9.

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10. Outlook

10.1 Unrecognised contractual commitments

Commitments include operating and outsourcing commitments arising from contractual or statutory 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 Australian Taxation Office (ATO). If GST is not payable to, or recoverable from, the ATO the commitments are disclosed on a gross basis.

Other commitments

	2019	2018
	\$'000	\$'000
Within one year	9 380	10 156
Later than one year and not later than five years	13 845	1 229
Total other commitments	23 225	11 385

TAFE SA's other commitments relate to cleaning contracts, security contracts and other procurement commitments.

Operating leases commitments

Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities are payable as follows:

	2019	2018
	\$'000	\$'000
Within one year	10 761	57 602
Later than one year and not later than five years	179	231 869
Later than five years	-	573 421
Total operating lease commitments	10 940	862 892

The Corporation has entered into a number of operating lease agreements, as lessee, for buildings and other facilities where the lessor effectively retains all risks and benefits incidental to ownership of the items held under the operating leases.

TAFE SA operating leases are for campuses, office accommodation, equipment and motor vehicles. The leases are non-cancellable with some leases having the right of renewal. TAFE SA campuses are leased from Department for Innovation and Skills under a Memorandum of Administrative Arrangement (MAA). Rent is payable in advance. The transfer of land and building improvements relating to TAFE SA campuses from Renewal SA to TAFE SA in 2019-20 was announced in the 2019-20 State Budget papers published on 18 June 2019. Pending the transfer, a short term continuation of existing lease arrangements with the Department for Innovation and Skills will occur.

Motor vehicles are leased from South Australian Government Financing Authority (SAFA) through their agent LeasePlan Australia.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. The straight-line basis is representative of the pattern of benefits derived from the leased assets.

TAFE SA
Notes to and forming part of the financial statements
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10.2. Contingent assets and liabilities

The estimated cost of rectification / remediation training of Aviation Engineering Maintenance students who have been impacted by the Civil Aviation Safety Authority audit is \$1.4 million. The claim will be settled directly between SAicorp the insurer and the claimant.

10.3. Impact of standards and statements not yet effective

The Corporation has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations not yet effective.

Treasurer's Instructions (Accounting Policy Statements) 2019 issued by the Treasurer on 22 March 2019 are effective for 2018-19 reporting period and are addressed below in relation to Standards not yet effective and in note 9.1. There are no Accounting Policy Statements that are not yet effective.

The material impacts on the department are outlined below.

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

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

Objective

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 expected to have a material impact on the timing of recognition of revenue by the Corporation. If AASB 15 and AASB 1058 were applied to the income received in 2018-19 it is estimated that TAFE SA revenue would decrease by \$2.8 million, with an equal increase in deferred revenue liabilities.

The actual impact in the 2019-20 financial statements will vary due to levels of income received, completion of performance obligations and the content of agreements. TAFE SA shall apply the standards retrospectively to all contracts at the date of initial application, with an adjustment to the opening balance of retained earnings.

The Corporation has elected to adopt the input method, except where output method is deemed more appropriate due to the nature of the contract to recognise the completion of performance obligations.

Revenue earned in prior periods but not yet receivable is recorded as a contract asset in the Statement of Financial Position. Revenue received in prior periods but not yet recognised is recorded as a contract liability in the Statement of Financial Position.

TAFE SA
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10.3. 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 the Corporation must adopt for the transition to AASB 15 – *Revenue from Contracts with Customers* and AASB 1058 – *Income of Not for Profit Entities*. These requirements include that the Corporation will:

- apply AASB 15 and AASB 1058 retrospectively. The cumulative effect of initially applying the Standards will be recognised at 1 July 2019. Comparatives will not be restated
- not apply the AASB 15 and the AASB 1058 completed contracts practical expedient
- apply the AASB 15 practical expedient for all contract modifications that occur before the date of initial application.

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

- apply, where permitted, the short-term licences recognition exemption
- adopt \$15,000 as the threshold to determine whether a licence is a licence for which the transaction price is of low value and will apply the low value licence recognition exemption for all low value licences
- not recognise volunteer services when the services would not have been purchased if they had not been donated.

AASB 16 – Leases

The Corporation will adopt AASB 16 – *Leases* from 1 July 2019.

Objective

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

The Corporation 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)*.

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 being 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. The Corporation has estimated the impact of this change and the results as at 1 July 2019.

The estimated impact is based on applying AASB 16's transition approach to those leases identified as leases by the Corporation 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.

TAFE SA
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10.3 Impact of standards and statements not yet effective (continued)

Based on the leases in place as at 30 June 2019 in the 2019-20 financial statements TAFE SA will recognise a right-of-use asset and lease liability of an estimated \$1.2 million. The actual impact in the 2019-20 financial statements will vary due to any changes in the lease terms and any new leases commenced.

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

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

The estimated impact on 2019-20 Statements of Comprehensive Income is expected to be immaterial.

Related accounting policies

The Treasurer's Instructions (Accounting Policy Statements) 2019 sets out key requirements that the Corporation must adopt for the transition from *AASB 117 Leases* to *AASB 16 Leases*. These requirements include that the Corporation 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
- not transition operating leases for which the lease term ends before 30 June 2020
- On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets TAFE SA has applied the optional exemptions to not recognise the leases liability and right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. There is an exception for motor vehicle leases, where Treasurer's approval has been granted not to apply this exemption to leases with a term remaining of less than 12 months

The Treasurer's Instructions (Accounting Policy Statements) 2019 also sets out requirements for on-going application. These requirements include that Corporation 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
- on initial recognition not record at fair-value leases that have significantly below-market terms and conditions principally to enable the department to further its objectives, unless they have already been recorded at fair-value prior to 1 July 2019.

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10.4. Events after the reporting period

The transfer of land and building improvements relating to TAFE SA campuses from Renewal SA to TAFE SA in 2019-20 was announced in the 2019-20 State Budget papers published on 18 June 2019.

Pending the transfer, a short term continuation of existing lease arrangements with the Department for Innovation and Skills will occur.

11. Measurement and risk

11.1. Long service leave liability - measurement

AASB 119 Employee Benefits contains 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 on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over the education sector across government.

AASB 119 Employee Benefits requires the use of the yield on long term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long term Commonwealth Government bonds reduced to 1.25% from 2.50% in 2018

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 \$3.7 million and employee benefits expense of \$3.7 million. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographic 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 and 2.2% (2018: 3%) for annual leave, non-attendance days, and skills, experience and retention leave liability. As a result, there is no net financial effect resulting from changes in the salary inflation rate for long service leave liability.

Long service leave entitlements for hourly paid instructors (HPIs) have been excluded from these statements due to the complexities and impracticability of retrieving accurate information in a timely manner from CHRIS21 payroll system. Long service leave entitlement data for HPIs is only updated in CHRIS21 once actual leave requests have been manually verified against Human Resource records on a case by case basis. HPI long service leave is immaterial.

Current long service leave reflects the portion of leave expected to be settled within the next 12 months based on the average long service leave taken annually over the previous 2 years.

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

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11.2 Fair Value (continued)

Where assets are acquired at no value, or minimal value, they are recorded at fair value in the Statement of Financial Position. However, if the assets are acquired at no or nominal value as part of a restructure of administrative arrangements, then the assets are recognised at book value (that is the amount recorded by the transferor public authority immediately prior to the restructure).

Revaluation

Property, plant and equipment are subsequently measured at fair value after allowing for accumulated depreciation.

All non-current tangible assets are valued at fair value and revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1.5 million and estimated useful life is greater than three years.

Revaluation is undertaken on a regular cycle as detailed below. If at any time management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the asset.

Fair value hierarchy

TAFE SA classifies fair value measurement using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation:

- Level 1 – traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2 – not traded in an active market and are derived from inputs (inputs other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly.
- Level 3 – not traded in an active market and are derived from unobservable inputs.

TAFE SA's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

During 2019 and 2018, the Corporation had no valuations categorised into level 1; there were no transfers of assets between level 1 and 2 fair value hierarchy levels and there were no changes in valuation technique.

Fair value classification - non-financial assets at 30 June 2019

	Note	Level 3 \$'000	Total \$'000
<u>Recurring fair value measurements</u>			
Plant and Equipment	5.1	10 856	10 856
Library Collection	5.1	758	758
Leasehold Improvements	5.1	3 775	3 775
Total recurring fair value measurements		15 389	15 389
Total		15 389	15 389

Plant and equipment

All items of plant and equipment had a fair value at the time of acquisition less than \$1.5 million and had an estimated useful life less than three years. Plant and equipment has not been revalued in accordance with APS 116.D. The carrying value of these items is deemed to approximate fair value.

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11.3. Financial instruments

Financial risk management

Risk management is managed by TAFE SA's corporate services section. TAFE 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 Principles and Guidelines*.

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

Liquidity risk

TAFE SA is funded principally from Department for Innovation and Skills. TAFE 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 processes to meet the expected cash flows.

Refer to note 7.1 for further information.

Credit risk

TAFE SA has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history.

No collateral is held as security and no credit enhancements relate to financial assets held by TAFE SA.

Impairment of financial assets

Loss allowances for receivables are measured at an amount equal to lifetime expected credit loss using the simplified approach in AASB 9. TAFE SA uses an allowance matrix to measure the expected credit loss of receivables from non-government debtors which comprise a large number of small balances.

To measure the expected credit losses, receivables are grouped based on shared risks characteristics and the days past due. When estimating expected credit loss, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience and informed credit assessment, including forward-looking information.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which TAFE SA is exposed to credit risk.

The expected credit loss of government debtors is considered to be nil based on the external credit ratings and nature of the counterparties.

Loss rates are calculated based on the probability of a receivable progressing through stages to write off based on the common risk characteristics of the transaction and debtor.

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11.3. Financial instruments (continued)

The following table provides information about the exposure to credit risk and expected credit loss for non-government debtors.

	Debtor gross carrying amount	Loss	Lifetime expected losses
	\$'000	%	\$'000
Current (not past due)	3 899	0.23%	9
1 – 30 days past due	2 583	2.58%	67
31 – 60 days past due	523	12.56%	66
61 – 90 days past due	875	18.34%	160
More than 90 days past due	4 462	23.84%	1 064
Loss allowance	12 342		1 366

Loss rates are based on actual history of credit loss, these rates have been adjusted to reflect differences between previous economic conditions, current conditions and the Corporation's view of the forecast economic conditions over the expected life of the receivables.

Impairment losses are presented as net impairment losses within net result, subsequent recoveries of amounts previously written off are credited against the same line item.

Receivables are written off when there is no reasonable expectation of recovery. All clients with outstanding debts receive three overdue reminders prior to being transferred to the debt collection agency. All debts returned by the debt collection agency as either 'uneconomical to collect' or where no activity has occurred after 180 days, are written off by TAFE SA.

Receivables with a contractual amount of \$946 100 written off during the year are still subject to enforcement activity.

TAFE SA considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and therefore the expected credit loss is nil.

All of TAFE SA's debt investments at amortised cost are considered to have low credit risk and the consideration of expected credit loss was limited to 12 months expected losses. The expected credit loss is nil.

In the comparative period, the impairment of receivables was assessed based on the incurred loss model. The allowance was recognised when there was objective evidence that a receivable was impaired. The allowance for impairment was recognised in other expenses for specific debtors and debtors assessed on a collective basis for which such evidence existed.

Market risk

TAFE SA does not trade in foreign currency, nor enter into transactions for speculative purposes, nor for hedging. TAFE SA does not undertake any hedging in relation to interest or foreign currency risk and manages its risk as per the government's risk management strategy articulated in TI 23 *Management of Foreign Currency Exposures*.

There is no exposure to interest rate risk as TAFE SA does not have interest bearing liabilities.

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11.3. Financial instruments (continued)

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in the respective financial asset / financial liability note.

Classification applicable until 30 June 2018 under AASB 139 Financial Instruments: Recognition and Measurement

The carrying amounts are detailed below of each of the following categories of financial assets and liabilities:

- Receivables
- Financial liabilities measured at cost

TAFE SA does not recognise any financial assets or financial liabilities at fair value but does disclose fair value in the notes. All of the resulting fair value estimates are included in level 2 as all significant inputs required are observable.

- The carrying value less impairment provisions of receivables and payables is a reasonable approximation of their fair values due to the short-term nature of these (refer to note 9.2).

Classification applicable from 1 July 2018 under AASB 9 Financial Instruments

On initial recognition, a financial asset which is a debt instrument is classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. A financial asset which is an equity instrument is classified as measured at fair value through other comprehensive income or fair value through profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest only on the principal amount outstanding.

TAFE SA measures all financial instruments at amortised cost.

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11.3 Financial instruments (continued)

Category of financial asset and financial liability	Note	2019 Carrying amount / fair value \$'000	2019 Contractual maturities Within 1 year \$'000
Financial assets			
Cash and cash equivalent			
Cash and cash equivalent	6.1	58 492	58 492
Financial assets at amortised cost			
Receivables ⁽¹⁾⁽²⁾	6.2	13 564	13 564
Total financial assets		72 056	72 056
Financial liabilities			
Financial liabilities at amortised cost			
Payables ⁽¹⁾	7.1	17 797	17 797
Total financial liabilities		17 797	17 797
Category of financial asset and financial liability	Note	2018 Carrying amount / fair value \$'000	2018 Contractual maturities Within 1 year \$'000
Financial assets			
Cash and cash equivalent			
Cash and cash equivalent	6.1	54 801	54 801
Loans and receivables			
Receivables ⁽¹⁾⁽²⁾	6.2	14 382	14 382
Total financial assets		69 183	69 183
Financial liabilities			
Financial liabilities at cost			
Payables ⁽¹⁾	7.1	12 516	12 516
Total financial liabilities		12 516	12 516

Receivables and Payables

⁽¹⁾ The receivables and payable amounts disclosed here exclude amounts relating to statutory receivables and payables (for example Commonwealth, State and Local Government taxes, fees and charges; Auditor- General's Department audit fees). In government, certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights and obligations have their source legislation such as levies, tax and equivalents, they would be excluded from the disclosure. The standard defines contract as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost).

⁽²⁾ The receivables amount disclosed here excludes prepayments as they are not financial assets. Prepayments are presented in note 6.2.