



CHAPTER FOURTEEN

IP AUSTRALIA FINANCIAL STATEMENTS



INDEPENDENT AUDITOR'S REPORT

To the Minister for Industry, Innovation and Science

Opinion

In my opinion, the financial statements of IP Australia for the year ended 30 June 2017:

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

The financial statements of IP Australia, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement by the Accountable Authority and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to 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 IP Australia 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.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of IP Australia the Director General 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 Director General is also responsible for such internal control as the Director General 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 Director General is responsible for assessing IP Australia's 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 Director General 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 scepticism 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; and
- 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.

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.

Australian National Audit Office



Ron Wah
Audit Principal

Delegate of the Auditor-General

Canberra
15 September 2017

IP Australia

STATEMENT BY THE ACCOUNTABLE AUTHORITY AND CHIEF FINANCIAL 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 IP Australia will be able to pay its debts as and when they fall due.



Patricia Kelly
Accountable Authority

15 September 2017



Doug Pereira
Chief Financial Officer

15 September 2017

IP AUSTRALIA

Table of Contents- Notes

Table of contents

Primary Financial Statements

Statement of Comprehensive Income
Statement of Financial Position
Statement of Change in Equity
Cash Flow Statement

Overview

Notes to the financial statements

1. Departmental Financial Performance
 - 1.1 Expenses
 - 1.2 Own-Source Revenue and Gains
2. Departmental Financial Position
 - 2.1 Financial Assets
 - 2.2 Non-Financial Assets
 - 2.3 Payables
 - 2.4 Provisions
 - 2.5 Financial Instruments
3. Funding
 - 3.1 Appropriations
 - 3.2 Special Account
 - 3.3 Regulatory Charging Summary
4. Other Items
 - 4.1 Key Management Personnel Remuneration
 - 4.2 Related Party Disclosures

IP AUSTRALIA
STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2017

		2017	2016	Original Budget ¹
		\$'000	\$'000	\$'000
NET COST OF SERVICES				
Expenses				
Employee Benefits	1.1A	123,851	124,973	127,814
Suppliers	1.1B	64,271	53,898	57,510
Depreciation and amortisation	2.2A	17,005	16,242	17,747
Finance costs - Unwinding of discount	2.4B	4	5	-
Write-down and impairment of assets - Intangibles	2.2A	30	8	-
Losses from non-financial assets revaluation	2.2A	717	-	-
Losses from asset sales		6	118	-
Total expenses		205,884	195,244	203,071
Own-Source Income				
Own-source revenue				
Sale of goods and rendering of services	1.2A	209,694	197,390	201,960
Resources received free of charge	1.2B	170	140	150
Total own-source revenue		209,864	197,530	202,110
Total own-source income		209,864	197,530	202,110
Net contribution by (cost) / services		3,980	2,286	(961)
Revenue from Government		1,792	2,111	1,792
Surplus attributable to the Australian Government		5,772	4,397	831
OTHER COMPREHENSIVE INCOME				
Items not subject to subsequent reclassification to net cost of services				
Changes in asset revaluation reserve		(342)	(32)	-
Total other comprehensive income		(342)	(32)	-
Total comprehensive income attributable to the Australian Government		5,430	4,365	831

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

1. Budget reported in the 2016-17 Portfolio Budget Statements published in May 2016.
 Explanations of major variances are provided in Note 1.

IP AUSTRALIA
STATEMENT OF FINANCIAL POSITION
as at 30 June 2017

		2017	2016	Original Budget ¹
		<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
ASSETS				
Financial assets				
Cash and cash equivalents - Special account	2.1A	101,784	100,292	1,500
Trade and other receivables	2.1B	3,088	2,176	94,358
Total financial assets		<u>104,872</u>	<u>102,468</u>	<u>95,858</u>
Non-financial assets				
Prepayments		4,392	3,853	4,755
Leasehold improvements	2.2A	10,987	13,277	11,361
Property, plant and equipment	2.2A	8,070	8,859	7,320
Intangibles	2.2A	76,294	68,252	77,591
Total non-financial assets		<u>99,743</u>	<u>94,241</u>	<u>101,027</u>
Total assets		<u>204,615</u>	<u>196,709</u>	<u>196,885</u>
LIABILITIES				
Payables				
Suppliers	2.3A	22,323	21,424	19,530
Other payables	2.3B	21,744	19,570	21,964
Total payables		<u>44,067</u>	<u>40,994</u>	<u>41,494</u>
Provisions				
Employee provisions	2.4A	39,449	40,344	38,826
Provision for restoration obligation	2.4B	244	246	218
Total provisions		<u>39,693</u>	<u>40,590</u>	<u>39,044</u>
Total liabilities		<u>83,760</u>	<u>81,584</u>	<u>80,538</u>
Net assets		<u>120,855</u>	<u>115,125</u>	<u>116,347</u>
EQUITY				
Contributed equity		5,908	5,608	5,908
Reserves		8,757	9,099	9,131
Retained surplus		106,190	100,418	101,308
Total equity		<u>120,855</u>	<u>115,125</u>	<u>116,347</u>

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

1. Budget reported in the 2016-17 Portfolio Budget Statements published in May 2016.
 Explanations of major variances are provided in Note 1.

IP AUSTRALIA
STATEMENT OF CHANGES IN EQUITY
for the period ended 30 June 2017

	Retained earnings			Asset revaluation reserve			Contributed equity			Total equity		
	2017	2016	Original Budget ¹	2017	2016	Original Budget ¹	2017	2016	Original Budget ¹	2017	2016	Original Budget ¹
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	100,418	96,021	100,477	9,099	9,131	9,131	5,608	5,608	5,608	115,125	110,760	115,216
Comprehensive income												
Surplus for the period	5,772	4,397	831	-	-	-	-	-	-	5,772	4,397	831
Other comprehensive income - changes in asset revaluation surplus	-	-	-	(342)	(32)	-	-	-	-	(342)	(32)	-
Total comprehensive income	5,772	4,397	831	(342)	(32)	-	-	-	-	5,430	4,365	831
Contributions by Owners												
Equity injection - Appropriation	-	-	-	-	-	-	300	-	300	300	-	300
Sub-total transactions with owners	106,190	100,418	101,308	8,757	9,099	9,131	5,908	5,608	5,908	120,855	115,125	116,347
Closing balance as at 30 June												

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

1. Budget reported in the 2016-17 Portfolio Budget Statements published in May 2016. Explanations of major variances are provided in Note 1.

IP AUSTRALIA
CASH FLOW STATEMENT
for the period ended 30 June 2017

	2017	2016	Original Budget ¹
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
OPERATING ACTIVITIES			
Cash received			
Appropriations	1,792	2,111	1,792
Sales of good and rendering of services	211,632	197,050	199,929
Net GST received	6,695	5,837	6,369
Cash from Official Public Account	-	-	4,561
Total cash received	<u>220,119</u>	<u>204,998</u>	<u>212,651</u>
Cash used			
Employees	(124,746)	(123,094)	(126,245)
Suppliers	(70,832)	(57,233)	(64,436)
Total cash used	<u>(195,578)</u>	<u>(180,327)</u>	<u>(190,681)</u>
Net cash from operating activities	<u>24,541</u>	<u>24,671</u>	<u>21,970</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of property, plant and equipment	45	61	30
Total cash received	<u>45</u>	<u>61</u>	<u>30</u>
Cash used			
Purchase of property, plant and equipment	2.2B (4,223)	(3,804)	(22,300)
Purchase of intangibles	2.2B (18,871)	(19,121)	-
Total cash used	<u>(23,094)</u>	<u>(22,925)</u>	<u>(22,300)</u>
Net cash used by investing activities	<u>(23,049)</u>	<u>(22,864)</u>	<u>(22,270)</u>
FINANCING ACTIVITIES			
Cash received			
Contributed equity	-	-	300
Total cash received	<u>-</u>	<u>-</u>	<u>300</u>
Net cash from financing activities	<u>-</u>	<u>-</u>	<u>300</u>
Net decrease in cash held	<u>1,492</u>	<u>1,807</u>	<u>-</u>
Cash and cash equivalents at the beginning of the reporting period	100,292	98,485	1,500
Cash and cash equivalents at the end of the reporting period	<u>101,784</u>	<u>100,292</u>	<u>1 500</u>

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

1. Budget reported in the 2016-17 Portfolio Budget Statements published in May 2016.

Explanations of major variances are provided in Note 1.

IP AUSTRALIA

Overview

Objectives of IP Australia

IP Australia is an Australian Government controlled entity. It is a not-for-profit entity. The objective of IP Australia is to contribute to the improvement of Australian and international IP systems and thereby support Australia's economic development through the provision and administration of intellectual property rights.

IP Australia is structured to meet one outcome: increased innovation, investment and trade in Australia, and by Australians overseas, through the administration of the registrable intellectual property rights system, promoting public awareness and industry engagement, and advising government.

IP Australia's activities contributing toward the outcome are classified as departmental. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by IP Australia in its own right.

Departmental activities are identified under three programs:

- Program 1.1 - IP Rights Administration and Professional Registration;
- Program 1.2 - Awareness, Education and International Engagement; and
- Program 1.3 - Advice to Government.

IP Australia operates on a cost recovery basis, funding its operations almost entirely through revenues raised from charges for intellectual property services. Appropriation is received in relation to notional interest paid against the balance of the IP Australia Special Account. The use of a Special Account, established under the *Public Governance, Performance and Accountability Act 2013*, enables IP Australia to fund its operations from the revenue received from charges for intellectual property services.

The 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*.

The financial statements have been prepared in accordance with:

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

The financial statements have been prepared on an accrual basis and in accordance with 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

Adoption of New Australian Accounting Standard Requirements

All new and amending standards or interpretations applicable to the current financial year did not have a material effect on IP Australia's financial statements.

Resources Received Free of Charge

Resources received free of charge are recognised as revenue 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.

IP AUSTRALIA

Overview

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 IP Australia gains control of the appropriation. Appropriations receivable are recognised at their nominal amounts.

Special Account Reporting

In 2016-17 Cash held in the OPA for the Special account was reclassified from Trade and other receivables to Cash and cash equivalents. The 2015-16 comparative amount was also reclassified. However, the budgeted figure remains classified as Trade and other receivables in alignment with the PBS published in May 2016.

Significant Accounting Judgements and Estimates

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

Contingent Liabilities and Contingent Assets

IP Australia had no quantifiable or unquantifiable contingent liabilities or assets at 30 June 2017 (2015-16: nil).

Taxation

IP Australia is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). Revenues, expenses and assets 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.

Events After the Reporting Period

There are no events occurring after statement of financial position date that materially affect the financial statements.

IP AUSTRALIA

Note 1: Budget Variance Commentary
for the period ended 30 June 2017

IP Australia considers that major variances are those:

- Variance between budget and actuals is greater than 10% of the original estimate 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 IP Australia.

Where a budget has not been provided for in the PBS, for example non-cash items such as sale of asset adjustments and finance cost, for these items no explanation has been provided unless the variance is considered to be 'major'.

The Budget is not audited.

STATEMENT OF COMPREHENSIVE INCOME

Sale of goods and rendering of services

Variance to budget is primarily due to an unanticipated number of registration fee payments in 2017 after the registration fee was abolished in October 2016.

Employees

Variance to budget is primarily due to delay in the implementation of Enterprise agreement, coupled with ending the financial year with slightly lower average staffing level than planned and higher than budgeted discount rate for long service leave at 30 June 2017.

Suppliers

Supplier expense was higher than planned due to additional resources required for new initiatives such as the Future Way of Working Project (FWOW), Strategic Futures work, the review on Performance Setting & Incentive Arrangements (PSIA) and pressure stemming from higher attrition and the management of overall agency staffing levels.

STATEMENT OF FINANCIAL POSITION

Cash and cash equivalents & trade and other receivables

Variance in cash and cash equivalents and trade and other receivables is due to a reclassification of special account receivable. Special Account Receivable ended the year above budget as a result of the growth in sale of goods and rendering of services.

Property, plant and equipment & intangibles

The minor variance to budget against non-financial assets is the result of investment initiatives and spending proposals not known at the time the budget was established.

Suppliers

The supplier estimate for 2016-17 was established before the end of the 2015-16 financial year. The variance to budget is primarily the result of unanticipated movements at the end of last financial year.

CASHFLOW STATEMENT

Cash from/transferred to Official Public Account

The variance reflects the net movement of cash from/transferred to Official Public Account. This was a result of an increase in sales of goods and rendering of services revenue, thus drawdown was not required as budgeted.

Variance in cash held is due to a reclassification of special account balance from receivable to cash and cash equivalents.

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Financial Performance

Note 1.1: Expenses	2017	2016
	\$'000	\$'000
Note 1.1A: Employee Benefits		
Wages and salaries	94,495	93,612
Superannuation:		
Defined contribution plans	9,400	9,061
Defined benefit plans	8,007	8,357
Leave and other entitlements	10,267	13,164
Separation and redundancies	1,682	779
Total employee benefits	123,851	124,973

Accounting Policy

Accounting policies for employee related expenses is contained in note 2.4A.

Note 1.1B: Suppliers

Goods and services supplied or rendered		
Contractors & Consultants	20,663	12,450
Travel	2,093	1,817
Communication & IT Services	15,937	15,001
Administrative Services	12,064	10,754
Subscription to World Intellectual Property Organisation	993	942
Total goods and services supplied or rendered	51,750	40,964
Goods supplied	296	516
Services rendered	51,454	40,448
Total goods and services supplied or rendered	51,750	40,964
Other suppliers		
Operating lease rentals	10,828	10,799
Workers compensation expenses	1,693	2,135
Total other suppliers	12,521	12,934
Total suppliers	64,271	53,898

Leasing commitments

IP Australia's lease payment commitments are primarily for accommodation of office space in Canberra and Melbourne.

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

Within 1 year	13,370	12,952
Between 1 to 5 years	54,593	54,062
More than 5 years	3,186	17,101
Total operating lease commitments	71,149	84,115

Accounting Policy

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased asset. Lease incentives are recognised as other payables and amortised over the period of the lease on a straight line basis.

Amounts reported for commitments are GST inclusive.

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 1.2: Own-Source Revenue

	2017	2016
	\$'000	\$'000

Note 1.2A: Sale of Goods and Rendering of Services

Sale of goods and rendering of services

Patent fees	123,880	122,149
Trade Mark fees	79,301	69,099
Design fees	3,804	3,477
Plant Breeders Rights fees	1,343	1,306
Other goods and services	1,366	1,359
Total sale of goods and rendering of services	209,694	197,390

Sale of goods and rendering of services are made up of

Provision of goods	421	542
Rendering of services	209,273	196,848
Total sale of goods and rendering services	209,694	197,390

Accounting Policy

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- IP Australia retains no managerial involvement nor effective control over the goods;
- the revenue and transaction costs incurred for the transaction can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to IP Australia.

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

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

The stage of completion of services at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction. (Refer Note 2.3B)

1.2B: Resources Received Free of Charge

Remuneration of auditors	150	140
Property, plant & equipment	20	-
Total other gains	170	140

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Financial Position

Note 2.1: Financial Assets		
	2017	2016
	\$'000	\$'000

Note 2.1A: Cash and Cash Equivalents

Cash in special accounts (held as cash in OPA)	100,675	98,975
Cash on hand or on deposit	<u>1,109</u>	<u>1,317</u>
Total cash and cash equivalents	<u>101,784</u>	<u>100,292</u>

Note 2.1B: Trade and Other Receivables

Trade receivable	1,027	733
Capital Appropriation Receivable	300	-
GST receivable from the Australian Taxation Office	<u>1,761</u>	<u>1,443</u>
Total trade and other receivables	<u>3,088</u>	<u>2,176</u>

Total trade and other receivables (net)	<u>3,088</u>	<u>2,176</u>
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Accounting Policy

Trade receivables are classified as 'loans and receivables' and recorded at face value less any impairment. Trade receivables are recognised where IP Australia becomes party to a contract and has a legal right to receive cash. Trade receivables are derecognised on payment. Loans and receivables are assessed for impairment at the end of each financial year. Allowances are made when collectability of the debt is no longer probable.

Credit terms for goods and services were within 30 days (2015-16: 30 days).

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 2.2: Non-Financial Assets

Note 2.2A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles 2017

	Leasehold Improvements & equipment \$'000	Property, plant & equipment \$'000	Computer software internally developed \$'000	Computer software purchased \$'000	Total Intangibles \$'000	Total \$'000
As at 1 July 2016						
Gross book value	19,712	16,318	122,183	15,504	137,687	173,717
Accumulated depreciation and impairment	(6,435)	(7,459)	(58,475)	(10,960)	(69,435)	(83,329)
Net book value 1 July 2016	13,277	8,859	63,708	4,544	68,252	90,388
Additions - by purchase or internally developed	232	4,011	17,868	1,003	18,871	23,114
Revaluations and impairments recognised in other comprehensive income	(267)	(81)	-	-	-	(348)
Revaluations recognised in net cost of services	-	(717)	-	-	-	(717)
Depreciation/Amortisation expense	(2,255)	(3,268)	(10,480)	(1,002)	(11,482)	(17,005)
Other movements:						
Transfers to between asset classes	-	(683)	683	-	683	-
Disposals and write down of intangibles	-	(51)	(19)	(11)	(30)	(81)
Total as at 30 June 2017	10,987	8,070	71,760	4,534	76,294	95,351
Total as at 30 June 2017 represented by:						
Gross book value	10,987	9,146	137,859	14,961	152,820	172,953
Accumulated depreciation and impairment	-	(1,076)	(66,099)	(10,427)	(76,526)	(77,602)
Total as at 30 June 2017	10,987	8,070	71,760	4,534	76,294	95,351

No indicators of impairment were identified for property, plant and equipment and intangibles.

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

All revaluations were conducted in accordance with the revaluation policy. IP Australia engage Australian Valuation Solutions (AVS) to conduct a revaluation of Leasehold Improvements and Property, plant & equipment asset classes as at 30 June 2017.

The fair value of IP Australia's leasehold improvements and plant and equipment has been taken to be the market value of similar items or depreciated replacement cost as determined by an independent valuer. In some instances, IPA's leasehold improvements that were purpose-built and some specialised plant and equipment may in fact realise more or less in the market.

A revaluation decrement of \$267,149 for leasehold improvements (2016: Nil) and a revaluation decrement of \$80,645 for plant and equipment (2016: Nil) was transferred to the asset revaluation surplus by asset class and included in the equity section of the balance sheet.

A revaluation decrement of \$716,744 for plant and equipment (2016: Nil) was recognised in net cost of services where there was no asset revaluation surplus available in equity.

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 2.2: Non- Financial Assets

Accounting Policy

The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value.

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the statement of financial position, except for purchases of leasehold improvements costing less than \$20,000 (2015-16: \$20,000) and computer equipment costing less than \$1,000 (2015-16: \$1,000). Purchases of other plant and equipment are also recognised initially at cost in the statement of financial position, except for purchases costing less than \$5,000 (2015-16: \$5,000).

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 IP Australia where there exists an obligation to restore the property to its original condition. These costs are included in the value of IP Australia's leasehold improvements with a corresponding provision for the 'make good' recognised.

Revaluations

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

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

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to IP Australia using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

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

	2017	2016
Leasehold improvements	Lease term	Lease term
Plant and Equipment	3 to 25 years	3 to 25 years

Impairment

All 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.

Derecognition

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

Sale of Asset

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

Intangibles

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

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of IP Australia's software are 3 to 10 years (2015-16: 3 to 10 years).

Purchases of software are recognised initially at cost in the statement of financial position, except for purchases costing less than \$5,000 (2015-16: \$5,000). Dependent on the stage of development, internally developed software is recognised at cost in the statement of financial position, except for purchases costing less than \$200,000 (2015-16: \$200,000).

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 2.3: Payables

	2017	2016
	\$'000	\$'000
Note 2.3A: Suppliers		
Trade creditors and accruals	13,784	12,353
Operating lease rentals	8,539	9,071
Total suppliers	<u>22,323</u>	<u>21,424</u>

Settlement is usually made within 30 days.

Note 2.3B: Other Payables

Unearned revenues		
Patents fees	7,974	7,823
Trade Marks fees	8,369	6,570
Designs fees	131	113
Plant Breeders Rights fees	1,250	1,077
Total unearned revenues	<u>17,724</u>	<u>15,583</u>
Other unearned income	494	494
Lease incentives	1,926	2,293
Salary and wages	1,367	533
Superannuation	130	65
Separations and redundancies	66	589
Other	37	13
Total other payables	<u>21,744</u>	<u>19,570</u>

Accounting Policy

Supplier and other payables are classified as 'other financial liabilities' and are recognised at amortised cost.

Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Supplier and other payables are derecognised on payment.

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased asset. Lease incentives are recognised as other payables and amortised over the period of the lease on a straight line basis.

For unearned revenue policy refer Note 1.2A.

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 2.4: Provisions

	2017	2016
	\$'000	\$'000
Note 2.4A: Employee Provisions		
Leave	35,872	36,692
Superannuation on-cost	3,577	3,652
Total employee provisions	39,449	40,344

Accounting Policy

Liabilities for 'short-term employee benefits' (as defined in AASB 119 Employee Benefits) and termination benefits due within twelve months of the end of the reporting period are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

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

Leave

The liability for employee benefits includes provision for annual leave and long service leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time leave is taken, including IP Australia's employer superannuation contribution rates to the extent that the 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 April 2016. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and Redundancy

IP Australia recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

IP Australia staff are predominantly members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap). 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 by the Department of Finance within its administered schedules and notes.

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

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

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 2.4B: Provision for Restoration Obligation

	Provision for restoration obligations
	\$'000
As at 1 July 2016	246
Amount reversed	(6)
Unwinding of discount	4
Total as at 30 June 2017	244

IP Australia currently has one agreement for the leasing of premises which has a provision requiring IP Australia to restore the premises to their original condition at the conclusion of the lease. IP Australia has made a provision to reflect the present value of this obligation.

IP AUSTRALIA
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 2.5: Financial Instruments			
		2017	2016
	Notes	\$'000	\$'000
Note 2.5A: Categories of Financial Instruments			
Financial Assets			
Loans and receivables			
Cash and cash equivalents	2.1A	101,784	100,292
Trade and other receivables	2.1B	1,027	733
Total financial assets		102,811	101,025
Financial Liabilities			
Financial liabilities measured at amortised cost			
Trade creditors	2.3A	13,784	12,353
Total financial liabilities		13,784	12,353

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Funding**Note 3.1: Appropriations****Table 3.1A: Annual Appropriations (Recoverable GST exclusive)****Annual Appropriations for 2017**

	<u>Appropriation Act</u>		Appropriation applied in 2017 (current and prior years) \$'000	Variance ¹ \$'000
	Annual Appropriation	Total appropriation		
	\$'000	\$'000		
DEPARTMENTAL				
Ordinary annual services	1,792	1,792	1,792	-
Other Services				
Equity	300	300	-	300
Loans	-	-	-	-
Total departmental	2,092	2,092	1,792	-

Annual Appropriations for 2016

	<u>Appropriation Act</u>		Appropriation applied in 2016 (current and prior years) \$'000	Variance \$'000
	Annual Appropriation	Total appropriation		
	\$'000	\$'000		
DEPARTMENTAL				
Ordinary annual services	2,111	2,111	2,111	-
Total departmental	2,111	2,111	2,111	-

Appropriations received under ordinary annual services are sourced from Appropriation Acts (Nos. 1 & 3)

1. The variance relates to Equity Injections received through Appropriation Act No. 2 (2016-17) for the implementation of Trans Pacific Partnership. As at 30 June 2017, the total appropriation from this act remains unspent. There are no other unspent annual appropriations from current or prior years.

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 3.2: Special Accounts

	Intellectual Property Special Account ¹		Services for Other Entities and Trust Moneys World Intellectual Property Organisation ²		Services for Other Entities and Trust Moneys - Security of Costs ³		Service for Other Entities and Trust Moneys - Comcare ³	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Balance brought forward from previous period	100,292	98,485	425	360	48	56	0	-
Increases:								
Appropriation credited to special account	1,792	2,111	-	-	-	-	-	-
Costs recovered	211,542	196,960	-	-	-	-	-	-
Receipts on behalf of WIPO	-	-	5,663	6,010	-	-	-	-
Other receipts	45	61	-	-	26	4	300	409
Total increases	213,379	199,132	5,663	6,010	26	4	300	409
Available for payments	313,671	297,617	6,088	6,370	74	60	300	409
Decreases:								
Departmental								
Payments made to suppliers	(87,141)	(74,231)	-	-	-	-	-	-
Payments made to employees	(124,746)	(123,094)	-	-	-	-	-	-
Money held for non-Commonwealth Party	-	-	(5,754)	(5,945)	(55)	(12)	(300)	(409)
Total departmental decreases	(211,887)	(197,325)	(5,754)	(5,945)	(55)	(12)	(300)	(409)
Total balance carried to the next period	101,784	100,292	334	425	19	48	0	0
Balance represented by:								
Cash held in entity bank accounts	1,109	1,317	334	425	19	48	0	0
Cash held in the Official Public Account	100,675	98,975	-	-	-	-	-	-
Total balance carried to the next period	101,784	100,292	334	425	19	48	0	0

1. Appropriation: Public Governance and Performance, Accountability Act 2013: s78

Establishing Instrument: Financial Management and Accountability Determination 2006/66 [lapsed 1 April 2017], PGPA Act Determination - Establishment of Intellectual Property Special Account 2017 [29 March 2017]

Purpose: For developing and administering intellectual and industrial property systems, including the provision of property rights in inventions, trademarks, designs and plant breeders rights.

2. Appropriation: Public Governance and Performance, Accountability Act 2013: s78

Establishing Instrument: Financial Management and Accountability Determination 2011/11

Purpose: For the services for Other Entities and Trust Moneys - IP Australia (Special Public Money) - For expenditure of money temporary held on trust or otherwise for the benefit of a person other than the Commonwealth and expenditure in connection with services performed on behalf of other Government and bodies that are not FMA Act agencies.

Note 3.3: Regulatory Charging Summary

	2017 \$'000	2016 \$'000
Amounts applied		
Departmental		
Annual appropriations	1,792	2,111
Own source revenue	211,542	196,960
Total amounts applied	213,334	199,071
Expenses		
Departmental	205,884	195,244
Total Expenses	205,884	195,244
External Revenue		
Departmental	209,694	197,390
Total External Revenues	209,694	197,390

Regulatory charging activities:

IP Australia operates on a cost recovery basis, predominately funding all operations from cost recovered activities.

These activities include:

- Patents
- Trade Marks
- Designs
- Plant Breeder's Rights
- Professional Standards Board

Documentation (Cost recovery Implementation Statement/s) for the above activities is available at

<https://www.ipaustralia.gov.au/tools-resources/publications-reports/cost-recovery-implementation-statement>

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Other Items

Note 4.1: Key Management Personnel Remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. IP Australia has determined the key management personnel to be the Director General and the Deputy Director Generals. Key management personnel remuneration is reported in the table below:

	2017	2016
	\$	\$
Short-term employee benefits	847,130	839,073
Post-employment benefits	167,108	139,837
Other long-term employee benefits	88,798	81,969
Total key management personnel remuneration expenses	<u>1,103,036</u>	<u>1,060,879</u>

Notes:

The total number of senior management personnel that are included 3 individuals. (2016: There were 3 key management personnel).

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 IP Australia.

IP AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Other Items

Note 4.2: Related Party Disclosures

Related party relationships:

IP Australia is an Australian Government controlled entity. Related parties to this entity are Key Management Personnel including the Portfolio Minister and Executive, and 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. Such transactions include the payment or refund of IP rights services fees.

Giving consideration to relationships with related entities, and transactions entered into during the reporting period by the entity, it has been determined that there are no related party transactions to be separately disclosed.

