

Part 5

Financial statements

Independent auditor's report	153
Statement by the Chief Executive and Chief Finance Officer	158
Overview	159
Statement of comprehensive income	163
Statement of financial position	164
Statement of changes in equity	165
Cash flow statement	166
Notes to and forming part of the financial statements	167
Administered schedule of comprehensive income	194
Administered schedule of assets and liabilities	195
Administered reconciliation schedule	191
Administered cash flow	192
Notes to and forming part of the financial statements	193





INDEPENDENT AUDITOR'S REPORT

To the Minister for Agriculture and Water Resources

Opinion

In my opinion, the financial statements of the Department of Agriculture and Water Resources for the year ended 30 June 2017:

- comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- present fairly the financial position of the Department of Agriculture and Water Resources as at 30 June 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the Department of Agriculture and Water Resources, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement by the Secretary and Chief Finance Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; and
- Notes to and forming part of the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Department of Agriculture and Water Resources in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter	How the audit addressed the matter
Accuracy and completeness of Own Source Revenue	The audit procedures I conducted to address the collection of own source revenue included:
<i>Refer to Note 2A 'Sale of Goods and Rendering of Services'; and Note 14 'Regulatory Charging Summary'</i>	<ul style="list-style-type: none">• reviewed the assurance processes over the interface and transfer of data between revenue subsystems and the finance system, including the IT general and application controls for the system

This was an area of focus due to the value of revenue collected from biosecurity activities and the risk that the self-assessment process results in under-collection of import and export revenue. In 2016–17, total revenue reported from biosecurity activities was \$389.2 million.

Biosecurity fees are collected across the country for both imports and exports through multiple systems via manual and online applications. Agriculture uses systems and processes managed by another Department for the collection of fees arising from imports.

The revenue collected from imports is dependent on information provided by importers via a self-assessment declaration. Agriculture run a compliance program to obtain assurance that declarations accurately report the value and nature of goods imported.

The administrative and IT system arrangements that support the collection of export fees are complex and geographically dispersed.

that records receipts;

- undertook an assessment of governance and reporting arrangements at Agriculture to obtain assurance over the completeness of import revenue collected on Agriculture's behalf;
- evaluated the design and effectiveness of Agriculture's compliance programs that provide management with assurance over the completeness and accuracy of self-assessment revenue;
- conducted testing on a sample basis of revenue transactions and year end accrual calculations, validating them to supporting documentation; and
- evaluated the appropriateness of the methodology applied to determine the fees charged for cost recovery activities and assessed the application of Agriculture's policy for the calculation and reporting of the remission of fees in accordance with the cost recovery model.

Key audit matter

Accuracy and completeness of the collection and distribution of primary industry levies and charges

Refer to Notes 16A 'Levy Disbursements and Commonwealth Contributions'; and 17A 'Levies Fees and Charges'

Levies are collected from primary industry producers and agents using a self-assessment regime, therefore there is an inherent risk of under-collection arising from the submission of inaccurate levy returns and declarations whether accidental or deliberate.

The rates charged and collected as levies and charges, are derived through a complex estimation of anticipated agricultural production.

The payments to research and development industry bodies are material and the calculations are complex. These payments are a combination of the amounts collected from producers together with a co-contribution by the Commonwealth.

For the 2016–17 reporting period the total levies reported were \$555.4 million and the amount distributed to research and development industry bodies was \$826.1 million.

How the audit addressed the matter

To audit the collection and payments of primary industry levies and charges, I performed the following audit procedures:

- assessed the operating effectiveness of the IT general controls and the application controls specific to the levies IT system including an assessment over the completeness and accuracy of data transferred between the levies IT system and the finance system;
- evaluated the design and effectiveness of, and tested on a sample basis, Agriculture's National Compliance Program which applies a risk based approach to reviewing the accuracy and completeness of submitted returns and levies collected;
- tested on a sample basis revenue transactions and payments to supporting documentation, agreed calculations and sighted approvals;
- agreed all changes of levy rates recorded in the levies IT system to approvals signed by the Minister; and
- assessed the methodology and reasonableness of the inputs used for the estimation of the year end accrual and tested post year end receipts, on a sample basis, to assess if income was recorded in the correct period.

Key audit matter

Valuation of Loans to the State and Territory governments for drought and farm finance assistance

Refer to Note 18A Trade, Taxation and Other

How the audit addressed the matter

To audit the concessional loans to State and Territory governments I performed the following audit procedures:

- tested the impairment assessment and evaluated

<p>Receivables</p> <p>This was an area of focus given the significance of this balance to Agriculture's administered receivable balances and the significant judgement applied to and complexity of calculations in assessing the valuation and impairment of the loan balances.</p> <p>Each loan package is subject to specific eligibility criteria, limits and lending terms.</p> <p>For the year ended 30 June 2017 the receivables balance that related to these concessional loans was \$696.5 million.</p>	<p>the supporting assumptions for the valuation of the loans;</p> <ul style="list-style-type: none"> assessed Agriculture's monitoring of loans and service payments collected to assess the accuracy and completeness of reporting by the State and Territory governments; and performed substantive testing, on a sample basis, including recalculation of interest revenue received and agreed approvals of new loans or variations to existing loans to supporting documentation.
--	---

Key audit matter	How the audit addressed the matter
<p>Valuation of the Jointly Controlled Arrangements: River Murray Operations (RMO) and Living Murray Initiative (LMI)</p> <p><i>Refer to Note 19: Reconciliation of Opening and Closing Balances of Property, Plant and Equipment</i></p> <p>This was an area of focus given the significance of this balance to Agriculture's administered asset balances, the fact that the Joint Venture arrangements are managed by another entity on behalf of, and with limited oversight by, the joint owners and the variety and unique nature of the assets managed and maintained under the arrangements. This increases the risks associated with their valuation.</p> <p>For the year ended 30 June 2017 the balances that relate to these jointly controlled operations are \$532.6 million infrastructure assets and \$124.6 million water entitlements.</p>	<p>I conducted the following procedures to audit the valuation of the amounts reported:</p> <ul style="list-style-type: none"> evaluated management's oversight and information gathering processes over the balances reported in the financial statements; assessed the stock take instructions and results to obtain evidence over the valuation of assets; evaluated the appropriateness of the valuation model adopted to assess the accuracy of values recorded for individual assets; and considered the effectiveness of the impairment assessment.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Department of Agriculture and Water Resources, the Secretary is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under that Act. The Secretary is also responsible for such internal control as the Secretary determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary is responsible for assessing the Department of Agriculture and Water Resources' ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Department of Agriculture and Water Resources is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are 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 the Australian National Audit Office 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 the financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, 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 entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;

conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the Department of Agriculture and Water Resources or its business activities to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, 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 my audit.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office



Clea Lewis

Executive Director

Delegate of the Auditor-General

Canberra

1 September 2017

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

Financial Statements
for the period ended 30 June 2017

**DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
STATEMENT BY THE SECRETARY AND CHIEF FINANCE OFFICER**

In our opinion, the attached financial statements for the year ended 30 June 2017 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Department of Agriculture and Water Resources will be able to pay its debts as and when they fall due.

Signed... 

Daryl Quinlivan
Secretary

Signed... 

Emily Canning
Chief Finance Officer

31 August 2017

31 August 2017

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

Overview

Basis of Preparation of the Financial Statements

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

The financial statements have been prepared in accordance with the:

- PGPA Financial Reporting Rule (FRR) for reporting periods ending on or after 1 July 2016; 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 the historical cost convention, except for certain assets and liabilities 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.

New Australian Accounting Standards

No accounting standard has been adopted in the current reporting period earlier than the application date as required by the standard.

The following new, revised or amended standards and interpretations were first applied to the current reporting period and had a material effect on the department's financial statements:

- *AASB 124 Related Party Disclosures*: disclosure of transactions between not-for-profit government entities and their related parties as well as remuneration of key management personnel.
- *AASB 1053 Application of Tiers of Australian Accounting*: Changes in the Financial Reporting Rules now allow public sector entities to adopt the reduced disclosure requirements. The department is classified as a Tier 2 entity.

All other new, revised or amended standards and interpretations adopted in the current reporting period did not have a material effect, and are not expected to have a future material effect on the department's financial statements.

Comparative Figures for 2016 Financial Year

Certain comparative amounts have been reclassified to conform with the 2017 financial year's reporting presentation. In particular special account balances, which are outlined at Note 13 and Note 25, have been reclassified from Appropriations receivable to Cash and cash equivalents.

The Grains Research and Development Corporation (GRDC) have disclosed a change to prior year balances in the 2016-17 financial statements. The restatement related to a loans and receivable financial asset for royalty revenues not previously recognised in GRDC financial statements.

As the department recognises investments in corporate commonwealth entities at net asset value, the prior year balance for other investments has been restated accordingly. The correction to the balance of other investments as at 30 June 2016 was \$13 838 000. The correction has an impact of \$13 838 000 to opening retained surpluses for the financial year ended 30 June 2017. The corrections are disclosed in the tables below:

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME

	Reported 2016 \$'000	Restated 2016 \$'000
OTHER COMPREHENSIVE INCOME		
Items not subject to subsequent reclassification to net cost of services		
Administered revaluations taken to reserves	6 907	20 745
Total other comprehensive income	<u>6 907</u>	<u>20 745</u>
Total comprehensive loss	<u>6 907</u>	<u>20 745</u>

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES		
	Reported	Restated
	2016	2016
	\$'000	\$'000
ASSETS		
Financial assets		
Cash and cash equivalents	1	56 321
Trade, taxation and other receivables	589 929	589 929
Other investments	333 718	347 556
Other financial assets	61 000	61 000
Total financial assets	984 648	1 054 806
Total assets administered on behalf of Government	984 648	1 054 806

Taxation

The department is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). Revenues, expenses, assets and liabilities are recognised net of GST except where the amount of GST incurred is not recoverable from the Australian Taxation Office and for receivables and payables.

Competitive Neutrality

The department operates a number of Cost Recovery Arrangements across the Biosecurity, Export Certification and other business services areas in accordance with the Cost Recovery Guidelines and are therefore not for profit activities. The department is not subject to competitive neutrality arrangements for this reason.

Reporting of Administered activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules and related notes. Except where otherwise stated, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Budgetary Reports and Explanations of Major Variances

The primary statements include variances between the original budget as presented in the 2016-17 Portfolio Budget Statements (PBS) and the 2016-17 final outcome as presented in accordance with Australian Accounting Standards. The Budget is not audited. Explanations of the major variances are presented in notes 15 and 26.

Breach of Section 83 of the Constitution

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. In 2017 the department identified two special appropriations with statutory conditions for payments which could result in potential breaches of s83 of the constitution.

Total expenditure of \$60 833 000 under the *Farm Household Support Act 2014* was made during 2016-17, of this, overpayments identified and recorded as debts to be recovered from the recipients, may be potential breaches. As at 30 June 2017 the total debts recorded were \$2 605 000. A total of 11 actual breaches were identified (2016: 26), with a total value of \$2 052.32 (2016: \$2 599.33).

It should be noted that it is impossible to completely eliminate the potential for section 83 breaches for payments made by the Department of Human Services on behalf of the department. In the majority of cases, information provided by customers is relied upon to calculate the entitlements paid. This information, provided by customers is not always accurate or is subject to changing circumstances which can result in a breach of section 83 of the constitution.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

Total expenditure of \$6,931,400 was paid to Plant Health Australia (PHA), under the Plant Health Australia (Plant Industries) Funding Act 2002 (PHA Act), during 2016-17 (2016: \$5,108,870). In June 2017, the department identified a number of payments – made on behalf of plant industries that are members of the PHA, which have resulted in breaches of s83 of the Constitution. In seeking legal clarification about the status of Plant Industry Members, it was identified that a number of these organisations were not declared by the Minister for Agriculture and Water Resources to be the relevant Plant Industry Member under the PHA Act. The department is not authorised to make payments to PHA for undeclared organisations. As a result, the department identified 22 breaches (2016: 24) totalling \$565,671.24 (2016:\$312,101.56). This represents a technical breach only and payments to PHA have been made in line with policy objectives. There is no intention to recover the levies paid.

The department continues to review its processes and controls for all payments to minimise the possibility of future breaches. The department will continue to monitor its level of compliance with section 83 of the Constitution across all legislation for which it is administratively responsible. Where possible, amendments to legislation will continue to be progressed.

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth [2014] HCA 23*, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

Events After the Reporting Period

Departmental

There have been no events after the reporting period that had the potential to significantly affect the ongoing structure and financial activities of the department.

Administered

There have been no events after the reporting period that had the potential to significantly affect the ongoing structure and financial activities of the department.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Overview.....	159
Departmental Financial Statements	163
Note 1: Expenses	167
Note 2: Income	170
Note 3: Financial Assets.....	172
Note 4: Non-Financial Assets	173
Note 5: Payables	176
Note 6: Provisions	177
Note 7: Restructuring	178
Note 8: Contingent Assets and Liabilities	179
Note 9: Key Management Personnel Remuneration	180
Note 10: Related Party Disclosures	180
Note 11: Financial Instruments	181
Note 12: Appropriations	183
Note 13: Special Accounts	184
Note 14: Regulatory Charging Summary	185
Note 15: Budgetary Reports and Explanations of Major Variances	186
Administered Financial Statements	189
Note 16: Administered – Expenses	193
Note 17: Administered – Income	195
Note 18: Administered – Financial Assets	197
Note 19: Administered – Non-Financial Assets	199
Note 20: Administered – Payables	203
Note 21: Administered – Restructuring	204
Note 22: Administered – Contingent Assets and Liabilities	205
Note 23: Administered – Financial Instruments	206
Note 24: Administered – Appropriations	207
Note 25: Administered – Special accounts	209
Note 26: Administered – Budgetary Reports and Explanations of Major Variances	211
Note 27: Interest in Cooperative Research Centre	213

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2017

		2017	2016	Original Budget 2017	Variance 2017
	Notes	\$'000	\$'000	\$'000	\$'000
NET COST OF SERVICES					
Expenses					
Employee benefits	1A	507 626	490 459	515 395	(7 769)
Suppliers	1B	242 385	223 695	239 665	2 720
Grants	1C	9 283	10 175	13 740	(4 457)
Depreciation and amortisation	4	29 634	26 595	25 200	4 434
Finance costs	1D	120	250	216	(96)
Write-down and impairment of assets	1E	12 182	16 775	5 561	6 621
Other expenses	1F	1 091	925	1 019	72
Total expenses		802 321	768 874	800 796	1 525
Own-source income					
Own-source revenue					
Sale of goods and rendering of services	2A	389 251	380 676	397 677	(8 426)
Interest	2B	761	803	306	455
Other revenue	2C	30 275	28 431	15 203	15 072
Total own-source revenue		420 287	409 910	413 186	7 101
Gains					
Other gains	2D	2 290	855	3 120	(830)
Total gains		2 290	855	3 120	(830)
Total own-source income		422 577	410 765	416 306	6 271
Net cost of services		379 744	358 109	384 490	(4 746)
Revenue from Government		375 687	338 491	371 583	4 104
Surplus / (deficit) attributable to the Australian Government		(4 057)	(19 618)	(12 907)	8 850
OTHER COMPREHENSIVE INCOME					
Items not subject to subsequent reclassification to net cost of services					
Changes in asset revaluation reserves		1 631	(2 000)	-	1 631
Total other comprehensive income		1 631	(2 000)	-	1 631
Total comprehensive income / (loss) attributable to the Australian Government		(2 426)	(21 618)	(12 907)	10 481

The above statement should be read in conjunction with the accompanying notes.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
STATEMENT OF FINANCIAL POSITION
as at 30 June 2017

				Original Budget	Variance
		2017	2016	2017	2017
	Notes	\$'000	\$'000	\$'000	\$'000
ASSETS					
Financial assets					
Cash and cash equivalents	3A	27 652	42 891	3 150	24 502
Trade and other receivables	3B	95 711	73 203	90 695	5 016
Other investments		16 000	14 500	13 500	2 500
Accrued interest		200	196	203	(3)
Accrued revenue		4 693	4 894	3 081	1 612
Total financial assets		144 256	135 684	110 629	33 627
Non-financial assets					
Land and buildings	4	39 763	40 254	43 819	(4 056)
Property, plant and equipment	4	36 672	34 953	30 767	5 905
Intangibles	4	85 423	82 390	115 239	(29 816)
Inventories		2 297	2 292	2 589	(292)
Prepayments		8 086	8 728	4 864	3 222
Total non-financial assets		172 241	168 617	197 278	(25 037)
Total assets		316 497	304 301	307 907	8 590
LIABILITIES					
Payables					
Suppliers	5A	21 507	22 648	17 431	4 076
Other payables	5B	42 234	50 473	48 541	(6 307)
Total payables		63 741	73 121	65 972	(2 231)
Interest bearing liabilities					
Leases		-	-	70	(70)
Total interest bearing liabilities		-	-	70	(70)
Provisions					
Employee provisions	6A	143 459	143 946	134 198	9 261
Other provisions	6B	11 459	11 430	13 212	(1 753)
Total provisions		154 918	155 376	147 410	7 508
Total liabilities		218 659	228 497	213 452	5 207
Net assets		97 838	75 804	94 455	3 383
EQUITY					
Contributed equity		120 844	96 384	107 931	12 913
Asset revaluation reserves		25 665	24 034	26 034	(369)
Industry reserves		43 931	38 481	46 705	(2 774)
Accumulated deficit		(92 602)	(83 095)	(86 215)	(6 387)
Total equity		97 838	75 804	94 455	3 383

The above statement should be read in conjunction with the accompanying notes.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
STATEMENT OF CHANGES IN EQUITY
for the period ended 30 June 2017

	Accumulated deficit		Asset revaluation reserves		Industry reserves		Contributed equity		Total equity	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance										
Balance carried forward from previous period	(83 095)	(71 702)	24 034	26 034	38 481	46 706	96 384	81 061	75 804	82 099
Adjusted opening balance	(83 095)	(71 702)	24 034	26 034	38 481	46 706	96 384	81 061	75 804	82 099
Comprehensive income										
Surplus / (deficit) for the period	(4 057)	(19 618)	-	-	-	-	-	-	(4 057)	(19 618)
Other comprehensive income	-	-	1 631	(2 000)	-	-	-	-	1 631	(2 000)
Total comprehensive income	(4 057)	(19 618)	1 631	(2 000)	-	-	-	-	(2 426)	(21 618)
Transactions with owners										
Contributions by owners										
Equity injection - Appropriations	-	-	-	-	-	-	12 703	6 055	12 703	6 055
Departmental capital budget	-	-	-	-	-	-	9 940	9 969	9 940	9 969
Restructure - refer note 7	-	-	-	-	-	-	(701)	(701)	-	(701)
Assets Transferred from Department of Finance ¹	-	-	-	-	-	-	1 817	-	1 817	-
Total transactions with owners	-	-	-	-	-	-	24 460	15 323	24 460	15 323
Transfers between equity components	(5 450)	8 225	-	-	5 450	(8 225)	-	-	-	-
Closing balance attributable to Australian Government	(92 602)	(83 095)	25 665	24 034	43 931	38 481	120 844	96,384	97 838	75 804

¹Relates to the transfer of furniture, fittings and equipment assets from the Department of Finance for Phase 1 of the Post Entry Quarantine Facility Project – Mickleham

Accounting policy

Equity Injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

Industry Reserves

Each cost recovered program holds a separate Industry Reserve and in years where the costs of the cost recovered program exceed revenue, the shortfall is first met from the individual industry reserve balance and then from other retained earnings. Transfers are then made between the Industry Reserves and retained earnings as required.

The above statement should be read in conjunction with the accompanying notes.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

CASH FLOW STATEMENT

for the period ended 30 June 2017

			Original Budget 2017 \$'000	Variance 2017 \$'000
	Notes	2017 \$'000	2016 \$'000	
OPERATING ACTIVITIES				
Cash received				
Appropriations		366 609	337 535	385 893 (19 284)
Sale of goods and rendering of services		378 120	369 649	392 116 (13 996)
Interest		331	411	306 25
Net GST received		23 258	21 939	17 017 6 241
Other		24 225	24 793	15 203 9 022
Total cash received		792 543	754 327	810 535 (17 992)
Cash used				
Employees		510 417	488 728	512 535 (2 118)
Suppliers		269 230	242 690	258 479 10 751
Grants		9 364	10 175	13 740 (4 376)
Other		1 091	925	1 069 22
Total cash used		790 102	742 518	785 823 4 279
Net cash from operating activities		2 441	11 809	24 712 (22 271)
INVESTING ACTIVITIES				
Cash received				
Proceeds from sales of property, plant and equipment		40	26	- 40
Proceeds from sales of financial instruments		14 500	12 500	13 500 1 000
Interest		426	399	- 426
Total cash received		14 966	12 925	13 500 1 466
Cash used				
Purchase of property, plant and equipment		9 073	8 572	2 577 6 496
Purchase of land and buildings		3 246	7 702	13 596 (10 350)
Purchase of intangibles		19 870	23 620	25 863 (5 993)
Purchase of financial instruments		16 000	14 500	13 500 2 500
Total cash used		48 189	54 394	55 536 (7 347)
Net cash used by investing activities		(33 223)	(41 469)	(42 036) 8 813
FINANCING ACTIVITIES				
Cash received				
Contributed equity		6 062	1 772	7 384 (1 322)
Departmental capital budget		9 481	9 969	9 940 (459)
Total cash received		15 543	11 741	17 324 (1 781)
Net cash from financing activities		15 543	11 741	17 324 (1 781)
Net increase / (decrease) in cash held		(15 239)	(17 919)	- (15 239)
Cash and cash equivalents at the beginning of the reporting period		42 891	60 810	3 150 39 741
Cash and cash equivalents at the end of the reporting period	3A	27 652	42 891	3 150 24 502

The above statement should be read in conjunction with the accompanying notes.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 1: Expenses

	2017	2016
	\$'000	\$'000
Note 1A: Employee Benefits		
Wages and salaries	373 117	352 181
Superannuation		
Defined contribution plans	37 304	33 538
Defined benefit plans	38 656	34 906
Leave and other entitlements	37 254	48 824
Separation and redundancies	3 632	3 419
Other employee expenses	17 663	17 591
Total employee benefits	507 626	490 459

Accounting policy

Accounting policies for employee related expenses are contained in Note 6A.

Note 1B: Suppliers

Goods and services supplied or rendered

Analytical testing	9 552	8 006
Contractors and consultants	43 715	34 028
IT services	46 562	46 295
Legal expenditure	2 399	1 600
Office equipment, stores and consumables	5 521	5 628
Travel	23 955	22 558
Property operating expense	18 222	17 990
Quarantine services	1 833	1 782
Staff development and recruitment	10 108	8 157
Other	13 606	13 190
Total goods and services supplied or rendered	175 473	159 234

Goods supplied	13 802	12 120
Services rendered	161 671	147 114
Total goods and services supplied or rendered	175 473	159 234

Other suppliers

Operating lease rentals	54 158	50 951
Workers compensation expenses	12 754	13 510
Total other suppliers	66 912	64 461
Total suppliers	242 385	223 695

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Leasing commitments

The department in its capacity as lessee holds the following significant leasing arrangements:

- Leases of motor vehicles for operations - from 1 February 2013, the department is a party to the Fleet Services Contract with SG Fleet Pty Ltd. An individual fixed rate is defined for each sub-agreement (vehicle). Retention of the vehicle past expiry date may result in a new lease sub-agreement; and
- Leases for office, laboratory or other accommodation – lease contracts for accommodation are subject to adjustment on an annual fixed basis, to market values and to consumer price index (CPI) increases. Renewal options vary from 1 to 5 years.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2017	2016
	\$'000	\$'000
Within 1 year	40 114	38 090
Between 1 to 5 years	118 513	116 062
More than 5 years	9 341	31 677
Total leasing commitments	167 968	185 829

Accounting policy

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

Note 1C: Grants

Public sector:

Australian Government entities (related parties)	1 099	3 796
State and Territory Governments	1 726	294

Private sector:

Non-profit organisations	4 533	2 479
For profit organisations	1 026	2 824
Overseas	899	782

Total grants	9 283	10 175
---------------------	--------------	---------------

Note 1D: Finance Costs

Finance leases	-	104
Unwinding of discount	120	146
Total finance costs	120	250

Accounting policy

All borrowing costs are expensed as incurred

The department has derecognised finance leased equipment in 2016 and all equipment is now owned by the department. The interest rate implicit in the lease averaged for 2016 was 6.00%.

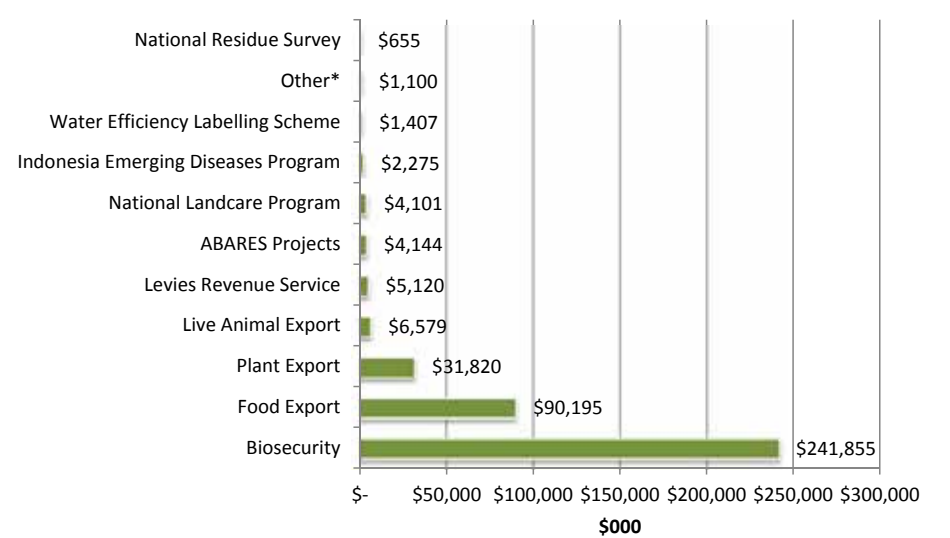
DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2017	2016
	\$'000	\$'000
<u>Note 1E: Write-Down and Impairment of Assets</u>		
Impairment on financial instruments	1 117	2 877
Remission of fees	8 482	12 066
Impairment of intangibles	1 639	955
Write-off of property, plant and equipment	944	877
Total write-down and impairment of assets	12 182	16 775
<u>Note 1F: Other Expenses</u>		
Official Development Assistance	1 084	925
Other	7	-
Total other expenses	1 091	925

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 2: Income		
	2017	2016
	\$'000	\$'000
Own-Source Revenue		
Note 2A: Sale of Goods and Rendering of Services		
Provision of goods	16	3
Rendering of services	389 235	380 673
Total sale of goods and rendering of services	389 251	380 676

Figure 1 shows sales of goods and services revenue by cost recovery activity for 2016-17



* Other includes PGPA Act s74 receipts for biosecurity plant and animal health programs.

<p>Accounting policy</p> <p>Revenue from the sale of goods is recognised when:</p> <ul style="list-style-type: none"> the risks and rewards of ownership have been transferred to the buyer; and the department retains no managerial involvement or effective control over the goods. <p>Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred as at 30 June bear to the estimated total costs of the transaction.</p> <p>The department is responsible for the collection of fees for regulatory charging under the <i>Export Control Act 1982</i> and the <i>Biosecurity Act 2015</i>. Regulatory charging disclosure is included at Note 14.</p>
--

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

	2017	2016
	\$'000	\$'000
<u>Note 2B: Interest</u>		
Deposits	426	399
Penalties	335	404
Total interest	761	803

Accounting policy

Interest revenue is recognised using the effective interest method.

Note 2C: Other Revenue

Levies	10 341	10 579
State contributions	1 764	1 717
Sub-lease rental	921	804
Resources received free of charge - Mickleham Post Entry Quarantine Facility	9 360	4 680
Resources received free of charge - airport accommodation	2 977	2 832
Resources received free of charge - ANAO fees	565	530
Other	4 347	7 289
Total other revenue	30 275	28 431

Note 2D: Other Gains

Gain on derecognition of finance lease liability:		
Carrying value of lease liability derecognised	-	844
Carrying value of asset derecognised	-	(817)
Gain from asset sales:		
Proceeds from sale	40	26
Carrying value of assets sold	(6)	(6)
Gain on derecognition of makegood:		
Carrying value of liability derecognised	482	169
Carrying value of asset derecognised	(219)	(27)
Workers compensation refund	1 523	-
Other	470	666
Total other gains	2 290	855

Accounting policy

Resources Received Free of Charge

Resources received free of charge are recognised as income 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 or as a contribution by owners in accordance with Resource Management Guide (RMG) 123.

Sale of Assets

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

Other Gains

Gains may be realised or unrealised and are usually recognised on a net basis.

Revenue from Government

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the department gains control of the appropriation. Appropriations receivable are recognised at their nominal amounts.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 3: Financial Assets

	2017	2016
	\$'000	\$'000
<u>Note 3A: Cash and Cash Equivalents</u>		
Special Accounts	25 638	37 749
Cash on hand or on deposit	2 014	5 142
Total cash and cash equivalents	27 652	42 891
<u>Note 3B: Trade and Other Receivables</u>		
Goods and services receivables in connection with		
Goods and services	21 949	15 572
Total goods and services receivables	21 949	15 572
Appropriations receivables		
Existing programs	52 741	43 663
Departmental capital budget	459	-
Unspent equity injection	11 244	4 603
Total appropriations receivable	64 444	48 266
Other receivables		
Statutory receivables	4 283	5 201
Departmental supplementations	3 458	3 458
Other	2 785	1 648
Total other receivables	10 526	10 307
Total trade and other receivables (gross)	96 919	74 145
Less impairment allowance		
Goods and services	(1 208)	(942)
Total impairment allowance	(1 208)	(942)
Total trade and other receivables (net)	95 711	73 203

Accounting policy

Loans and Receivables

Trade receivables have fixed or determinable payments that are not quoted in an active market and are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

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 end of the reporting period. Allowances are made when collectability of the debt is no longer probable

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 4: Non-Financial Assets

Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles 2017

	Land ³ \$'000	Buildings ³ \$'000	Leasehold Improvements ³ \$'000	Other property, plant & equipment ^{2,3} \$'000	Computer Software ⁴ \$'000	Total \$'000
As at 1 July 2016						
Gross book value	2 285	2 155	48 930	41 825	108 938	204 133
Work in progress	-	-	5 539	1 250	19 049	25 838
Accumulated depreciation and impairment	-	-	(18 655)	(8 122)	(45 597)	(72 374)
Total as at 1 July 2016	2 285	2 155	35 814	34 953	82 390	157 597
Additions						
By purchase or internally developed	-	-	6 569	7 256	19 870	33 695
Transferred from the Department of Finance ¹	-	-	-	1 817	-	1 817
Revaluations and impairments recognised in other comprehensive income	(80)	(462)	2 742	(569)	-	1 631
Impairments recognised in the operating result	-	-	(12)	(725)	(1 639)	(2 376)
Reclassification	-	-	(1 073)	1 675	(602)	-
Depreciation expense	-	(64)	(7 452)	(7 522)	(14 596)	(29 634)
Other movements ²	-	-	(659)	-	-	(659)
Disposals						
By write-off	-	-	-	(207)	-	(207)
By sale	-	-	-	(6)	-	(6)
Total as at 30 June 2017	2 205	1 629	35 929	36 672	85 423	161 858
Total as at 30 June 2017 represented by:						
Gross book value	2 205	1 629	34 373	33 590	121 029	192 826
Work in progress	-	-	3 699	3 826	24 495	32 020
Accumulated depreciation and impairment	-	-	(2 143)	(744)	(60 101)	(62 988)
Total as at 30 June 2017	2 205	1 629	35 929	36 672	85 423	161 858

¹ Relates to the transfer of furniture, fittings and equipment assets from the Department of Finance for Phase 1 of the Post Entry Quarantine Facility Project – Mickleham

² Other movements of (\$658 750) include derecognition of a makegood asset at Burwood Highway, Knoxfield (\$218 750) and the Sydney Airport Corporation's contribution towards fitout (\$440 000).

³ These classes of assets are all held at fair value.

⁴ The carrying amount of computer software included \$24 395 607 purchased software and \$61 027 859 internally generated software.

No significant items of property, plant and equipment are expected to be sold or disposed of within the next 12 months.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Contractual commitments for the acquisition of property, plant, equipment and intangible assets

There were no contractual commitments for the acquisition of property, plant and equipment as at 30 June 2017.

Accounting policy

Assets are recorded at cost on acquisition except as stated. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Non-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 income 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.

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position. The department applied the following asset recognition thresholds:

	2017	2016
Land and buildings	\$0	\$0
Leasehold improvements	\$150 000	\$20 000
Property, plant and equipment	\$5 000 individual purchases/ \$50 000 group purchases	\$5 000 individual purchases/no threshold for group purchases
Internally developed software	\$200 000	\$50 000
Purchased software	\$150 000	\$5 000

Purchases under the applied thresholds are expensed in the year of acquisition.

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 'makegood' provisions in property leases taken up by the department where an obligation exists to restore the property to its original condition. These costs are included in the value of the department's leasehold improvements with a corresponding provision for the 'makegood' recognised.

The department's intangible assets comprise internally developed software and purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Revaluations and fair value measurement

All property, plant and equipment assets are measured at fair value. The department did not measure any non-financial assets at fair value on a non-recurring basis as at 30 June 2017.

Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent 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 at the reporting date. Independent revaluations for property, plant and equipment are conducted every three years, however further valuations are undertaken dependent upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the surplus or deficit. Revaluation decrements for a class of assets are recognised in the surplus or deficit except to the extent that they reverse a previous revaluation increment for that class.

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

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Recurring and non-recurring fair value measurements – valuation processes

The department engaged the service of Australian Valuation Solutions (AVS) to conduct a detailed external valuation of non-financial assets (excluding intangibles) at 30 June 2017 (30 June 2016: JLL were engaged to conduct an external valuation on land and building assets) and has relied upon those outcomes to establish carrying amounts. An annual assessment is undertaken to determine whether the carrying amount of the assets is materially different from the fair value. AVS has provided written assurance to the department that the models developed are in compliance with AASB13 – *Fair Value Measurement*.

In 2017 a revaluation decrement of \$80 000 was recorded for land (2016: \$1 265 000 decrement), revaluation decrement of \$462 000 for buildings (2016: \$735 000 decrement), revaluation increment of \$2742 000 for leasehold improvements (2016: \$0) and \$1 294 000 decrement for other property, plant and equipment (2016: \$0).

Depreciation and amortisation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the department using, in all cases, the straight-line method of depreciation.

Intangible assets are amortised on a straight-line basis over their anticipated useful life.

	2017	2016
Buildings	40-50 years	40-50 years
Leasehold improvements	Lesser of useful life or lease term	Lesser of useful life or lease term
Property, plant and equipment	3 to 15 years	3 to 15 years
Internally developed software	5 to 10 years	5 to 10 years
Purchased software	3 years	3 years

Depreciation charges for 2017 of \$29 634 134 were:

- funded by cost recovery arrangements of \$12 835 830 (2016: \$14 752 000); and
- unfunded of \$16 798 304 (2016: \$11 843 000).

Impairment

All non-financial assets were assessed for impairment at 30 June 2017. 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 valueless costs of disposal 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 cashflows, and the asset would be replaced if the entity were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

An impairment loss of \$2 376 000 (2016: \$955 000) was recognised in the operating result.

Accounting policy

Prepayments

No indicators of impairment were found for prepayments.

Inventories

Inventories held for distribution are valued at cost, adjusted for any loss of service potential.

Costs incurred in bringing each item of stores inventory to its present location and condition are recorded at purchase cost and managed on a first-in-first-out basis.

In 2017 no items of inventory were recognised at fair value less cost to sell.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 5: Payables

2017	2016
\$'000	\$'000

Note 5A: Suppliers

Trade creditors and accruals	3 508	3 627
Operating lease payable	17 999	19 021
Total suppliers	21 507	22 648

Settlement is usually made within 30 days.

Note 5B: Other Payables

Salaries and wages	3 324	2 374
Superannuation	572	268
Separations and redundancies	895	1 944
Accrued expenses	29 984	42 257
Unearned income	5 156	1 600
Statutory payables associated with employees	480	723
Other	1 823	1 307
Total other payables	42 234	50 473

Accounting policy

Separation and Redundancy

Provision is made for separation and redundancy benefit payments. The department recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that the terminations will be carried out. Separation and redundancy is reported as a payable when an agreement has been reached with the relevant employee and therefore the payable can be measured with high certainty.

Superannuation

The majority of the department's staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap), however some staff have elected to be members of other private superannuation funds.

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 administered schedules and notes.

The department makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. The department accounts for the contributions as if they were contributions to defined contribution schemes.

The liability for superannuation recognised at 30 June 2017 represents outstanding contributions.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 6: Provisions

	2017	2016
	\$'000	\$'000
Note 6A: Employee Provisions		
Leave	143 459	143 946
Total employee provisions	143 459	143 946

Accounting policy

Liabilities for 'short-term employee benefits' and termination benefits due within twelve months of the end of the reporting period are measured at their nominal amounts.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will apply at the time the leave is taken, including the department's employer superannuation contribution rates to the extent that leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to the work of an actuary as at 30 June 2017. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Note 6B: Reconciliation Other Provisions

	Provision for lease incentives \$'000	Provision for restoration \$'000	Total \$'000
As at 1 July 2016	6 905	4 525	11 430
Additional provisions made	-	1 652	1 652
Amounts reversed	-	(482)	(482)
Amounts used	(1 114)	(147)	(1 261)
Unwinding of discount or change in discount rate	-	120	120
Total as at 30 June 2017	5 791	5 668	11 459

The department currently recognises 41 (2016: 18) provisions for premises requiring restoration to their original condition at the conclusion of the lease. The provisions reflect the present value of this obligation.

Accounting policy

Provision for Restoration

The cost of restoring properties leased by the department is based on estimates for completing remedial work. In some instances the actual cost to complete this work may be more or less than the makegood provision.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 7: Restructuring

	2016
	Water policy and resources
	The Department of the Environment ^{1 2}
	\$'000
FUNCTIONS ASSUMED	
Assets recognised	
Trade and other receivables	4 614
Total assets recognised	4 614
Liabilities recognised	
Employee provisions	5 315
Total liabilities recognised	5 315
Net liabilities assumed	(701)
Income	
Recognised by the receiving entity	19 071
Recognised by the losing entity	11 449
Total income assumed	30 520
Expenses	
Recognised by the receiving entity	19 050
Recognised by the losing entity	12 204
Total expenses assumed	31 254

1. Water policy and resources was assumed from the Department of the Environment during 2015-16 due to an Administrative Arrangements Order made on 21 September 2015.

2. The net liabilities assumed from the Department of the Environment were (\$701 000). In respect of functions assumed, the net book values of assets and liabilities were transferred to the entity for no consideration.

3. There were no Administrative Arrangement Order changes related to the department during 2016-17

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 8: Contingent Assets and Liabilities

Quantifiable Contingencies

There were no quantifiable contingent assets or contingent liabilities at 30 June 2017 (2016: Nil).

Unquantifiable Contingencies

At 30 June 2017, the department was pursuing a number of legal claims for damages / costs. The department is expecting to succeed in claims against a variety of parties, although the cases are continuing. It is not possible to estimate the amounts of any eventual payments which might be recovered in relation to these claims.

Proceedings have commenced in the Federal Court of Australia seeking compensation for alleged losses due to the temporary suspension of exports of live animals to Indonesia that was put in place on 7 June 2011. The quantum of any damages sought has not been quantified. The Department of Finance, which has responsibility for Comcover (the Australian Government's general insurance fund), has assumed insurance responsibility for the potential claims under its insurance arrangements with the department.

Accounting policy

Contingent liabilities and contingent assets are not recognised in the statement of financial position but are reported in the relevant notes. They may arise from uncertainty as to the existence of a liability or asset or 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 and contingent liabilities are disclosed when settlement is greater than remote.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 9: Key Management Personnel Remuneration

	2017	2016
	\$'000	\$'000
Total short-term employee benefits	2 802	2 472
Post-employment benefits	522	432
Other long-term benefits	314	275
Total key management personnel remuneration expenses^{1,2}	3 638	3 179

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the department, directly or indirectly. The department has determined the key management personnel to be members of the Executive Management Committee including acting arrangements for a period of 8 weeks or more.

The total number of key management personnel that are included in the above table is 13, being 11 substantive officers and two acting for part of the year (2016: 14, being 11 substantive officers and three acting for part of the year).

1. The above key management personnel remuneration excludes the remuneration and other benefits of the Portfolio Minister. The Portfolio Minister's remuneration and other benefits are set by the Remuneration Tribunal and are not paid by the entity.

2. The comparative information has been restated to disclose remuneration of key management personnel, as defined above. In the 2015-16 financial statements, the senior management personnel remuneration note included all substantive SES level staff and acting arrangements for the full year.

Note 10: Related Party Disclosures

Related party relationships:

The department is an Australian Government controlled entity. Related parties to this entity are Key Management Personnel, including the Portfolio Minister and Assistant Ministers, the River Murray Operation (RMO) and Living Murray Initiative (LMO) joint operations as well as other Australian Government entities.

Transactions with related parties:

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. These transactions have not been separately disclosed in this note.

Giving consideration to relationships with related entities, and transactions entered into during the reporting period, the department has determined there are no related party transactions that require separate disclosure.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 11: Financial Instruments

	2017 \$'000	2016 \$'000
Note 11A: Categories of Financial Instruments		
Financial Assets		
Held-to-maturity investments		
Negotiable securities - certificates of deposit	16 000	14 500
Total held-to-maturity investments	16 000	14 500
Loans and Receivables		
Cash and cash equivalents	27 652	42 891
Trade receivables	20 741	14 630
Other financial assets	4 893	5 090
Total loans and receivables	53 286	62 611
Total financial assets	69 286	77 111
Financial Liabilities		
Financial liabilities measured at amortised cost		
Trade creditors	3 508	3 627
Total financial liabilities measured at amortised cost	3 508	3 627
Total financial liabilities	3 508	3 627

At 30 June 2017, there are 11 (2016: 11) certificates of deposit maturing at different dates within the next 12 months. Interest rates range from 2.62% to 2.87% (2016: 2.75% to 3.11%), payable upon maturity

1. The net income from interest revenue for held-to-maturity investments in 2017 is \$351 000 (2016: \$399 000).
2. The net income from interest revenue for loans and receivables in 2017 is \$299 000 (2016: \$404 000).

Accounting policy

Financial assets

The department classifies its financial assets in the following categories:

- held-to-maturity investments;
- available-for-sale financial assets; and
- 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 when financial assets are recognised at fair value through profit or loss. The department has no financial assets that are recognised at fair value through profit or loss.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the department 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.

The departmental held-to-maturity investments are recognised in the Statement of Financial Position as other investments and are made up of negotiable certificates of deposit.

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 (or all) of the cumulative gain or loss previously recognised in the reserve is included in the surplus or deficit for the period.

The department recognises administered other investments as available-for-sale.

Loans and Receivables

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

Impairment of Financial Assets

Financial assets are assessed for impairment at the end of each reporting period.

Financial assets held at amortised cost - If there is objective evidence that an impairment loss has been incurred for receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement of Comprehensive Income.

Available-for-sale financial assets - If there is objective evidence that an impairment loss on an available-for-sale financial asset 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.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities'. Financial liabilities are recognised and derecognised upon 'trade date'. All of the department's financial liabilities are categorised as other financial liabilities.

Other Financial Liabilities

Other financial liabilities 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 department recognises all financial liabilities at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 12: Appropriations

Note 12A: Annual and Unspent Appropriations ('Recoverable GST exclusive')

	2017 \$'000	2016 \$'000
Ordinary annual services		
Opening unspent appropriation balance	48 805	39 939
Annual Appropriation - Operating	375 687	321 871
Annual Appropriation - Capital budget ¹	9 940	9 969
PGPA Act Section 74 receipts	28 646	28 917
PGPA Act Section 75 transfers	-	16 620
Prior year PGPA Act section 75 transfers	-	4 614
Total appropriation available	463 078	421 930
Appropriation applied (current and prior years)	407 864	373 125
Closing unspent appropriation balance	55 214	48 805
Balance comprises appropriations as follows:		
<i>Appropriation Act (No. 1) 2014-15</i>	-	3 754
<i>Appropriation Act (No. 1) 2015-16</i>	-	21 819
<i>Appropriation Act (No. 3) 2015-16</i>	-	18 090
<i>Appropriation Act (No. 1) 2016-17</i>	48 286	-
<i>Appropriation Act (No. 3) 2016-17</i>	4 104	-
<i>Supply Act (No. 1) 2016-17</i>	810	-
Cash on hand	2 014	5 142
Total unspent appropriation - ordinary annual services	55 214	48 805

¹ Departmental Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts.

The variance between amounts appropriated in 2017 and appropriation applied is \$6 409 000.

Other Services

Opening unspent appropriation balance	4 603	320
Annual Appropriation - Equity injection	12 703	6 055
Total appropriation available	17 306	6 375
Appropriation applied (current and prior years)	6 062	1 772
Closing unspent appropriation balance	11 244	4 603
Balance comprises appropriations as follows:		
<i>Appropriation Act (No. 4) 2013-14¹</i>	240	240
<i>Appropriation Act (No. 2) 2015-16</i>	203	1 278
<i>Appropriation Act (No. 4) 2015-16</i>	2 756	3 085
<i>Appropriation Act (No. 2) 2016-17</i>	2 595	-
<i>Appropriation Act (No. 4) 2016-17</i>	5 319	-
<i>Supply Act (No. 2) 2016-17</i>	131	-
Total unspent appropriation - other services	11 244	4 603

¹ \$240 000 has been administratively quarantined in anticipation of repeal.

The variance between amounts appropriated in 2017 and appropriation applied is \$6 641 000.

Total unspent appropriation	66 458	53 408
------------------------------------	---------------	---------------

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

Note 12B: Special Appropriations ('Recoverable GST exclusive')

Authority	Appropriation applied	
	2017	2016
	\$'000	\$'000
<i>Public Governance, Performance and Accountability Act 2013, s. 58, National Residue Survey</i>		
Prior year investments redeemed in current year (\$14 500 000), Redemptions of current year investments (gross) (nil).	(16 000)	(14 500)
Total special appropriations applied	(16 000)	(14 500)

Note 13: Special Accounts

	Australian Quarantine and Inspection Service Special Account (AQIS)¹		National Residue Survey Account (NRS)²	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Balance brought forward from previous period	36 225	57 242	1 524	1 723
Increases:				
Appropriations credited to special account	132 483	126 797	9	363
Other increases	361 984	351 468	26 205	24 356
Total increases	494 467	478 265	26 214	24 719
Available for payments	530 692	535 507	27 738	26 442
Departmental decreases				
Payments made to employees	(303 194)	(298 273)	(1 880)	(1 831)
Payments made to other	(203 097)	(201 009)	(24 621)	(23 087)
Total decreases	(506 291)	(499 282)	(26 501)	(24 918)
Total balance carried to the next period	24 401	36 225	1 237	1 524
Balance made up of:				
Cash held in the Official Public Account	21 548	26 900	1 237	1 524
Cash held in entity bank accounts	2 853	9 325	-	-
Total balance carried to the next period	24 401	36 225	1 237	1 524

¹ Appropriation: *Public Governance, Performance and Accountability Act 2013* section 78.

Establishing Instrument: Financial Management and Accountability Determination 2010/11 – Australian Quarantine and Inspection Service Special Account Establishment 2010.

Purpose: For expenditure relating to the provision of quarantine and inspection services and payment of moneys to the Consolidated Revenue Fund as agreed to by the relevant Minister and Minister for Finance.

² Appropriation: *Public Governance, Performance and Accountability Act 2013* section 80.

Establishing Instrument: *National Residue Survey Administration Act 1992* section 6 (1).

Purpose: For the purposes of conducting national residue surveys and to provide for collection of the NRS levy imposed by various acts.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 14: Regulatory Charging Summary

	2017 \$'000	2016 \$'000
Amounts applied		
Departmental		
Annual appropriations	71 987	64 309
Own source revenue	374 805	364 653
Total amounts applied	446 792	428 962
Expenses		
Departmental	463 097	449 658
Total expenses	463 097	449 658
Revenue		
Departmental	391 981	373 384
Total revenue	391 981	373 384
Amounts written off		
Departmental	9 305	12 066
Total amounts written off	9 305	12 066

Regulatory Charging Activities:

Dairy Exports Program Services	Meat Export Program Services
Fish and Egg Export Program Services	National Residue Survey Services
Grain and Seed Export Program Services	Non-Prescribed Goods Export Program Services
Horticulture Exports Program Services	Passenger Program Services
Import Clearance Program Services	Post Entry Plant Quarantine Program Services
Levies Revenue Service	Seaports Program Services
Live Animal Export Program Services	Water Efficiency Labelling and Standards Scheme

Documentation (Cost Recovery Implementation Statements) for the above activities is available at:

Water Efficiency Labelling and Standards Scheme www.waterrating.gov.au/resource/cost-recovery-impact-statement

Other regulatory charging activities www.agriculture.gov.au/fees/cost-recovery/

Industry Rebates and Program Results

Biosecurity, export certification and quota management, and National Residue Survey (NRS) cost recovered activities are maintained on a program basis with many of the programs aligning to an industry sector. The management of each program, including the establishment of the level and structure of fees and charges, is conducted in consultation with an Industry Consultative Committee (ICC), as applicable, and the Department of Finance.

Where fees and charges collected for a cost recovered program exceed its costs during a financial year, the excess revenue is reported in the total comprehensive income (loss) for the period. The amount of excess revenue is transferred from retained earnings into an industry reserve.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 15: Budgetary Reports and Explanations of Major Variances

The following tables provide a comparison of the original budget as presented in the 2016–17 Portfolio Budget Statements (PBS) to the 2016–17 final outcome as presented in accordance with Australian Accounting Standards for the department. The Budget is not audited. Explanations of major variances are provided below.

Variances are considered to be 'major' based on the following criteria:

- the variance between budget and actual is greater than +/- 10% of the original budget for a line item; or
- the variance between budget and actual is greater than 2% of the relevant sub-total (i.e. total expenses, total income, total assets or total liabilities); or
- an item below this threshold but is considered important for the reader's understanding or is relevant to an assessment of the discharge of accountability and to an analysis of performance of the department.

Statement of Comprehensive Income major budget variances

Affected line items	Variance amount \$'000	Explanations of major variances
Expenses		
Employee benefits	(7 769)	The variance relates to: the delayed implementation of pay increases under the department's enterprise agreement; and increases in the market yield (interest rate) for 10 year Government bonds, which has resulted in the reduction of the value of employee leave provisions.
Grants	(4 457)	The variance relates to an error in the original budget preparation, misallocating an amount between grant and supplier expenses.
Depreciation and amortisation	4 434	Additional depreciation and amortisation expenses were incurred due to asset projects being completed earlier than anticipated in the original budget.
Write-down and impairment of assets	6 621	The budget reflects remission of fees for cost recovery arrangements. Fee remissions are a legislated mechanism used to reduce surplus industry reserves by waiving a portion of revenue charged to industry participants. The actual remission program was reduced through the financial year. The budget does not include estimates for the write-down and impairment of receivables and non-financial assets.
Income		
Sale of goods and rendering of services	(8 426)	The variance is mainly due to the lower than expected fee-for-service collections from the Cost Recovery Arrangements.
Other revenue	15 072	The variance is mainly due to the reclassification of resources received free of charge from other gains to other revenue, and unbudgeted rent received free of charge from the Department of Finance for the quarantine facility at Mickleham.
Revenue from Government	4 104	The original budget did not incorporate subsequent government measures which were published in the Portfolio Additional Estimates Statements.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Statement of Financial Position major budget variances

Affected line items	Variance amount \$'000	Explanations of major variances
Assets		
Cash and cash equivalents	24 502	The original budget did not include the balance of special accounts, which is now required to be reported as cash and cash equivalents.
Trade and other receivables	5 016	The variance reflects the increased appropriation receivable balance due to a better than budgeted operating result and underspend against capital funding, offset by the reclassification of special account balances to cash and cash equivalents.
Other investments	2 500	The original budget included a realisation on the NRS investments that did not eventuate.
Land and buildings	(4 056)	The variance is due to an underspend against capital funding, primarily related to Sydney regional office fitout.
Property, plant and equipment	5 905	The variance relates to a reclassification of budgeted asset acquisitions from intangible assets to PP&E as well as recognition of the Mickleham Post Entry Quarantine Facility Project, transferred from the Department of Finance.
Intangibles	(29 816)	The variance is a result of: a reclassification of budgeted asset acquisitions from intangible assets to PP&E; additional amortisation expense as described in the statement of comprehensive income; a significant planned software purchase which was subsequently assessed as a partial contract for services (non-capital); and a higher budgeted opening balance due to information available at the time of budget preparation.
Prepayments	3 222	The variance includes prepaid Information Technology services which had originally been budgeted as part of an intangible asset. Due to the uncertainty that surrounds future events that impact prepayments, the department estimates prepayments based on information available at the time of budget preparation.
Liabilities		
Suppliers	4 076	Due to the uncertainty that surrounds the timing of payments to suppliers, the department estimates suppliers payable based on information available at the time of budget preparation.
Other payables	(6 307)	The variance relates to the timing of final payroll processing for the financial year, resulting in lower than budgeted salaries and wages payable.
Employee provisions	9 261	The original budget, based on provisions at the time of preparation, did not include provision movements for increased staffing levels, mainly driven by the Agricultural Competitiveness White Paper.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Cash Flow Statement major budget variances

Affected line items	Variance amount \$'000	Explanations of major variances
Operating cash flows		
Appropriations	(19 284)	The variance reflects the better than expected operating results and underspending in self-funded, capital investments.
Sale of goods and rendering of services	(13 996)	The variance is mainly due to the lower than expected fee-for-service collections from the Cost Recovery Arrangements as described in the Statement of Comprehensive Income.
Net GST received	6 241	The original budget for GST receipts is calculated based on the estimated GST treatment of budgeted revenue and expenses.
Other	9 022	The original budget does not include receipts for items such as leave transfers between commonwealth entities and refunds from suppliers.
Suppliers	10 751	The variance relates to additional GST paid to suppliers (see Net GST received) and higher than budgeted supplier expenses.
Grants	(4 376)	The variance reflects the lower than expected grant expenses as described in the Statement of Comprehensive Income.
Investing cash flows		
Proceeds from sales of financial instruments	1 000	The Original Budget included a reducing balance of term deposits for the National Residue Survey (NRS), including a reduced opening balance as at 1 July 2016 compared to 2015-16 results. Therefore, maturing term deposits during 2016-17 were higher than budgeted.
Purchase of property, plant and equipment	6 496	The variance relates to a reclassification of budgeted asset acquisitions from intangible assets to PP&E
Purchase of land and buildings	(10 350)	The variance is due to an underspend against capital funding, primarily related to Sydney regional office fitout.
Purchase of intangibles	(5 993)	The variance is a result of a reclassification of budgeted asset acquisitions from intangible assets to PP&E and a significant planned software purchase which was subsequently assessed as a partial contract for services (non-capital).
Purchase of financial instruments	2 500	The Original Budget included a reducing balance of term deposits for the NRS. The NRS invests surplus funds from the special account in term deposits and reinvested additional funds during 2016-17
Financing cash flows		
Contributed equity	(1 322)	The variance reflects underspending in capital projects mainly associated with the Agricultural Competitiveness White Paper measures.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME
for the period ended 30 June 2017

		2017	2016	Original Budget 2017	Variance 2017
	Notes	\$'000	\$'000	\$'000	\$'000
NET COST OF SERVICES					
Expenses					
Levy disbursements and Commonwealth contributions	16A	826 072	771 754	750 644	75 428
Grants	16B	303 999	212 196	507 658	(203 659)
Payments to corporate Commonwealth entities	16C	89 296	16 263	108 758	(19 462)
Suppliers	16D	42 314	34 432	58 618	(16 304)
Direct personal benefits		60 833	57 224	117 736	(56 903)
Assets transferred to related entities	19	165 581	78 472	408 179	(242 598)
Depreciation and amortisation	19	7 737	7 610	7 759	(22)
Concessional loan discount		3 046	-	-	3 046
Write-down and impairment of assets	16E	6 725	2 337	694	6 031
Total expenses		1 505 603	1 180 288	1 960 046	(454 443)
Income					
Revenue					
Taxation revenue					
Levies fees and charges	17A	555 436	523 128	493 624	61 812
Total taxation revenue		555 436	523 128	493 624	61 812
Non-taxation revenue					
Interest	17B	15 689	14 961	25 887	(10 198)
Other revenue	17C	19 948	17 015	6 389	13 559
Total non-taxation revenue		35 637	31 976	32 276	3 361
Total revenue		591 073	555 104	525 900	65 173
Gains					
Other Gains	17D	129 895	99 291	221 134	(91 239)
Total gains		129 895	99 291	221 134	(91 239)
Total income		720 968	654 395	747 034	(26 066)
Net cost of services		784 635	525 893	1 213 012	(428 377)
OTHER COMPREHENSIVE INCOME					
Items not subject to subsequent reclassification to net cost of services					
Administered revaluations taken to reserves					
Non-financial assets		13 908	12 190	-	13 908
Other investments		21 957	8 555	-	21 957
Total other comprehensive income		35 865	20 745	-	35 865
Total comprehensive loss		(748 770)	(505 148)	(1 213 012)	464 242

The above statement should be read in conjunction with the accompanying notes.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES
as at 30 June 2017

		2017	2016	Original Budget 2017	Variance 2017
	Notes	\$'000	\$'000	\$'000	\$'000
ASSETS					
Financial assets					
Cash and cash equivalents		166 435	56 321	-	166 435
Trade, taxation and other receivables	18A	733 552	589 929	919,046	(185 494)
Other investments	18B	369 513	347 556	339,001	30 512
Other financial assets	18C	67 164	61 000	58,207	8 957
Total financial assets		1 336 664	1 054 806	1 316 254	20 410
Non-financial assets					
Land	19	1 467	1 467	1,467	-
Infrastructure	19	528 639	521 308	501,074	27 565
Plant and equipment	19	1 664	1 830	-	1 664
Flooding easements	19	814	814	-	814
Intangibles	19	125 047	138 146	107,989	17 058
Prepayments		16 082	14 316	6,690	9 392
Total non-financial assets		673 713	677 881	617 220	56 493
Total assets administered on behalf of Government		2 010 377	1 732 687	1 933 474	76 903
LIABILITIES					
Payables					
Levy disbursements and Commonwealth Contributions	20A	92 380	94 395	84,645	7 735
Grants	20B	7 867	41 429	31,246	(23 379)
Suppliers		1 504	1 958	615	889
Personal benefits		1 270	1 015	1,115	155
Other payables		808	54	-	808
Total payables		103 829	138 851	117 621	(13 792)
Total liabilities administered on behalf of Government		103 829	138 851	117 621	(13 792)
Net assets		1 906 548	1 593 836	1 815 853	90 695

The above statement should be read in conjunction with the accompanying notes.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
ADMINISTERED RECONCILIATION SCHEDULE
for the period ended 30 June 2017

	2017 \$'000	2016 \$'000
Opening assets less liabilities as at 1 July	1 593 836	786 766
Net cost of services		
Income	720 968	654 395
Expenses		
Payments to entities other than corporate Commonwealth entities	(1 416 307)	(1 164 025)
Payments to corporate Commonwealth entities	(89 296)	(16 263)
Other comprehensive income		
Revaluations transferred to reserves		
Non-financial assets	13 908	12 190
Other investments	21 957	8 555
Transfers (to)/from the Australian Government		
Appropriation transfers from OPA		
Administered assets and liabilities appropriations	279 090	237 642
Annual appropriations		
Payments to entities other than corporate Commonwealth entities	459 600	296 751
Payments to corporate Commonwealth entities	89 296	16 120
Special appropriations (limited)		
Payments to entities other than corporate Commonwealth entities	110 000	-
Special appropriations (unlimited)		
Payments to entities other than corporate Commonwealth entities	562 744	537 404
Payments to corporate Commonwealth entities	317 212	280 196
Special account payments	719	-
Appropriation transfers to OPA		
Transfers to OPA	(757 033)	(800 513)
Restructuring	-	744 718
Personal Benefits - Withholding	(143)	(100)
Other movements	(3)	-
Closing assets less liabilities as at 30 June	1 906 548	1 593 836

Accounting Policy

Administered Cash Transfers to and from the Official Public Account (OPA)

Revenue collected by the department for use by the Government rather than the department is administered revenue. Collections are transferred to the OPA maintained by the Department of Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of Government. These transfers to and from the OPA are adjustments to the administered cash held by the department on behalf of the Government and reported as such in the schedule of administered cash flows and in the administered reconciliation schedule.

The above statement should be read in conjunction with the accompanying notes.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
ADMINISTERED CASH FLOW STATEMENT
for the period ended 30 June 2017

	2017 \$'000	2016 \$'000
OPERATING ACTIVITIES		
Cash received		
Taxes	548 991	517 238
Net GST received	81 656	59 477
Other	19 478	8 995
Total cash received	650 125	585 710
Cash used		
Levy disbursements and Commonwealth contributions	828 087	769 182
Grants	417 176	270 126
Suppliers	46 320	34 967
Personal benefits	65 421	58 630
Payments to corporate Commonwealth entities	89 296	16 263
Total cash used	1 446 300	1 149 168
Net cash used by operating activities	(796 175)	(563 458)
INVESTING ACTIVITIES		
Cash received		
Repayments of loans to States and Territories	107 734	212 281
Interest received from loans to States and Territories	16 012	14 269
Total cash received	123 746	226 550
Cash used		
Loans made to States and Territories	255 000	225 000
Purchase of Intangibles	24 085	13 223
Total cash used	279 085	238 223
Net cash used by investing activities	(155 339)	(11 673)
FINANCING ACTIVITIES		
Cash received		
Restructure ¹	-	55 303
Total cash received	-	55 303
Net cash received from financing activities	-	55 303
Net decrease in cash held	(951 514)	(519 828)
Cash and cash equivalents at the beginning of the reporting period	56 321	8 549
Cash from Official Public Account for		
- Appropriations	1 817 942	1 368 113
- Special accounts	719	-
Total cash from Official Public Account	1 818 661	1 368 113
Cash to Official Public Account for:		
- Appropriations	757 033	800 513
Total cash to Official Public Account	757 033	800 513
Cash and cash equivalents at the end of the reporting period	166 435	56 321

¹ Cash received through restructure relates to the balance of special accounts transferred from the Department of the Environment due to an Administrative Arrangements Order made on 21 September 2015. Refer to Note 21.

The above statement should be read in conjunction with the accompanying notes.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 16: Administered – Expenses

	2017 \$'000	2016 \$'000
Note 16A: Levy Disbursements and Commonwealth Contributions		
Levy disbursements		
Corporate Commonwealth entities	211 922	168 599
Other	338 143	349 309
Commonwealth Contributions		
Corporate Commonwealth entities	117 826	110 955
Other	158 181	142 891
Total levy disbursements and Commonwealth contributions	826 072	771 754
Note 16B: Grants		
Non-profit organisations	102 388	75 851
For profit organisations	176 933	77 480
Australian Government entities (related parties)	16 306	35 039
State and Territory Governments	6 231	15 019
Local Governments	1 972	8 748
Other	169	59
Total grants	303 999	212 196

Accounting policy

The department administers a number of grant and subsidy schemes on behalf of the Government. Grant and subsidy liabilities are recognised to the extent that (i) the services required to be performed by the grantee have been performed or (ii) the grant eligibility criteria have been satisfied, but payments due have yet to be made.

Note 16C: Payments to Corporate Commonwealth Entities

Murray-Darling Basin Authority (MDBA)	72 699	7 492
Rural Industries Research and Development Corporation (RIRDC)	10 170	8 628
Fisheries Research and Development Corporation (FRDC)	4 291	-
Australian Grape and Wine Authority (AGWA)	2 000	-
Australian Pesticides and Veterinary Medicines Authority (APVMA)	136	143
Total payments to corporate Commonwealth entities	89 296	16 263

Accounting policy

Payments to corporate Commonwealth entities from amounts appropriated for that purpose are classified as administered expenses, equity injections or loans of the relevant portfolio department. The appropriation to the department is disclosed in Note 24.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

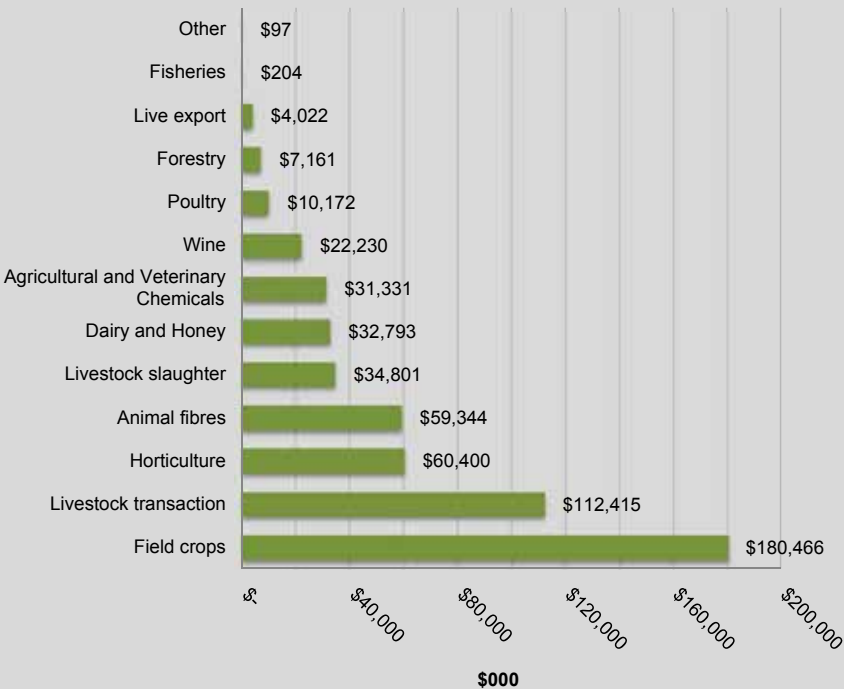
	2017	2016
	\$'000	\$'000
<u>Note 16D: Suppliers</u>		
Goods and services supplied or rendered		
Membership fees	15 903	16 008
Consultants	8 276	5 014
Contractors	5 043	1 882
Administration charge - loans	4 428	3 690
Purchase of data	5 009	5 079
Other	3 655	2 759
Total goods and services supplied or rendered	42 314	34 432
Goods supplied	5 836	5 951
Services rendered	36 478	28 481
Total goods and services supplied or rendered	42 314	34 432
Total supplier expenses	42 314	34 432
<u>Note 16E: Write-Down and Impairment of Assets</u>		
Debt waiver of personal benefits receivable	4 874	1 372
Impairment on financial assets	752	436
Write-off of non-financial assets	501	287
Debt waiver - under <i>Primary Industries Levies and Charges Collection Act 1991</i>	598	242
Total write-down and impairment of assets	6 725	2 337

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 17: Administered – Income

	2017 \$'000	2016 \$'000
Revenue		
Taxation Revenue		
Note 17A: Levies Fees and Charges		
Primary industry levies	544 040	511 637
Primary industry charges	11 396	11 491
Total levies fees and charges	555 436	523 128

Figure 2 shows levy revenue by industry in 2016-17



Non-Taxation Revenue

Note 17B: Interest

Loans	15 570	14 938
Other	84	23
Unwinding of concessional loan discount	35	-
Total interest	15 689	14 961

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2017 \$'000	2016 \$'000
Non-Taxation Revenue (Continued)		
<u>Note 17C: Other Revenue</u>		
Refunds of prior year payments	16 168	13 026
Registration Fees	1 526	1 328
Other	2 254	2 661
Total other revenue	19 948	17 015
<u>Note 17D: Other Gains</u>		
Resources received free of charge - water entitlements	125 188	82 625
Joint operation gains	4 707	15 849
Other	-	817
Total other gains	129 895	99 291

Accounting policy

All administered revenues are revenues relating to ordinary activities performed by the department on behalf of the Australian Government. As such, administered appropriations are not revenues of the individual entity that oversees distribution or expenditure of the funds as directed.

Revenue also includes contributions from State and Territory governments in connection with the performance of the Water Efficiency Labelling and Standards (WELS) Regulator, Lake Eyre Basin Community Advisory Committee and the Great Artesian Basin Coordinating Committee.

Levies, Fees and Other Charges

Levies are collected by the department on behalf of industry and are disbursed, in conjunction with any relevant Commonwealth contribution, to special accounts, statutory marketing authorities, Commonwealth research and development corporations, and other industry boards and authorities.

The levels of levy revenue and disbursement during the year are monitored by the department with reference to production forecasts prepared by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), the Australian Bureau of Statistics (ABS) and field based data supplied by the department's regional office compliance officers.

Levies are recognised on an accrual basis when the following conditions apply:

- the levy payer/commodity group can be reliably identified;
- the amount of levy payable can be reliably measured; and
- it is probable that the levy payable will be collected.

The value of the accrual recognised (2017: \$67164 000, 2016: \$61 000 000) relies on the estimation of the volume and value of probable future levy return lodgements, which relate to leviable commodity transactions that have occurred in the current financial year

Also forming part of the department's other charges are Biosecurity penalties, fines and forestry import charges collected by the Department of Immigration and Border Protection. As reporting is the responsibility of the principal department, these collections are recognised in the department's financial statements as administered items.

Resources Received Free of Charge

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. Water entitlement assets valued at \$125 188 000 were acquired in 2017 (2016: \$82 625 000) for no cost under the Sustainable Rural Water Use and Infrastructure Program (SRWUIP) grant program and are included in asset additions in note 19.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 18: Administered – Financial Assets

	2017 \$'000	2016 \$'000
Note 18A: Trade, Taxation and Other receivables		
Goods and services receivables in connection with		
Goods and services	927	3 220
Total goods and services receivables	927	3 220
Taxation receivables		
Levies fees and charges	10 958	11 102
Total taxation receivables	10 958	11 102
Loans		
State and Territory Governments	696 504	552 249
Total loans	696 504	552 249
Other receivables		
Personal benefits	2 605	1 857
Statutory receivables	12 565	15 178
Interest receivable from loans	2 603	2 961
Other receivables	10 227	6 115
Total other receivables	28 000	26 111
Total trade, taxation and other receivables (gross)	736 389	592 682
Less impairment allowance		
Goods and services	(124)	(385)
Personal benefits	(854)	(680)
Levies fees and charges	(1 859)	(1 688)
Total impairment allowance	(2 837)	(2 753)
Total trade, taxation and other receivables (net)	733 552	589 929

At 30 June 2017, five loan schemes were in place. Loans to State and Territory Governments were made under the Farm Finance and Drought loan schemes for periods up to 5 years and the Dairy Recovery, Drought Recovery and Farm Business loan schemes for up to 10 years. No security is required on these loans to government agencies, but a charge over assets is held by jurisdictions issuing the loans to farmers.

Loans are subject to biannual impairment assessments. If a State or Territory Government is unable to recover loans provided to program recipients, the State or Territory Government's respective liability to the Commonwealth will be reviewed in accordance with the applicable loan agreements.

Principal is repaid in full at maturity. Interest rates were fixed with a 6 monthly review period. Effective interest rates averaged 3.39% (2016: 3.68%) for Farm Finance loans, 2.88% (2016: 3.17%) for Drought loans, 2.45% (2016: 2.79%) for Dairy Recovery and Drought Recovery loans, and 2.50% (2016: NA) for Farm Business loans. Interest payments are due on the 10th day of the month following collection.

Accounting policy

Loans and Receivables

Loan receivables from State and Territory Governments have fixed or determinable payments that are not quoted in an active market and are classified as 'Loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Gains and losses due to impairment, derecognition and amortisation are recognised through profit or loss.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2017	2016
	\$'000	\$'000
Note 18B: Other Investments		
Australian Grape and Wine Authority (AGWA)	13 111	9 362
Australian Pesticides and Veterinary Medicines Authority (APVMA)	7 688	7 312
Cotton Research and Development Corporation (CRDC)	37 536	40 025
Fisheries Research and Development Corporation (FRDC)	19 725	11 533
Grains Research and Development Corporation (GRDC)	205 828	187 488
Murray-Darling Basin Authority (MDBA)	63 215	66 449
Rural Industries Research and Development Corporation (RIRDC)	22 410	25 387
Total other investments	369 513	347 556

Accounting policy

Administered Investments

Administered investments in subsidiaries are not consolidated because their consolidation is relevant only at the Whole of Government level.

Administered investments are measured fair value as at 30 June 2017. Fair value has been taken to be the Australian Government's proportional interest in the net assets of the entities as at the end of reporting period.

The principal activities of each of the entity's administered investments were as follows:

Corporate Commonwealth Entity: Australian Grape and Wine Authority (AGWA)

Principal Activities: Foster and enable a competitive Australian wine industry by investing in research and development, building markets, disseminating knowledge and ensuring compliance.

Corporate Commonwealth Entity: Australian Pesticides and Veterinary Medicines Authority (APVMA)

Principal Activities: Protection of the health and safety of people, animals, the environment, and agricultural and livestock industries through regulation of pesticides and veterinary medicines.

Corporate Commonwealth Entity: Cotton Research and Development Corporation (CRDC)

Principal Activities: Adoption of innovation that leads to increased productivity, competitiveness and environmental sustainability through investment in research and development that benefits the Australian cotton industry and the wider community.

Corporate Commonwealth Entity: Fisheries Research and Development Corporation (FRDC)

Principal Activities: Increased economic, social and environmental benefits for Australian fishing and aquaculture, and the wider community, by investing in knowledge, innovation, and marketing.

Corporate Commonwealth Entity: Grains Research and Development Corporation (GRDC)

Principal Activities: New information and products that enhance the productivity, competitiveness and environmental sustainability of Australian grain growers and benefit the industry and wider community, through planning, managing and implementing investments in grains research and development.

Corporate Commonwealth Entity: Murray-Darling Basin Authority (MDBA)

Principal Activities: Equitable and sustainable use of the Murray-Darling Basin by governments and the community including through development and implementation of a Basin Plan, operation of the River Murray system, shared natural resource management programs, research, information and advice.

Corporate Commonwealth Entity: Rural Industries Research and Development Corporation (RIRDC)

Principal Activities: Increased knowledge that fosters sustainable, productive and profitable new and existing rural industries and furthers understanding of national rural issues through research and development in government-industry partnership.

	2017	2016
	\$'000	\$'000
Note 18C: Other Financial Assets		
Accrued primary industry levies	65 225	59 340
Accrued primary industry charges	1 939	1 660
Total other financial assets	67 164	61 000

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 19: Administered – Non-Financial Assets

Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles 2017

	Land \$'000	Infrastructure \$'000	Plant & equipment \$'000	Flooding easements \$'000	Water entitlements \$'000	Total \$'000
As at 1 July 2016						
Gross book value	1 467	826 380	4 142	814	155 970	988 773
Accumulated depreciation and impairment	-	(305 072)	(2 312)	-	(17 824)	(325 208)
Total as at 1 July 2016	1 467	521 308	1 830	814	138 146	663 565
Additions	-	1,260	218	-	149,273	150 751
Revaluations recognised in other comprehensive income	-	13 908	-	-	-	13 908
Reversal of impairments recognised in the operating result	-	-	-	-	3 229	3 229
Depreciation expense	-	(7 449)	(288)	-	-	(7 737)
Other movements	-	-	-	-	(3)	(3)
Disposals:						
Transferred to related entities	-	-	-	-	(165 581)	(165 581)
By write-off	-	(388)	(96)	-	(17)	(501)
Total as at 30 June 2017	1 467	528 639	1 664	814	125 047	657 631
Total as at 30 June 2017 represented by:						
Gross book value	1 467	848 053	4 179	814	139 642	994 155
Accumulated depreciation and impairment	-	(319 414)	(2 515)	-	(14 595)	(336 524)
Total as at 30 June 2017	1 467	528 639	1 664	814	125 047	657 631

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Impairment of non-financial assets

All assets were assessed for impairment. No impairment was recognised during the 2016-17 financial period.

Disposal of non-financial assets

No property, plant and equipment is expected to be sold or disposed of within the next 12 months.

Water entitlements acquired as part of the department's responsibility with regard to the *Water Act 2007* will be transferred to the Department of the Environment and Energy upon finalisation.

Revaluations of non-financial assets

Revaluations are conducted in accordance with the revaluation policy.

Infrastructure assets held by the River Murray Operation (RMO) joint venture, are revalued by an independent, external valuer on a three year cycle. For the year ended 30 June 2017 an internal management valuation, using the relevant Rawlinson's Building Price Index, was performed by the Murray-Darling Basin Authority (MDBA). Refer to Note 19 Joint Operations for more information on joint operation arrangements. A revaluation increment of \$13 908 000 was recognised by the department.

All increments and decrements were credited to the asset revaluation surplus by asset class and included in the other comprehensive income section of the Administered Schedule of Comprehensive Income. No decrements were expensed.

Contractual commitments for the acquisition of property, plant, equipment and intangible assets

There was one contract entered into as at 30 June 2017 for the acquisition of water entitlements with a value of \$38 001 116 which has not yet settled. It should be noted that the total contract value also included \$39 998 884 for the diminution of the value of the underlying property and completion of additional contractual obligations.

There were no contractual commitments for the acquisition of property, plant and equipment as at 30 June 2017.

Accounting policy

Water Entitlements

The department acquires water entitlements in the Murray Darling Basin to achieve the Government's environmental policy objectives under the *Water Act 2007*.

Commonwealth water entitlements are held for non-commercial, long term environmental purposes, beyond the shorter term weather and accounting cycles, the benefits of which are not being captured for accounting purposes. As the Commonwealth's water entitlement holdings continue to increase so does the strategic importance of demonstrating a robust valuation assessment.

Under the Federal Financial Relations Framework, National Partnership Payments are processed centrally by the Department of the Treasury and paid directly to each state treasury for delivery of services, including water efficiency projects that generate water savings. State treasuries are responsible for distributing the funding within their jurisdiction. In the Commonwealth, the Treasurer is accountable for the appropriations, estimates and payments under the framework. For National Partnership agreements, the primary responsibility for policy is with the relevant portfolio Minister. The department receives water entitlements 'free of charge' in accordance with the terms and conditions of payments made by the Treasury under the National Partnership on Water for the Future (refer to Note 17D).

Under the Sustainable Rural Water Use and Infrastructure Program (SRWUIP), there are a number of projects which improve the efficiency of irrigation infrastructure and generate savings in the use of water. As part of the SRWUIP funding arrangement, the Australian Government will receive a share of that water saving in the form of water entitlements for use in delivering the Government's environmental watering objectives. Water acquired as a result of water savings arising from projects funded to improve the efficiency of water use are accounted for in accordance with the relevant Australian Accounting Standards.

Once the department has finalised water entitlements as an asset in use, the *Water Act 2007* requires the department to transfer the entitlements to the Commonwealth Environmental Water Holder. The department recognises the transfer of the asset as an expense in accordance with the FRR. The department's remaining water entitlement holdings are as a result of the Living Murray Initiative (LMI) joint venture and entitlements that are not yet classified as in use.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

The department values water entitlements at cost, in the absence of an active market, in accordance with *AASB 138 Intangible Assets*. Water entitlements are classified as indefinite life intangible assets as there is no foreseeable limit to the period over which the assets are expected to generate future economic benefits. Consistent with *AASB 136 Impairment of Assets* and the FRR, they are subject to annual impairment testing.

Under AASB 136, the impairment test is carried out by comparing the carrying amount (per the department's asset register) to the recoverable amount of the water entitlements. The recoverable amount of the water entitlements is the higher of fair value less costs to sell and value in use. The recoverable amount calculation is performed at the lowest practical level, taking into account the quality and availability of data.

The department's valuation methodology calculates the fair value of the water entitlements based on the best information available to reflect the amount that an entity could obtain from the disposal of the water entitlements in an arm's length transaction between knowledgeable, willing parties. This approach is consistent with AASB 136. The department uses a model to assess whether there has been a significant decrease in price or whether there has been a prolonged decline in the value of the entitlement, using the median price of water entitlements extracted from State water registries. If either of these conditions is met an impairment loss is recorded. Having reviewed water entitlement price movements, the department has determined that a decline in excess of 10 percent or a 9 months prolonged decline in the value of the entitlement is an appropriate benchmark for this market.

In addition to generating a fair value consistent with AASB 136 as outlined above, the methodology calculates value in use or depreciated replacement cost for the water entitlements. In other words, the methodology satisfies the requirements of each of the recoverable amount calculation methods given by AASB 136.

An impairment loss recognised in prior periods will be reversed if there is any indication that the impairment may no longer exist or may have decreased. The increased carrying amount attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Joint operations

The Australian Government is a venturer in the following jointly controlled operations and assets:

	Principal activity	Share of Output 2017 %	2016 %
River Murray Operations joint operation	Asset Management	20	20
Living Murray Initiative joint operation	Asset Management	20	20

The Australian Government's interest, as a venturer, in assets employed in the above joint operations is detailed below. The amounts are included in the financial statements under their respective asset categories:

	2017 \$'000	2016 \$'000
Joint Operations		
Non-current assets		
Land and buildings		
River Murray Operations	1 467	1 467
Infrastructure		
River Murray Operations	528 639	521 308
Plant & equipment		
River Murray Operations	1 664	1 830
Flooding easements		
River Murray Operations	814	814
Water entitlements		
Living Murray Initiative	124 593	121 363
Total non-current assets	657 177	646 782
Total assets	657 177	646 782

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Accounting policy		
<u>Joint Operations</u>		
The Australian Government is an operator of jointly controlled assets held in the River Murray Operations (RMO) and Living Murray Initiative (LMI) joint operations. The Australian Government has control over its share of future economic benefits through its 20% share of the jointly controlled assets. The Australian Government recognises in its financial statements its share of the jointly controlled assets, classified according to the nature of the assets, its share of any liabilities incurred in respect of the joint operation and any income from the sale or use of its share of the output of the joint operation, together with its share of any expenses incurred by the joint operation.		
<u>Land, plant and equipment and flooding easements</u>		
Land, plant and equipment and flooding easements assets recognised by the department represent the Commonwealth Government's share in the RMO.		
RMO land, plant and equipment and flooding easements are carried at cost, consistent with the FRR.		
<u>Infrastructure</u>		
Infrastructure assets recognised by the department represent the Commonwealth Government's share in the RMO.		
RMO infrastructure assets are recorded at fair value in accordance with <i>AASB116 Property, Plant and Equipment</i> and <i>AASB13 Fair Value Measurement</i> . Infrastructure assets are valued by an independent external valuer on behalf of the RMO every three years. In the intervening two years of the revaluation cycle, values are assessed by means of an internal management valuation. The latter is an indexation based valuation using the relevant Building Price Index.		
<u>Water Entitlements</u>		
Water entitlement assets recognised by the department include the Commonwealth Government's share in the LMI.		
The determination of impairment and impairment reversals is conducted annually by an independent expert, using the volume-weighted average price on publicly reported market information on State registers reported from 1 July 2016 to 31 May 2017.		
<u>Depreciation</u>		
Depreciable infrastructure and plant and equipment assets are written-down over their estimated useful lives using the straight-line method of depreciation.		
	2017	2016
Infrastructure	Up to 400 years	Up to 400 years
Plant and equipment	3 to 80 years	3 to 80 years

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 20: Administered – Payables

	2017	2016
	\$'000	\$'000
<u>Note 20A: Levy Disbursements and Commonwealth Contributions</u>		
Levy disbursements	28 419	33 427
Commonwealth contributions	63 961	60 968
Total levy disbursements and Commonwealth contributions	92 380	94 395
<u>Note 20B: Grants</u>		
Non-profit organisations	7 005	16 931
Australian Government entities (related parties)	522	12 552
State and Territory Governments	280	75
Local Governments	-	17
Other	60	11 854
Total grants	7 867	41 429

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 21: Administered – Restructuring

	Water policy and resources The Department of the Environment ¹
	2016
	\$'000
FUNCTIONS ASSUMED	
Assets recognised	
Cash and cash equivalents	55 303
Trade and other receivables	329
Other investments	63 084
Land and buildings	1 467
Property, plant and equipment	516 592
Water assets	107 989
Total assets recognised	744 764
Liabilities recognised	
Suppliers	46
Total liabilities recognised	46
Net assets recognised	744 718
Income assumed	
Recognised by the receiving entity	101 522
Recognised by the losing entity	69 004
Total income assumed	170 526
Expenses	
Recognised by the receiving entity	219 248
Recognised by the losing entity	17 500
Total expenses assumed	236 748

1. Water policy and resources was assumed from the Department of the Environment during 2015-16 due to an Administrative Arrangements Order made on 21 September 2015.
2. The net assets recognised from the Department of the Environment were \$744 718 000. In respect of functions assumed, the net book values of assets and liabilities were transferred to the entity for no consideration.
3. Cash and cash equivalents recognised represents the balance of special accounts.
4. There were no Administrative Arrangement Order changes related to the department during 2016-17

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 22: Administered – Contingent Assets and Liabilities

Quantifiable Contingencies

There were no quantifiable contingent assets or contingent liabilities as at 30 June 2017 (2016: Nil).

Unquantifiable Contingencies

The Australian Government encourages expenditure on research and development to increase the competitiveness and sustainability of industries within Australia. Under several Acts, the Commonwealth provides contributions to a number of nominated entities responsible for undertaking research and development activities in respect of portfolio industries. These contributions are typically made on a matching basis. Under legislation, entities are eligible for matching contributions which are subject to annual “caps” based on the total cumulative amount of levies collected, amounts spent on qualifying research and development and the annual level of the determined gross value of production. The operation of these annual caps can result in annual entitlements being limited to less than full cumulative levy collections and/or cumulative qualifying research and development expenditure. However, unpaid balances may still be claimable, depending on the level of the caps determined in future years and are therefore carried forward from year to year.

At 30 June 2017, the Commonwealth had a maximum potential liability in respect of matching payments of approximately \$533 million (30 June 2016: \$443 million). The Commonwealth's actual future liability is contingent on a combination of several currently indeterminable independent factors which are beyond the control of both the department and the recipient entities, in particular the future annual levels of levy collections and determined gross values of production. The likelihood of meeting the eligibility requirements and the amount of future payments is uncertain. Hence, the total liability is considered unquantifiable.

Accounting policy

Indemnities

At the time of completion of the financial statements, there was no reason to believe that the indemnities would be called upon, and no liability has been recognised.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 23: Administered – Financial Instruments		
	2017	2016
	\$'000	\$'000
<u>Note 23A: Categories of Financial Instruments</u>		
Financial Assets		
Loans and receivables		
Cash and cash equivalents	166 435	56 321
Goods and services	803	2 835
Loans to State and Territory Governments	696 504	552 249
Interest receivable from loans	2 603	2 961
Other receivables	10 227	6 115
Total loans and receivables	876 572	620 481
Available-for-sale financial assets		
Other investments	369 513	347 556
Total available-for-sale financial assets	369 513	347 556
Total financial assets	1 246 085	968 037
Financial Liabilities		
Financial liabilities measured at amortised cost		
Trade creditors	1 504	2 012
Grants payable	7 867	41 429
Total financial liabilities at amortised cost	9 371	43 441
Total financial liabilities	9 371	43 441

1. The net income from interest revenue for loans and receivables in 2017 is \$15 689 000 (2016: \$14 961 000).

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 24: Administered – Appropriations

Note 24A: Annual and Unspent Appropriations ('Recoverable GST exclusive')		
	2017	2016
	\$'000	\$'000
Ordinary annual services		
Opening unspent appropriation balance	67 247	39 460
Annual Appropriation - Operating	553 555	138 574
PGPA Act section 74 receipts	623	1 627
PGPA Act section 75 transfers	-	315 885
Prior year PGPA Act section 75 transfers	-	25 852
PGPA Act section 51 determinations	(85 601)	(210 259)
Total available appropriation	535 824	311 139
Appropriation applied (current and prior years)	(464 570)	(243 892)
Closing unspent appropriation balance	71 254	67 247
Balance comprises appropriations as follows:		
<i>Appropriation Act (No. 1) 2012-13¹</i>	4 934	4 934
<i>Appropriation Act (No. 1) 2013-14¹</i>	821	821
<i>Appropriation Act (No. 1) 2015-16</i>	-	51 297
<i>Appropriation Act (No. 3) 2015-16</i>	-	10 195
<i>Appropriation Act (No. 1) 2016-17¹</i>	41 607	-
<i>Appropriation Act (No. 3) 2016-17</i>	3 224	-
<i>Supply Act (No. 1) 2016-17¹</i>	20 668	-
Total unspent appropriation - ordinary annual services	71 254	67 247

The variance between amounts appropriated in 2017 and appropriation applied is \$89 608 000.

¹ A portion of these appropriations amounting to \$30 755 000 has been administratively quarantined in anticipation of repeal.

Other services		
Opening unspent appropriation balance	296 885	185 000
Annual appropriation - States, ACT, NT and Local government	2 100	3 400
Annual appropriation - Administered assets and liabilities	487 045	250 000
PGPA Act section 75 transfers	-	63 846
Prior year PGPA Act section 75 transfers	-	43 280
PGPA Act section 51 determinations	-	(5 500)
Total available appropriation	786 030	540 026
Appropriation applied (current and prior years)	(281 062)	(243 141)
Closing unspent appropriation balance	504 968	296 885
Balance comprises appropriations as follows:		
<i>Appropriation Act (No. 2) 2013-14¹</i>	35 000	35 000
<i>Appropriation Act (No. 2) 2014-15</i>	137 781	157 781
<i>Appropriation Act (No. 4) 2014-15</i>	10 000	30 000
<i>Appropriation Act (No. 2) 2015-16</i>	69 104	74 103
<i>Appropriation Act (No. 2) 2016-17</i>	184 232	-
<i>Supply Act (No. 2) 2016-17</i>	68 851	-
Cash on hand	-	1
Total unspent appropriation - other services	504 968	296 885

The variance between amounts appropriated in 2017 and appropriation applied is \$208 083 000.

¹ \$35 000 000 has been administratively quarantined in anticipation of repeal.

Total unspent appropriation	576 222	364 132
------------------------------------	----------------	----------------

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Appropriations reduced under Section 51 of the PGPA Act include: \$64 126 000 relating to current year and \$21 475 304 from prior year Administered items, however Appropriation Acts are not adjusted at law.

The Department of the Environment and Energy has spent money from the Consolidated Revenue Fund (CRF) on behalf of the department, as a temporary arrangement resulting from the transfer of water functions between agencies.

Note 24B: Special Appropriations ('Recoverable GST exclusive')

Authority	Appropriation applied	
	2017 \$'000	2016 \$'000
<i>Agricultural and Veterinary Chemicals (Administration) Act 1992</i>	(34 460)	(34 195)
<i>Australian Animal Health Council (Live-stock Industries) Funding Act 1996</i>	(7 519)	(7 825)
<i>Australian Grape and Wine Authority Act 2013</i>	(33 029)	(28 989)
<i>Australian Meat and Live-stock Industry Act 1997</i>	(173 707)	(181 839)
<i>Dairy Produce Act 1986</i>	(57 968)	(57 691)
<i>Egg Industry Service Provision Act 2002</i>	(9 763)	(8 611)
<i>Farm Household Support Act 1992</i>	-	(3)
<i>Farm Household Support Act 2014¹</i>	(61 601)	(57 431)
<i>Forestry Marketing and Research and Development Services Act 2007</i>	(11 913)	(9 028)
<i>Horticulture Marketing and Research and Development Services Act 2000</i>	(104 878)	(93 620)
<i>Pig Industry Act 2001</i>	(21 262)	(19 793)
<i>Plant Health Australia (Plant Industries) Funding Act 2002</i>	(7 026)	(5 045)
<i>Primary Industries Research and Development Act 1989</i>	(249 722)	(217 011)
<i>Public Governance, Performance and Accountability Act 2013</i>	(1 445)	(1 098)
<i>Sugar Research and Development Services Act 2013</i>	(32 662)	(30 400)
<i>Water Act 2007, limit for current year (\$110 000 000), appropriation lapsed (nil)</i>	(110 000)	-
<i>Wool Services Privatisation Act 2000</i>	(73 001)	(65 013)
Total special appropriations applied	(989 956)	(817 592)

¹ The Department of Human Services spends money from the Consolidated Revenue Fund (CRF) on behalf of the department. The amount of \$61 601 000 was spent from the *Farm Household Support Act 2014* under this arrangement.

The following special appropriations had zero transactions and budgets during the reporting and comparative year:

- *Australian Meat and Live-stock Industry (Repeals and Consequential Provisions) Act 1997*
- *Dairy Industry Service Reform Act 2003*
- *Egg Industry Service Provision (Transitional and Consequential Provisions) Act 2002*
- *Public Governance, Performance and Accountability (Consequential and Transitional Provisions) Act 2014*

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 25: Administered – Special accounts

	Natural Resources Management ¹		Water for the Environment Special Account ²	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Balance brought forward from previous period	2 370	8 534	50 595	-
Increases	3 660	5 963	110 000	53 175
Total increases	3 660	5 963	110 000	53 175
Available for payments	6 030	14 497	160 595	53 175
Administered decreases	(3 253)	(12 127)	(1 790)	(2 580)
Total decreases	(3 253)	(12 127)	(1 790)	(2 580)
Total balance carried to the next period	2 777	2 370	158 805	50 595
Balance made up of:				
Cash held in the Official Public Account	2 777	2 370	158 805	50 595
Total balance carried to the next period	2 777	2 370	158 805	50 595

¹ Appropriation: *Public Governance, Performance and Accountability Act 2013* section 80.

Establishing Instrument: *Natural Resources Management (Financial Assistance) Act 1992* section 11.

Purpose: For the purposes of granting financial assistance in connection with projects relating to natural resources management.

² Appropriation: *Public Governance, Performance and Accountability Act 2013* section 80.

Establishing Instrument: *Water Act 2007* section 86AB.

Purpose: For the purpose of improving the water efficiency of irrigation infrastructure and improving delivery and storage of environmental water supply within the Murray Darling Basin.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Water Efficiency Labelling Scheme Account ¹		Water Resources Special Account 2016 ²	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Balance brought forward from previous period	3 340	-	-	-
Increases	1 947	4 036	1 630	-
Total increases	1 947	4 036	1 630	-
Available for payments	5 287	4 036	1 630	-
Administered decreases	(1 443)	(696)	(636)	-
Total decreases	(1 443)	(696)	(636)	-
Total balance carried to the next period	3 844	3 340	994	-
Balance made up of:				
Cash held in the Official Public Account	3 844	3 340	994	-
Total balance carried to the next period	3 844	3 340	994	-

¹Appropriation: *Public Governance, Performance and Accountability Act 2013* section 80.

Establishing Instrument: *Water Efficiency Labelling and Standards Act 2005* section 64.

Purpose: For the purpose of conserving water by reducing demand through the provision of water efficiency information about water-using products and promoting the adoption of efficient water-saving techniques.

²Appropriation: *Public Governance, Performance and Accountability Act 2013* section 78.

Establishing Instrument: PGPA Act (Water Resources Special Account 2016 - Establishment) Determination 2016/01.

Purpose: For the purpose of supporting inter-governmental activities relating to water.

Note: This special account was established on 31 August 2016.

The department has responsibility for the National Cattle Disease Eradication Special Account. For the year ended 30 June 2017, the total balance carried to the next period was \$15 161 (2016: \$15 161). There were no transactions debited or credited to the account during the current or prior reporting period.

Appropriation: *Public Governance, Performance and Accountability Act 2013* section 80.

Establishing Instrument: *National Cattle Disease Eradication Act 1991* section 4.

Purpose: For the purpose of the eradication of any disease of cattle that is endemic in Australia.

The department has responsibility for the Building Australia Fund Water Portfolio Special Account. For the year ended 30 June 2017, the account had a nil balance and there were no transactions debited or credited to it during the current or prior reporting period.

Appropriation: *Public Governance, Performance and Accountability Act 2013* section 80.

Establishing Instrument: *Nation-building Funds Act 2008* section 82.

Purpose: For the purpose of creating and developing water infrastructure.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 26: Administered – Budgetary Reports and Explanations of Major Variances

The following tables provide a comparison of the original budget as presented in the 2016–17 Portfolio Budget Statements (PBS) to the 2016–17 final outcome as presented in accordance with Australian Accounting Standards for the department. The Budget is not audited. Explanations of major variances are provided below.

Variances are considered to be 'major' based on the following criteria:

- the variance between budget and actual is greater than +/- 10% of the original budget for a line item; or
- the variance between budget and actual is greater than 2% of the relevant sub-total (i.e. total expenses, total income, total assets or total liabilities); or
- an item below this threshold but is considered important for the reader's understanding or is relevant to an assessment of the discharge of accountability and to an analysis of performance of the department.

Administered Schedule of Comprehensive Income major budget variances		
Affected line items	Variance amount \$'000	Explanations of major variances
Expenses		
Levy disbursements and Commonwealth contributions	75 428	The original budget amounts for levy disbursements and Commonwealth contributions were determined based on the estimated gross value of production (GVP) provided by the relevant industry bodies. Higher than expected transactions occurred, most notably in respect to cattle, lamb, wool, grain and oilseed commodities.
Grants	(203 659)	The underspend is mainly due to a delay in the Sustainable Rural Water Use and Infrastructure program (SRWUIP) for negotiations on the Sustainable Diversion Limit Adjustment Mechanism process.
Payments to corporate Commonwealth entities	(19 462)	The variance is a result of reduced payments to the Murray Darling Basin Authority in connection with a delay in the South Australia Riverland Integrated Infrastructure program (SARFIIP).
Suppliers	(16 304)	The original budget reflects payments to the States for concessional loan administration as expenses in the budget year. However these are prepayments for financial statement purposes. In addition, there was a subsequent reallocation to budgeted grants expenses.
Direct personal benefits	(56 903)	The variance relates to the Farm Household Allowance scheme which experienced lower up-take rates than anticipated in the budget.
Assets transferred to related entities	(242 598)	The variance is due to reduced water entitlements transferred to the Commonwealth Water Entitlement Holder, mainly related to delays in SRWUIP as described above.
Write-down and impairment of assets	6 031	The variance mainly relates to debt waivers in relation to the Farm Household Allowance, following decisions and analysis performed after the initial budget was prepared.
Income		
Levies fees and charges	61 812	The original budget amounts for levy fees and charges were determined based on the estimated gross value of production (GVP) provided by the relevant industry bodies. Higher than expected transactions occurred, notably in respect to cattle, lamb, wool, grain and oilseed commodities.
Interest	(10 198)	The concessional loan programs experienced lower take-up rates than was expected. This has resulted in less interest revenue compared to the expected amount in the original budget.
Other revenue	13 559	The original budget did not reflect the subsequent government decision to establish the Emergency Plant Pest Response levy.
Other gains	(91 239)	The variance is due to reduced water entitlements transferred to the department, mainly related to delays in SRWUIP as described above.
Other comprehensive income		
Administered revaluations taken to / from reserves	35 865	Due to the uncertainty that surrounds the revaluation of assets, the department does not make budget estimates for amounts taken to / from reserves. The variance represents the total revaluation increment.

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Administered Schedule of Assets and Liabilities major budget variances		
Affected line items	Variance amount \$'000	Explanations of major variances
Assets		
Cash and cash equivalents	166 435	The original budget did not include the balance of special accounts, which is now required to be reported as cash and cash equivalents.
Trade, taxation and other receivables	(185 494)	This is largely in connection with Concessional Loans which experienced lower up-take rates over the life of the scheme and higher repayment rates than anticipated when the budget was prepared.
Other investments	30 512	The value of other investments in portfolio agencies is determined by the net assets of these entities at 30 June. Due to the uncertainty that surrounds these balances, the department estimates the budget amount based on actual information available at that time.
Other financial assets	8 957	The variance relates to accrued primary industry levies and charges, which has increased in line with additional revenue from levies, fees and charges.
Property, plant and equipment	27 565	This balance relates to the department's 20% share of joint operations. The original budget did not incorporate changes in the balance of joint operation assets, including revaluations.
Intangibles	17 058	The majority of this balance relates to the department's 20% share of joint operations. The original budget did not incorporate changes in the balance of joint operation assets, including revaluations.
Prepayments	9 392	The original budget reflects payments to the States for concessional loan administration as expenses in the budget year. However these are prepayments for financial statement purposes.
Liabilities		
Levy disbursements and Commonwealth Contributions	7 735	The original budget for liabilities associated with levy disbursements and Commonwealth Contribution are determined based on historical outstanding levies fees, charges and accruals. Actual expenditure exceeded the original budget and this has been reflected in the outstanding liability (refer to explanation for levies fees and charges expenses).
Grants	(23 379)	The variance against budget aligns with reduced grant expenses for the 2016-17 financial year, such as the Sustainable Rural Water Use and Infrastructure program (SRWUIP) (refer to explanation for grants expense).

DEPARTMENT OF AGRICULTURE AND WATER RESOURCES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 27: Interest in Cooperative Research Centre

The Cooperative Research Centres Program, launched in 1990 by the Commonwealth Government, was established to assist two or more collaborators to carry out research contributing to the development of internationally competitive industry sectors. The program supports long term high quality research, improved links between research and application, and stimulation of education and training. The original agreement, that expired on 1 July 2012, for the Cooperative Research Centre for National Plant Biosecurity was for seven years.

The current five year agreement amended the name to the Plant Biosecurity Cooperative Research Centres (PBCRC) and is due to end on 30 June 2018. The department's interest in the PBCRC for the year ending 30 June 2017 was 1 percent (2016: 1 percent)

During the financial year the department's total cash and in kind contributions to the PBCRC from its own resources is estimated at \$213 869 (2016 actual: \$230 980, 2016 estimated: \$227 380). The actual figure for in-kind contributions is not available until after the department's financial statements are finalised. The estimate is based on an average of the previous 3 years.

The department's contributions and expenses are included in the Statement of Comprehensive Income. The department's total contribution for the life of the Cooperative Research Centres listed above is estimated to be \$2 243 196 in 2017 (2016 actual: \$2 029 327, 2016 estimated: \$2 025 727).