

Note 1: Overview

1.1 Objectives of Indigenous Business Australia

Indigenous Business Australia (IBA) is an Australian Government controlled entity, which was established on 5 March 1990, when the *Aboriginal and Torres Strait Islander Commission Act 1989* came into operation. On 23 March 2005, this Act was repealed and replaced by the *Aboriginal and Torres Strait Islander Act 2005* (the Act). IBA's purpose, set out at section 147 of the Act, is as follows:

1. a) to engage in commercial activities
b) to promote and encourage Aboriginal and Torres Strait Islander self-management and economic self-sufficiency
c) such other functions as are conferred on it by this Act.
2. Without limiting by implication the meaning of commercial activities in paragraph 1(a), those activities include the performance of functions that:
 - a) the Minister has authorised IBA to perform as an agent of the Commonwealth; or
 - b) the Minister has delegated to IBA.

IBA is structured to meet one outcome: improved wealth acquisition to support the economic independence of Aboriginal and Torres Strait Islander peoples through commercial enterprise, asset acquisition, and access to concessional home and business loans.

The continued existence of IBA in its present form and with its present programs is dependent on Government policy and on continuing appropriations by Parliament for IBA's administration and programs.

1.2 Basis of preparation of the financial report

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The financial statements have been prepared in accordance with:

- a) Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR) for reporting periods ending on or after 1 July 2017; and
- b) Australian Accounting Standards - Reduced Disclosure Requirements and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

This is the first time the general purpose financial statements have been prepared selectively applying applicable Reduced Disclosure Requirements of the Australian Accounting Standards. The Tier 2 reporting complies with the FRR and Australian Accounting Standards and Interpretations - Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets and liabilities which have been recognised at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless an alternative treatment is specifically required by an accounting standard or the FRR, assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow to the entity or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under executor contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments or the Schedule of Contingencies.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Statement of Comprehensive Income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.3 Significant accounting judgements and estimates

In the process of applying the accounting policies listed in this note, IBA has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- The fair value of property, plant and equipment, investment properties and other investments is based upon market inputs, backed by periodic external valuations.
- The fair value of the loans portfolio is based on market-derived inputs.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

1.4 Changes in Australian Accounting Standards

Adoption of new Australian Accounting Standards requirements

No accounting standard has been adopted earlier than the application date stated in the standard. The following new standards and amendments to standards were issued prior to the sign-off date:

- AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107
- AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle

The impact of the above standards did not, nor is expected to, have a material impact on the results of IBA. Other standards, amendments to standards or interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a financial impact on IBA.

Future Australian Accounting Standards requirements

The following new standards, amendments to standards or interpretations were issued by the AASB prior to the signing of these statements by the Chief Executive Officer and Chief Financial Officer and are expected to have a financial impact on IBA for future periods:

- AASB 9 Financial Instruments - December 2014 (Principal)
- AASB 15 Revenue from Contracts with Customers - October 2015 (Compilation)
- AASB 16 Leases - February 2016 (Principal)
- AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15
- AASB 2015-3 Amendments to Australian Accounting Standards - Effective Date of AASB 15
- AASB 2016-3 Amendments to Australian Accounting Standards - Clarifications to AASB 15
- AASB 2017-1 Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments

Other new standards that were issued prior to the signing of the statements by the Chief Executive Officer and Chief Financial Officer and are applicable to the future reporting period are not expected to have a future financial impact on IBA.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.5 Revenue

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer
- IBA retains no managerial involvement or effective control over the goods
- the revenue and transaction costs incurred can be reliably measured
- it is probable that the economic benefits associated with the transaction will flow to IBA.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date.

The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured
- the probable economic benefits associated with the transaction will flow to IBA.

The stage of completion of contracts at the reporting date is determined by reference to the proportion of costs incurred to date in relation to the estimated total costs of the transaction.

Receivables for goods and services, which have 30-day terms, are recognised at the nominal amounts due, less any impairment allowance account. Collectability of debts is reviewed at balance date. Allowances are made when collectability of the debt is no longer probable.

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and measurement*.

Resources received free of charge

Resources received free of charge are recognised as revenue or gains when and only when a fair value can be reliably determined, and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Resources received free of charge are recorded as either revenue or gains, depending on their nature.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another non-corporate or corporate Commonwealth entity as a consequence of a restructuring of administrative arrangements (refer to Note 1.7).

Revenues from Government

Funding received or receivable from non-corporate Commonwealth entities (appropriated to the non-corporate Commonwealth entity as a corporate Commonwealth entity payment item for payment of this entity) is recognised as Revenue from Government unless they are in the nature of an equity injection or a loan.

Grant Income

Amounts received as government grants during the year are recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate, except where the Grant received is considered non-reciprocal, or when IBA has obtained control of the contribution, in which case it is recognised immediately.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.6 Gains

Resources received free of charge

Resources received free of charge are recognised as gains when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Resources received free of charge are recorded as either revenue or gains depending on their nature.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another Government entity as a consequence of a restructuring of administrative arrangements (refer to Note 1.7).

Sales of assets

Gains from disposal of non-current assets are recognised when the control of the asset has passed to the buyer.

1.7 Transactions with the Government as owner

Equity injections

Amounts appropriated which are designated as 'equity injections' for a year are recognised directly in contributed equity in that year.

Restructuring of administrative arrangements

Net assets received from or relinquished to another Government entity under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

Other Distributions to Owners

The FRR require that distributions to owners be debited to contributed equity unless it is in the nature of a dividend.

1.8 Employee benefits

Liabilities for short-term employee benefits (as defined in AASB 119 *Employee Benefits*) and termination benefits due within 12 months of balance date are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

Other long-term employee benefits are measured as the net total of the present value of the defined benefit obligation at the end of the reporting period, less the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. 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 of IBA is estimated to be less than the annual entitlement for sick leave.

Leave liabilities are calculated on the basis of employee remuneration at the estimated salary rates that applied at the time the leave is taken, including IBA's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

Amounts received under the Parental Leave Payments Scheme by IBA not yet paid to employees are presented on a gross basis as both cash received and corresponding liability.

The liability for long service leave has been determined by reference to the Australian Government shorthand method.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.8 Employee benefits continued

Separation and redundancy

Provision is made for separation and redundancy benefit payments. IBA recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

Staff of IBA are members of the Commonwealth Superannuation Scheme (CSS), Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap) or other scheme they nominate.

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's schedules and notes.

IBA makes employer contributions to the employee superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. IBA accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised at year end represents outstanding contributions for the final fortnight of the year.

1.9 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease. For operating leases, the lessor effectively retains substantially all such risks and benefits.

Lessee Accounting

Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the lease property or, if lower, the present value of minimum lease payments at the inception of the contract; a liability is recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

Lessor - Finance Leases

Leases where IBA has transferred substantially all risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases. The leased asset is derecognised and the present value of the lease receivable is recognised on the balance sheet and included in trade and other receivables. The difference between the gross receivable and the present value of the lease receivable is recognised as unearned finance income. The finance income is recognised in the Statement of Comprehensive Income on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable.

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in the Statement of Comprehensive Income on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable. Initial direct costs incurred by IBA in negotiating and arranging finance leases are added to finance lease receivables and recognised as an expense in the Statement of Comprehensive Income over the lease term on the same basis as the lease income.

Lessor - Operating Leases

Leases of assets where IBA retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases is recognised in the Statement of Comprehensive Income on a straight-line basis over the lease term. Initial direct costs incurred by IBA in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in the Statement of Comprehensive Income over the lease term on the same basis as the lease income.

Contingent rents are recognised as income in the Statement of Comprehensive Income when earned.

1.10 Borrowing costs

All borrowing costs are expensed as incurred.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.11 Fair Value Measurements

IBA did not have any transfers between the fair value hierarchy during 2017-18 or 2016-17.

1.12 Cash

Cash is recognised at its nominal amount. Cash and cash equivalents include:

- cash on hand
- demand deposits in bank accounts with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

1.13 Principles of consolidation

The consolidated financial statements are those of the economic entity, comprising IBA and all the entities it controls from time to time during the year and at balance date. These include trusts, where IBA is a beneficiary, and where IBA controls the trustee. The financial statements of the controlled entities are prepared for the period 1 July 2017 to 30 June 2018 using accounting policies consistent with those of IBA. The effects of transactions and balances between the entities, including any unrealised profits or losses, have been eliminated in full.

Subsidiary companies are entities over which IBA has control, this is generally accompanied by a shareholding giving rise to voting rights above 50%. Associated companies are entities over which IBA has significant influence, but not control, generally accompanied by a shareholding giving rise to voting rights of 20% and above but not exceeding 50%.

IBA's investment in associates and joint venture entities is accounted for as 'Available for Sale' financial instruments under AASB 139 *Financial Instruments: Recognition and Measurement*. These assets are fair valued as at reporting date and distribution income received from them recognised as dividend. Associates' carrying values and income are detailed in Note 6D.

1.14 Financial risk management

The operating, investing and financing activities coupled with the guiding policy framework exposes the consolidated entity to credit, liquidity and interest rate risks. The risks are defined as:

- Credit risk: the possibility that a debtor or borrower will not repay or will delay repayment of all or part of a loan, causing a loss to IBA and the consolidated entity.
- Interest rate risk: a risk that the value of a financial asset such as home and business loans would fluctuate in terms of fair value or future cash flows as a result of changes in market interest rates.
- Liquidity risk: a risk that the consolidated entity may not have or may not be able to raise the funds to meet these obligations.

IBA is not exposed to currency risk or other price risk.

1.15 Financial assets

IBA classifies financial assets in the following categories:

- financial assets at fair value through profit and loss
- held-to-maturity investments
- available-for-sale financial assets
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon trade date.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets which are recognised at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets are classified as 'financial assets at fair value through profit or loss' where they:

- have been acquired principally for the purpose of being sold in the near future
- are a part of an identified portfolio of financial instruments that IBA manages together and have a recent actual pattern of short-term profit taking
- are derivatives that are not designated and effective as hedging instruments
- include loans that have an embedded derivative and the derivative cannot be separated from the main instrument.

Assets in this category are classified as current assets.

'Financial assets at fair value through profit or loss' are stated at fair value, with any resulting gain or loss recognised through profit or loss. The net gain or loss recognised in the profit or loss does not incorporate any interest earned on the financial asset.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.15 Financial assets continued

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are recorded at fair value. Gains and losses arising from changes in fair value are recognised directly in reserves (equity), with the exception of impairment losses. Interest is calculated using the effective interest method, and foreign exchange gains and losses on monetary assets are recognised directly in profit or loss. Where the asset is disposed of or is determined to be impaired, part of the cumulative gain or loss previously recognised in the reserve is included in surplus and deficit for the period.

Where a reliable fair value cannot be established for unlisted investments in equity instruments, these instruments are valued at cost.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates, and which the consolidated entity has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Trade and other receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as receivables. Trade and other receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Categorisation of financial assets

IBA's financial assets have been categorised as follows:

- Cash and cash equivalents include notes and coins held, and any deposits in bank accounts with an original maturity of three months or less that are readily convertible to known amounts of cash and are subject to insignificant risk. Cash and cash equivalents are classified as loans and other receivables.
- Business and home loan receivables have been categorised as 'financial assets at fair value through profit and loss'.
- Investments in subsidiaries, associates, joint ventures and other business undertakings have been categorised as 'available-for-sale assets'.
- Deposits with banks with an original maturity greater than three months have been categorised as 'held-to-maturity investments'.
- Trade receivables, other receivables and other financial assets have been categorised under 'Trade and other receivables'.

Valuation of financial assets

- Business and home loans are measured at 'fair value through profit and loss'. These loans, issued at lower than market rates, are fair valued against market interest rates benchmarked on commercial bank rates. The quantum of interest rate differential determines the variance of the fair value from the face value of the loans. Business and home loan receivables which are impaired/inactive are not carried at fair value. They are reclassified and carried at nominal value less impairment allowance.
- Investments in subsidiaries, associates, joint ventures and other business undertakings are valued based on market inputs. This is done annually through a director's valuation, supported by an independent valuation once every three years. The methodology adopted in relation to valuation by the directors of subsidiaries and associates uses techniques consistent with those of the most recent independent valuation. The fair value of subsidiary business is also used to test the value of assets within for impairment.
- When measuring fair value, IBA is required to maximise the use of observable inputs. IBA has used the Level 2 fair value hierarchy - inputs other than quoted price that are observable either directly or indirectly.

Impairment of financial assets

- Financial assets held at amortised cost: A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan. Impairment is recognised as the difference between the carrying value of the loan and the discounted value of the management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate). This loss is recognised in the Statement of Comprehensive Income. Objective evidence that these financial assets are impaired is when, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments.
- Available for sale financial assets: If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in expenses, is transferred from equity to the Statement of Comprehensive Income.
- Financial assets held at cost: If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the current market rate for similar assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.16 Investments in associates

IBA's investment in associates and joint venture entities is accounted for as 'Available for Sale' financial instruments under AASB 139 *Financial Instruments: Recognition and Measurement*. These assets are fair valued as at reporting date and distribution income received from them recognised as dividend.

1.17 Financial liabilities

Financial liabilities are classified as either 'financial liabilities at fair value through profit and loss', or other financial liabilities. Financial liabilities are recognised and derecognised upon trade date.

Financial liabilities at fair value through profit or loss

'Financial liabilities at fair value through profit or loss' are initially measured at fair value. Subsequent fair value adjustments are recognised in the profit or loss. The net gain or loss recognised in the profit or loss does not incorporate any interest paid on the financial liability. IBA currently has no financial liabilities classified under this category.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods and services have been received, regardless of whether they have been invoiced.

IBA classifies all its financial liabilities under this category.

Interest bearing loans and borrowings

Loans are classified under other financial liabilities and the carrying value is calculated based on the balance yet to be repaid. Interest is expensed as it accrues.

1.18 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the statement of financial position but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset or may represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain; contingent liabilities are disclosed when the likelihood of settlement is better than remote.

1.19 Financial guarantee contracts

Financial guarantee contracts are accounted for in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. They are not treated as a contingent liability, as they are regarded as financial instruments outside the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

1.20 Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange, and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost or for nominal consideration are initially recognised as assets and revenue at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.21 Land and building, property, plant and equipment

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the statement of financial position, except for purchases costing less than \$1,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Make good

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to make good provisions in property leases taken up by IBA where there exists an obligation to restore the property to original condition. These costs are included in the value of IBA's leasehold improvements with a corresponding provision for make good recognised.

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends on the volatility of movements in market values for the relevant assets.

Valuations

Fair value less cost to sell for each class of asset are tested for impairment as follows:

Asset class	Fair value measured at:
Land	Market selling price
Buildings, excluding leasehold improvements	Market selling price
Leasehold improvements	Depreciated replacement cost
Property, plant and equipment	Market selling price
Heritage and cultural	Market selling price

Following initial recognition at cost, assets are carried at fair value less accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. Revaluation adjustments are based on an asset class basis. Any revaluation increment is credited to equity under reserves except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through Statement of Comprehensive Income. Revaluation decrements for a class of assets are recognised directly through Statement of Comprehensive Income except to the extent that they reverse a previous revaluation increment for that class.

When measuring fair value, IBA is required to maximise the use of observable inputs. IBA has used the Level 2 fair value hierarchy - Inputs other than quoted price that are observable either directly or indirectly. IBA has used market based valuation techniques incorporating recently observed market data for similar properties and future earnings discounted at market capitalised rates.

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

Depreciation

Depreciable property, plant and equipment assets are written off to their estimated residual values over their estimated useful lives using the straight-line method of depreciation in all cases. Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

Asset class	2018	2017
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 5 years	3 to 5 years

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.21 Land and building, property, plant and equipment continued

Impairment

All assets were assessed for impairment at 30 June 2018. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if IBA was deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Heritage and cultural assets

IBA has a collection of heritage and cultural assets, comprising of sculptures, paintings and drawings. IBA have classified these assets as heritage and cultural assets as they are primarily used for purposes that relate to their cultural significance.

Purchases of heritage and cultural assets, are recognised initially at cost in the Statement of Financial Position, except for purchases less than \$5,000, for each item, which are expensed in the year of acquisition. Following initial recognition at cost, heritage and cultural assets carried at fair value less any accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts do not differ materially from assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values.

Given the nature of heritage and cultural assets, they have been deemed not to have limited useful lives, and therefore are not subject to depreciation. However they are subject to impairment testing when there is an indication of impairment. All heritage and cultural assets are assessed for impairment on an annual basis. Where indications of impairment exist, the recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

1.22 Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which is based on active market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

When measuring fair value, IBA is required to maximise the use of observable inputs. IBA has used the Level 2 fair value hierarchy - inputs other than quoted price that are observable either directly or indirectly. IBA has used a market based valuation technique incorporating recently observed market data for similar properties and future earnings discounted at market capitalisation rates. IBA uses independent qualified valuers to value major properties annually and all other properties at least once every three years.

Investment properties are tested for impairment based on market selling price.

Where an investment property is acquired at no cost or for nominal cost, its cost is deemed to be its fair value as at the date of acquisition.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on disposal of an investment property is recognised in profit or loss in the year of disposal.

1.23 Intangibles

IBA's intangibles comprise internally developed software for internal use and goodwill. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful life of IBA's software is three years.

All software assets and goodwill were assessed for indications of impairment as at 30 June 2018.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1.24 Inventories

Inventories held for sale are valued at the lower of cost and net realisable value. Inventories held for distribution are valued at cost, adjusted for any loss of service potential.

Costs incurred in bringing each item of inventory to its present location and condition are assigned as follows:

- Raw materials and stores: purchase cost on a first-in, first-out basis
- Finished goods and work in progress: cost of direct materials and labour plus attributable costs that are capable of being allocated on a reasonable basis.

Inventories acquired at no cost or for a nominal consideration are initially measured at current replacement cost at the date of acquisition.

1.25 Taxation

IBA is exempt from all forms of taxation except fringe benefits tax (FBT) and the goods and services tax (GST).

Revenues, expenses, and assets and liabilities are recognised net of GST except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO)
- for receivables and payables.

However, the exemption does not apply to controlled entities and therefore incorporated controlled entities are subject to taxation. For these entities, the economic entity adopts the liability method of tax-effect accounting, whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Current income tax charged to Statement of Comprehensive Income is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant authority.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited to the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available, against which deductible temporary differences can be utilised.

The amount of benefits brought to account or that may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and to comply with the conditions of deductibility imposed by the law.

Competitive neutrality

IBA does not have any competitive neutrality obligations.

1.26 Events After the Reporting Period

There are no potential significant events that will affect the ongoing structure and financial activities of IBA after 30 June 2018.