1 Summary of Significant Accounting Policies

1.1 Basis of accounting
The financial statements are required by clause 1(b) of Schedule 1 to the Commonwealth Authorities and Companies Act 1997 and are a general purpose financial report.

The statements have been prepared in accordance with:
- Finance Ministers' Orders (being the Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 30 June 2005));
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board;
- Urgent Issues Group Abstracts.

The Institute's Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Institute’s Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured.

Assets and liabilities arising under agreements equally and proportionately unperformed are however not recognised unless required by an accounting standard. Liabilities and assets which are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable or remote contingencies which are reported at Note 16).

Revenue and expenses are recognised in the Institute’s Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

1.2 Changes in Accounting Policy
The accounting policies used in the preparation of these financial statements are consistent with those used in 2003-04.

1.3 Revenue
The revenues described in this Note are revenues relating to the core operating activities of the Institute. Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.
Receivables for goods and services are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is judged to be less rather than more likely.

Core Operations
All material revenues described in this Note are revenues relating to the core operating activities of the Institute whether in their own right or on behalf of the Government. Details of revenue amounts are given in Note 4.

Revenues from Government - Output Appropriations
The full amount of the appropriation for departmental outputs for the year is recognised as revenue.

1.4 Transactions by the Government as Owner
Equity injections
Amounts appropriated by the Parliament as equity injections are recognised as "contributed equity" in accordance with the Finance Minister's Orders.

1.5 Employee Benefits
Benefits
Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave, sick leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of their reporting date are also to be measured at their nominal amounts.

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

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave
The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave because all sick leave is non-vesting and the average sick leave taken in future years by employees of the Institute is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including the Institute'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 non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2005. In determining the present value of the liability, the Institute has taken into account attrition rates and pay increases through promotion and inflation.
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

Separation and Redundancy

Provision is also made for separation and redundancy benefits in cases where positions have been formally identified as excess to requirements, the existence of an excess has been publicly communicated, and a reliable estimate of the amount payable can be determined.

Superannuation

Employees of the Institute are members of the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme and AGEST.

The liability for their superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

The Institute makes employer contributions to the Government at rates determined by the actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Institute’s employees.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final day of the year.

1.6 Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. The discount used is the interest rate implicit in the lease.

Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets. The net present value of the future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

Lease incentives taking the form of ‘free’ fitout and rent holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and reduction of liability.

1.7 Cash

Cash includes notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount. Interest is credited to revenue as it accrues.
AUSTRALIAN INSTITUTE OF HEALTH AND WELFARE
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2005

1.8 Financial Instruments
Accounting policies for financial instruments are stated at Note 17.

1.9 Unrecognised Financial Liabilities
Other guarantees, not recognised in the Statement of Financial Performance (refer note 16), of the Institute are disclosed in the Schedule of Contingencies.
At the time of completion of the financial statements, there was no reason to believe that these guarantees would be called upon, and recognition of the liability was therefore not required.

1.10 Acquisition of Assets
Assets are recorded at cost on acquisition except as stated below.
The cost or acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.
Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements.
In the later case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor entity’s accounts immediately prior to restructuring.

1.11 Infrastructure, plant and equipment
Asset recognition threshold
Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than $2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Revaluations
Buildings, infrastructure, plant and equipment and library collection are carried at valuation, being revalued annually with sufficient frequency such that the carrying amount of each asset class is not materially different, as at reporting date, from its fair value. Valuations undertaken in any year are as at 30 June.

Fair values for each class of assets are determined as shown below.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Fair Value Measured at:</th>
<th>Deprival Value Measured at:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings - Leasehold</td>
<td>Depreciated replacement cost</td>
<td>Depreciated replacement cost</td>
</tr>
<tr>
<td>Improvements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant and Equipment</td>
<td>Market selling price</td>
<td>Depreciated replacement cost</td>
</tr>
<tr>
<td>Library Collection</td>
<td>Market selling price</td>
<td>Depreciated replacement cost</td>
</tr>
</tbody>
</table>

Assets that are surplus to requirements are measured at their net realisable value.
At 30 June 2005 the Institute held no surplus assets. (30 June 2004: $0).
Building assets, plant and equipment and the library collection are subject to formal valuation every three years. Formal valuations are carried out by an independent qualified valuer. In between formal valuations, PP&E assets are revalued using an appropriate index reflecting movements in the value of similar assets.

**Depreciation and Amortisation**

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

Depreciation/amortisation rates (useful lives) and methods are reviewed at each balance date and necessary adjustments are recognised in the current period and prior periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold improvements</td>
<td>Lease Term</td>
<td>Lease Term</td>
</tr>
<tr>
<td>Infrastructure, plant and equipment</td>
<td>5 to 10 years</td>
<td>5 to 10 years</td>
</tr>
<tr>
<td>Library Collection</td>
<td>10 years</td>
<td>10 years</td>
</tr>
</tbody>
</table>

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 5C.

**1.12 Impairment of Non-Current Assets**

Non-current assets carried at up-to-date fair value at the reporting date are not subject to impairment testing.

Non-current assets carried at cost and held to generate net cash inflows have been tested for their recoverable amounts at the reporting date. The test compared the carrying amounts against the net present value of future cash inflows. No write-down to recoverable amount was required (2004:nil).

The non-current assets carried at cost, which are not held to generate net cash inflows, have been assessed for indications of impairment. Where indications of impairment exist, the asset is written down to the higher of its net selling price and, if the entity would replace the asset's service potential, its depreciated replacement cost.

**1.13 Inventories**

Inventories held for resale are valued at the lower of cost and net realisable value.

All inventories are current assets.
1.14 Intangibles

The Institute’s intangibles comprise both internally developed software and purchased software for internal use. These assets are carried at cost.

Software is amortised on a straight line basis over its anticipated useful life. The useful lives of the Institute’s software is 3 to 5 years.

All software assets were assessed for indications of impairment as at 30 June 2005.