Australian Red Cross Blood Service

ABN 50 169 561 394 003

Annual Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
REVENUE			
Government funding:			
- Operating - Commonwealth funded		531,598	510,027
- Operating - State funded		23,733	22,771
Capital - Commonwealth and State funded		53,857	52,376
Total government funding		**609,188**	**585,174**
Investment income		7,451	8,032
Other income		11,939	12,168
Total revenue	5.2	**628,578**	**605,374**
EXPENDITURE			
Staff expenses	4	302,152	299,471
Consumables		106,532	102,251
Overheads		156,958	139,145
Depreciation and amortisation expense		50,512	45,406
Impairment losses of non-current assets and intangibles		-	3,408
Loss on disposal of non-current asset		1,128	1,078
Loss on disposal of other financial assets		665	535
Impairment losses of other financial assets		310	239
Loss on foreign exchange		21	30
Decrease in blood and blood products	7	1,525	4,835
Total expenditure	4	**619,803**	**596,398**
SURPLUS FOR THE YEAR	**5.3**	**8,775**	**8,976**
Items that will not be reclassified subsequently to profit or loss:			
Components of defined benefit gain recognised in other comprehensive income	16.5	1,576	2,701
Items that may be reclassified subsequently to profit or loss:			
Net fair value gain on available-for-sale financial assets	17.4	1,580	3,446
Other comprehensive income for the year		**3,156**	**6,147**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR*		**11,931**	**15,123**

	2018 $'000	2017 $'000
*** ANALYSIS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**		
Surplus of Main Operating Program	5,521	5,292
Surplus of Capital Programs and Processing Centre Programs (net of depreciation and amortisation)	4,465	10,741
Surplus on External and Hosted Services	4,533	1,829
Movement in blood inventories, employee provisions and retirement benefit obligations	(2,612)	(4,508)
Loss on disposal of non-current assets	(1,128)	(1,078)
Loss on disposal of other financial assets (excluding Main Operating Program portion)	(97)	(330)
Impairment losses of other financial assets	(310)	(239)
Loss on foreign exchange	(21)	(30)
Net fair value gain on available-for-sale financial assets	1,580	3,446
TOTAL PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR	**11,931**	**15,123**

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	19.2	172,913	160,088
Trade and other receivables	6	14,118	13,246
Inventories	7	18,046	18,461
Other financial assets	8	96,146	90,370
Total current assets		**301,223**	**282,165**
Non-current assets			
Property, plant and equipment	9	292,009	304,798
Intangible assets	10	35,595	27,747
Retirement benefit obligation		768	-
Total non-current assets		**328,372**	**332,545**
TOTAL ASSETS		**629,595**	**614,710**
LIABILITIES			
Current liabilities			
Trade and other payables	11	44,726	43,631
Borrowings	12	13,401	14,648
Provisions	13	62,891	60,033
Prepaid government funds	14	100,789	86,037
Other liabilities	15	938	837
Total current liabilities		**222,745**	**205,186**
Non-current liabilities			
Borrowings	12	21,692	35,093
Provisions	13	11,797	12,366
Retirement benefit plan obligations	16.2	-	748
Other liabilities	15	4,647	4,534
Total non-current liabilities		**38,136**	**52,741**
TOTAL LIABILITIES		**260,881**	**257,927**
NET ASSETS		**368,714**	**356,783**
EQUITY			
General reserve	17.1	232,531	223,702
Special reserve	17.2	74,856	72,950
Capital reserve	17.3	57,877	58,261
Investment revaluation reserve	17.4	3,450	1,870
TOTAL EQUITY		**368,714**	**356,783**

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Notes	General Reserve $'000	Special Reserve $'000	Capital Reserve $'000	Investment Revaluation Reserve $'000	Total $'000
Balance at 1 July 2016		222,137	65,512	55,587	(1,576)	341,660
Surplus for the year		8,976	-	-	-	8,976
Components of defined benefit gain recognised in other comprehensive income	16.5	2,701	-	-	-	2,701
Net gain arising on revaluation of other financial assets	17.4	-	-	-	3,207	3,207
Transfer of net impairment loss of other financial assets	17.4	-	-	-	239	239
Total comprehensive gain for the year		**11,677**	**-**	**-**	**3,446**	**15,123**
Transfer between reserves		(10,112)	7,438	2,674	-	-
Balance at 30 June 2017	**17, 18**	**223,702**	**72,950**	**58,261**	**1,870**	**356,783**
Balance at 1 July 2017		223,702	72,950	58,261	1,870	356,783
Surplus for the year		8,775	-	-	-	8,775
Components of defined benefit gain recognised in other comprehensive income	16.5	1,576	-	-	-	1,576
Net gain arising on revaluation of other financial assets	17.4	-	-	-	1,270	1,270
Transfer of net impairment loss of other financial assets	17.4	-	-	-	310	310
Total comprehensive gain for the year		**234,053**	**72,950**	**58,261**	**3,450**	**368,714**
Transfer between reserves		(1,522)	1,906	(384)	-	-
Balance at 30 June 2018	**17, 18**	**232,531**	**74,856**	**57,877**	**3,450**	**368,714**

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from government and other sources (inclusive of goods and services tax) for:			
- Main Operating Program		623,997	599,463
- Capital Program		59,243	57,614
Payments to suppliers and employees (inclusive of goods and services tax)		(607,766)	(622,525)
Net cash inflows from operating activities	**19.1**	**75,474**	**34,552**
Cash flows from investing activities			
Payments for property, plant and equipment	9	(28,164)	(36,009)
Payments for intangibles	10	(18,756)	(8,127)
Payments to acquire financial assets		(32,846)	(43,074)
Proceeds from sale of financial assets		27,676	26,037
Proceeds from sale of property, plant and equipment		221	208
Dividends received		749	874
Interest received		6,702	7,158
Net cash outflows from investing activities		**(44,418)**	**(52,933)**
Cash flows from financing activities			
Interest paid		(3,562)	(4,453)
Repayment of borrowings		(14,648)	(10,786)
Net cash outflows from financing activities		**(18,210)**	**(15,239)**
Net increase/(decrease) in cash and cash equivalents		**12,846**	**(33,620)**
Cash and cash equivalents at the beginning of the financial year		160,088	193,738
Effect of exchange rate changes on cash and cash equivalents		(21)	(30)
Cash and cash equivalents at the end of the financial year	**19.2**	**172,913**	**160,088**

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

1 GENERAL INFORMATION

The Australian Red Cross Blood Service (the Blood Service) is a division of the Australian Red Cross Society (the Society) which is a not-for-profit entity. The Society is an entity incorporated in Australia by Royal Charter and is a member of the International Federation of Red Cross and Red Crescent Societies.

The Blood Service is domiciled in Australia, with its corporate office at 417 St Kilda Road, Melbourne, Victoria and operates in all States and Territories. The principal activity of the Blood Service is the provision of quality blood products, tissue typing and related services for the benefit of patients. The Blood Service operates four main processing and testing facilities plus a network of collection centres in metropolitan and regional areas across Australia. The Blood Service is funded for this activity by the Commonwealth, State and Territory governments under a Deed of Agreement (the Deed) administered by the National Blood Authority (NBA). In the event that the Blood Service ceases to perform services under the Deed, the Deed-funded net assets of the Blood Service would be transferred to the National Blood Authority for no consideration.

2 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

2.1 Standards/Interpretations affecting amounts reported/disclosures in the financial statements of the current/prior period

The following new and revised Standards and Interpretations have been applied in the current period.

Standards affecting presentation and disclosure

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	The amendments to AASB 107 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The application of the above amendments has not had an impact on the disclosures or amounts recognised in the financial statements.

2.2 Standards and Interpretations in issue but not yet effective

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The adoption of these Standards and Interpretations may have an impact on future financial reports.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers and AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities	1 January 2019	30 June 2019
AASB 1058 Income of Not-for-Profit Entities	1 January 2019	30 June 2019
AASB 16 Leases	1 January 2019	30 June 2020

The Blood Service has commenced assessment of these new and revised Standards and Interpretations issued but not effective. However, it is impractical, at this stage, to provide any reasonable estimate of the potential impact, if any, on the financial statements.

AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities

The Blood Service has opted to early adopt these standards effective 1 July 2018.

AASB 15, AASB 1058 and AASB 2016-18 supersede the not-for-profit income recognition requirements previously in AASB 1004 Contributions and AASB 118 Revenue. The timing of income recognition depends on whether a transaction gives rise to a liability, a performance obligation or a contribution by owners related to an asset received by the Blood Service.

2 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue but not yet effective (continued)

The Blood Service will be adopting the modified retrospective approach whereby the new Standards will not be applied to contracts that are completed by the date of initial application. For the purposes of revenue recognition, completed contracts include contracts where revenue has previously been recognised in accordance with AASB 1004.

Key requirements of AASB 15:
The core principle is that revenue recognition is based on the transfer of promised goods or services (performance obligation) to the customers. Income recognition occurs when (or as) the performance obligations are satisfied. For each transaction, the following conditions must be assessed:
• Identify the contract(s) with a customer
• Identify the performance obligations in the contract
• Determine the transaction price
• Allocate the transaction price to the performance obligations in the contract
• Recognise revenue when (or as) the entity satisfies a performance obligation

Key requirements of AASB 1058:
This Standard applies when a NFP entity enters into transactions where the consideration to acquire an asset is significantly less than the fair value of the asset, principally to enable the entity to further its objectives. The entity will recognise and measure the asset at fair value in accordance with other applicable Australian Accounting Standard.

Upon initial recognition of the asset, this Standard requires the entity to consider whether any other financial statement elements (called 'related amounts') should be recognised, such as:
(a) contributions by owners;
(b) revenue, or a contract liability arising from a contract with a customer;
(c) a lease liability;
(d) a financial instrument; or
(e) a provision.
These related amounts are accounted for in accordance with the applicable Australian Accounting Standard.

The Standard also prescribes specific accounting requirements for a transaction, which is a transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity (i.e. an in-substance acquisition of a non-financial asset) and volunteer services.

The Blood Service is not early adopting AASB 16 Lease, which will be effective for the financial year ending 30 June 2020. In AASB 16 Lease, entities will be required to measure peppercorn lease assets as a source of revenue. These leases will be recognised in the Blood Service under AASB 1058 when AASB 16 is implemented for the year ending 30 June 2020.

As at the reporting date, the Blood Service has conducted a preliminary evaluation on some of the revenue streams, however, it is impractical at this stage to provide any reasonable estimate of any impact.

The Blood Service does not anticipate recognising volunteer services within the financial statements, given the market value of these services is not reliably measurable in financial terms.

AASB 9 Financial Instruments

AASB 9 Financial Instruments will replace AASB 139 Financial Instruments: Recognition and Measurement. The Blood Service will apply the new standard for the reporting period ending 30 June 2019.

Key requirements of AASB9:
All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at Fair Value Through Other Comprehensive Income (FVTOCI).

All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under AASB 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue but not yet effective (continued)

Currently, all available for sale investments are classified as financial assets at fair value through other comprehensive income with changes in net fair value also being recognised in other comprehensive income. Interest and dividend income earned is recorded as investment income in the Statement of Profit or Loss statement. Any impairment loss is recorded an expense.

As at the reporting date, based on a preliminary evaluation, the directors of the Blood Service have assessed as follows:

• Listed Australian equities classified as available-for-sale investments carried at fair value as disclosed in note Other financial assets, will be classified as equity under AASB 9. The Blood Service has made an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss. This treatment is consistent with current treatment;

• Listed and unlisted floating rate bonds classified as available-for-sale investments carried at fair value as disclosed in note Other financial assets: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the bonds in the open market, and the bonds' contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the bonds will continue to be subsequently measured at FVTOCI upon the application of AASB 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the bonds are derecognised or reclassified;

• All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under AASB 39.

The transition provisions within AASB 9 require the standard to be applied retrospectively but do not require restatement of opening balances. Rather, the standard requires all changes in fair value on adoption of the standard to be recognised in opening retained earnings. The Blood Service has elected to retrospectively apply this standard with the exception of not applying it to items that are derecognised at the date of initial application, and to restate the comparatives without the use of hindsight.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Statement of compliance

For the purposes of these financial statements, the Blood Service is a not-for-profit private sector entity. These financial statements are general purpose financial statements, which have been prepared in accordance with the Australian Accounting Standards and Interpretations, and comply with other requirements of the law. Due to the application of Australian specific provisions for not-for-profit entities, the financial statements and notes to the financial statements are not necessarily compliant with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Board of the Blood Service on 25 September 2018.

3.2 Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical cost, except for the revaluation of financial instruments on which the fair value basis of accounting has been applied. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. The financial statements have been prepared on a going concern basis.

In estimating the fair value of an asset or a liability, the Blood Service takes into consideration the same characteristics that market participants would take into account when pricing the asset or liability at the measurement dates. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

For disclosure purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for the identical asset or liability that the entity can access at measurement date;
- Level 2 inputs are inputs other than quoted prices (i.e. Level 1) that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Basis of preparation (continued)

- Level 3 inputs are unobservable inputs for the asset or liability.

3.3 Critical accounting estimates and judgements

In the application of the Australian Accounting Standards and the Blood Service's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and judgements are based on historical experience and various other factors that are considered reasonable and relevant under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed. Where applicable, estimates and judgements relating to specific accounting policies are disclosed in the relevant notes to the financial statements.

The Blood Service defined benefit obligation and other long-term employee benefits are discounted using the high quality corporate bond rate, published by the actuarial firm Milliman, to calculate employee liability obligations.

3.4 Foreign currency translation

3.4.1 Functional and presentation currency

Items included in the financial statements of the Blood Service are measured using the currency of the primary economic environment in which the Blood Service operates (the functional currency). The financial statements are presented in Australian dollars, which is the Blood Service's functional and presentation currency.

3.4.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end of exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit, except when they are deferred in equity as qualifying cash flow hedges.

3.5 Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest thousand dollars ($'000) unless otherwise stated.

3.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Blood Service and the cost of the item can be measured reliably. The carrying amount of any replaced parts is derecognised. All other repairs and maintenance cost are recognised in the surplus or deficit during the reporting period in which they are incurred.

Depreciation is provided on property, plant and equipment, including leasehold buildings but excluding freehold land. Depreciation is calculated using the straight-line method to allocate cost or revalued amounts, net of their residual values, over their estimated useful lives. Depreciation rates applied in 2018 were:

	Period	**Rate**
Freehold buildings	40 years	2.5%
Leasehold improvements	Shorter of lease period or useful life	
Computer equipment	4 years	25.0%
Plant and equipment	5 - 10 years	10.0% - 20.0%
Leased furniture, fittings and equipment	10 - 20 years	5.0% - 10.0%
Motor vehicles	4 - 10 years	10.0% - 25.0%

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Property, plant and equipment (continued)

All assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount. These are included in the surplus or deficit. Both freehold buildings and leasehold improvements are presented as part of the land & buildings category - see note 9.

3.7 Intangibles

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives and is included in the surplus or deficit. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Subsequent expenditure is capitalised only when it increases the future economic benefits for the specific assets. The following estimated useful lives are used in the calculation of amortisation:

	Period	Rate
Intangibles (Software)	4 years	25.0%

3.8 Impairment of assets

At each reporting date, Blood Service management reviews the carrying values of assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and 'value in use'. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets that suffered an impairment are reviewed for possible part or full reversal of the impairment at each reporting date.

Future economic benefits of the Blood Service’s assets are not primarily dependent on their ability to generate net cash inflows and if deprived of a particular asset, the Blood Service would replace the asset’s remaining future economic benefits. ‘Value in use’ calculations are therefore determined as the depreciated replacement cost of each asset, rather than by using discounted future cash flows.

Depreciated replacement cost is defined as the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset. The current replacement cost of an asset is its cost measured by reference to the lowest cost at which the gross future economic benefits of that asset could currently be obtained in the normal course of business.

3.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised in the surplus or deficit in the period in which they are incurred. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

3.10 Leases

3.10.1 Finance leases

Leases of property, plant and equipment where the Blood Service has substantially assumed all the risks and rewards incidental to ownership are classified as finance leases - see note 9.2. Finance leases are capitalised at the lease's inception at either the lower of the fair value of the leased property or at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding rental obligations to the lessor, net of finance charges, are included on the statement of financial position as a finance lease obligation. Each lease payment is allocated between the liability and the finance cost. The finance cost is recognised in the surplus or deficit over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Leases (continued)

3.10.2 Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease expense. Payments made under operating leases are recognised as an expense in the surplus or deficit on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit gained from the lease.

3.10.3 Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The current amount refers to amounts to be recognised in the surplus or deficit within the 12 months after the reporting date. The non-current amount will be recognised in the surplus or deficit in subsequent financial years. Refer to note 15.

3.11 Inventories

Australian Accounting Standards require inventories of a not-for-profit entity to be measured at the lower of cost and current replacement cost, where current replacement cost is defined as the cost the entity would incur to acquire the asset on the reporting date. The Blood Service has the following categories of inventories:

3.11.1 Consumables

Consumables are used by the Blood Service in providing products and services, and are measured at the lower of cost and current replacement cost. Consumables inventory has been valued at weighted average cost.

3.11.2 Blood products (inventories held for distribution)

Australian Accounting Standards define inventories held for distribution by a not-for-profit entity as assets where they display three essential characteristics as follows: (i) there must be future economic benefits; (ii) the entity must have control over the future economic benefits; and (iii) the transaction giving rise to the entity's control over future economic benefit must have occurred.

The Blood Service provides products and services in accordance with the Deed. In the discharge of this agreement, the Blood Service is responsible for a range of activities, including collection, testing, processing, inventory management and distribution of blood and blood products. In this context, the Blood Service recognises certain categories of blood and blood products as current assets, to be measured at the lower of cost and current replacement cost. Cost comprises direct materials, direct labour and overheads of the operating divisions incurred in the collection, processing and testing of blood.

The Blood Service collects domestic raw plasma, which is issued to CSL Limited ('CSL') for fractionation into manufactured products. CSL manufacture and import fractionated plasma products, which are distributed by the Blood Service in Australia. In relation to blood products held for distribution, the Blood Service does not recognise plasma supplied to CSL for fractionation, fractionated product held at CSL and fractionated product at the Blood Service held for distribution. This is due to the retention of control and risk over these specific products by parties other than the Blood Service and the absence of future economic benefit under output based funding arrangements.

The inventory valuation at the end of the reporting period includes:

- all fresh blood products and plasma for fractionation (not yet supplied to CSL) held at the Blood Service or at a Blood Service storage facility; and
- all products held in 'work in progress' at the Blood Service.

Fresh product volumes are physically counted and valued as individual units. The value of ‘work in progress' is calculated using the average daily quantity supplied during the June period. All blood products are valued at direct costs plus operating overheads.

3.12 Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less provision for impairment. The carrying value less impairment of trade receivables are assumed to approximate their fair values due to their short-term nature. Trade receivables are generally due for settlement within 30 days.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Trade and other receivables (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts, which are known to be unrecoverable, are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Blood Service will not be able to collect all the amounts due according to the original terms of the trade receivables. Significant financial difficulties of the debtor are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the receivables carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the surplus or deficit.

Other receivables predominantly consist of prepayments of trade invoices, which are recognised and carried at the original invoice amount and expensed during the period.

3.13 Cash and cash equivalents

For the statement of cash flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

3.14 Non-derivative financial instruments

Financial instruments are initially measured when the related contractual rights or obligations exist, with cost including acquisition and related transaction costs on the trade date. Subsequent to initial recognition, these instruments are measured as set out below.

3.14.1 Other financial assets

Financial assets are recognised and derecognised on trade date where purchase or sale of a financial asset is under contract, the terms of which require delivery of the financial assets within the period established by the market concerned, and are initially measured at fair value. Subsequent to initial recognition, financial assets are classified into the following categories depending on the nature and the purpose of the financial asset as determined at the time of initial recognition:

3.14.1.1 Available-for-sale financial assets

Listed shares and listed redeemable notes held by the Blood Service that are traded in an active market are classified as available-for-sale financial assets and are stated at fair value. The Blood Service also has investments in unlisted investments that are not traded in an active market but that are also classified as available-for-sale financial assets and stated at fair value. Fair value is determined in the manner described in note 3.14.2. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, with the exception of impairment losses. Interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets are recognised in the surplus or deficit. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the surplus or deficit.

3.14.1.2 Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Blood Service has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment. The Blood Service had no held-to-maturity investments for this reporting period.

3.14.2 Fair value estimation

The fair value of financial assets is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions and reference to similar instruments.

3.14.3 Impairment of financial assets

At each reporting date, the Blood Service assesses whether there is objective evidence that a financial asset has been impaired. In the case of available-for-sale financial assets, a prolonged or significant decline in the value of the instrument is considered when determining whether an impairment has arisen. Impairment losses are recognised in the surplus or deficit. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the surplus or deficit in the period.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Non-derivative financial instruments (continued)

3.14.3 Impairment of financial assets (continued)

With the exception of available-for-sale equity instruments, if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the surplus or deficit to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in other comprehensive income and accumulated under the heading of investment revaluation reserve.

3.14.4 Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flow from the asset expire, or when the Blood Service transfers the financial asset and the associated risks and rewards of ownership to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received, the receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity, is recognised in the surplus or deficit.

3.14.5 Financial liabilities

Non-derivative financial liabilities, including loans and borrowings, are recognised at amortised cost, comprising original debt less principal payments and amortisation.

3.15 Borrowings

All borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount of premium on settlement.

Gains and losses are recognised in the surplus or deficit when the liabilities are derecognised, as well as through the amortisation process.

Borrowings payable within 12 months are classified as current liabilities. Borrowings are classified as non-current where the Blood Service has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

3.16 Trade and other payables

These amounts represent liabilities for goods and services provided to the Blood Service prior to the end of the financial year, which are unpaid. The amounts are unsecured and are generally due for settlement within 30 days of recognition.

The carrying value less impairment of trade payables are assumed to approximate their fair values due to their short-term nature.

3.17 Provisions

Provisions are recognised when the Blood Service has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense. Provisions include provisions for make good of property leases and employee benefits - see note13. Employee benefits provisions are discounted using high quality corporate bond yields as set out in AASB 119 Employee Benefits. All other provisions are discounted using the government bond yields.

3.17.1 Employee benefits

3.17.1.1 Short-term and long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

3.17 Provisions (continued)

3.17.1 Employee benefits (continued)

3.17.1.1 Short-term and long-term employee benefits (continued)

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. The liability for annual leave and long service leave is recognised under provision for employee benefits - see note 13.1. All other short-term employee benefit obligations are presented as payables - see note 11.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Blood Service in respect of services provided by employees up to the reporting date - see note13.1. Expected future payments are discounted using high quality corporate bond yields at the reporting date with terms to maturity and currency that match, as closely as possible, to the estimated future cash outflows. Consideration is given to future wage and salary levels, experience of employee departures and periods of service.

3.17.1.2 Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs. Benefits falling due more than 12 months after statement of financial position date are discounted to present value and classified as non-current.

3.18 Retirement benefit obligations

The Blood Service contributes to various staff retirement plans to provide employees with benefits on death or retirement. The defined benefit plans provide lump sum benefits based on years of service and final average salary.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset - see note 16.

Defined benefit costs are categorised as follows:
- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

3.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as income are net of returns and rebates.

Details of the activity specific recognition criteria are described below:

3.19.1 Output based funding

The Blood Service recognises income for the delivery of products to Approved Health Providers on an accrual basis representing the right to receive contributions from the NBA. Under the Output Based Funding principles, the Blood Service can apply to retain up to $5 million of any surplus for the purposes outlined in the principles. If the annual surplus is more than $5 million in any year then the surplus over that amount will be returned to the NBA unless otherwise agreed between the Blood Service and the NBA. Any excess funds to be returned (2018: $39.657 million, 2017: $22.277 million) are recorded as a liability within prepaid government funds (see note 14). In addition to the $5 million, the Blood Service retained $0.520 million (2017: $0.292 million) from the Research and Development (R&D) grant, which has been held for future initiatives.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Revenue recognition (continued)

3.19.2 Government grants

A number of the Blood Service programs are supported by grants received from Commonwealth and State governments.

The terms and conditions of each grant are reviewed to determine whether the funds relate to a reciprocal grant or a non-reciprocal grant, in accordance with AASB 1004 Contributions.

Where a grant is received without an obligation to deliver services of equal value in exchange, the grant is deemed non-reciprocal and income is recognised when:
a) the Blood Service obtains control or the right to receive the contribution;
b) the amount of the contribution can be measured reliably; and
c) it is probable that the future economic benefits comprising the contribution will flow to the Blood Service.

Where the Blood Service receives a grant, which creates an obligation to deliver specific services or fulfil conditions directly to the grantor of approximately equal value, this is considered a reciprocal grant. The grant is initially recognised as deferred income and revenue is recognised as services are performed or conditions fulfilled, in accordance with AASB 118 Revenue.

3.19.3 Investment income

3.19.3.1 Interest

Interest income is recognised as it accrues using the effective interest rate method, which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the carrying amount of the financial asset.

3.19.3.2 Dividends

Dividend income is recognised when the Blood Service's right to receive payment has been established, it is probable that the economic benefit will flow to the Blood Service and the amount can be measured reliably.

3.19.4 Other income

The Blood Service receives other income, which is generated from the provision of some testing services and products and services on a fee-for-service basis. Income is recognised on an accruals basis.

3.20 Income tax

The Blood Service, being a division of the Society and a charitable organisation, is exempt from income tax under subsection 50.5 of the Income Tax Assessment Act 1997.

3.21 Goods and Services Tax (GST)

Revenues and expenses are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

3.22 Economic dependency

A significant portion of revenue is received by way of recurrent and capital grants from the Commonwealth, State and Territory governments. The current Deed between the NBA and the Society relates to the period 1 July 2016 to 30 June 2025.

4 EXPENDITURE

The following expenses are included in the surplus for the year:

	Notes	2018 $'000	2017 $'000
Salaries & wages		276,335	270,458
Superannuation guarantee		24,943	25,061
Components of defined benefits recognised in surplus	16.5	59	168
Termination benefits		815	3,784
Total staff expense		**302,152**	**299,471**
Consumables		106,532	102,251
Other overheads		124,907	107,387
Workers compensation costs		2,248	2,442
Minimum operating lease payments		26,241	24,863
Interest & finance charges - finance leases		3,562	4,453
Depreciation	9	39,604	36,084
Amortisation	10	10,908	9,322
Impairment losses of property, plant & equipment	9.5	-	2,741
Impairment losses of intangibles	10	-	667
Loss on disposal of non-current asset		1,128	1,078
Loss on disposal of other financial assets		665	535
Impairment losses of other financial assets		310	239
Loss on foreign exchange		21	30
Decrease in blood and blood product inventory	7	1,525	4,835
Total other expenses		**317,651**	**296,927**
Total expenditure		**619,803**	**596,398**

5 REVENUE AND RESULTS FROM FUNDED PROGRAM

5.1 Funded programs

5.1.1 Main operating program

The NBA co-ordinates and funds, on behalf of the Commonwealth, State and Territory governments, national arrangements between the Blood Service and governments for the supply of blood and blood related products and services. These arrangements were first formalised in August 2006 under a Deed between the NBA and the Australian Red Cross Society, which was replaced by a new Deed for the period 1 July 2016 to 30 June 2025. A Funding and Service Agreement, which sits under the Deed, reflects day-to-day operations and includes an Output Based Funding Model (OBFM) which applies to three-year funding cycles. The current three year cycle commenced on 1 July 2016.

5.1.2 Capital programs

The arrangement with the NBA provides for capital funding up to 10% of the Main Operating Program funding for the financial year. Capital funding is from State and Commonwealth governments and is recognised as revenue when the Blood Service obtains control of the grant funds.

Activities during the reporting period include a number of large scale refurbishment projects (Perth Processing Centre, Elizabeth Street Donor Centre, Town Hall Donor Centre and Albury Donor Centre). Other significant business initiatives include the Infrastructure and Application Hosting Upgrades, End User Technologies Refresh, LabNet, International Standard for Blood and Transplant (ISBT 128) and the Security Improvement Program.

5.1.3 External and hosted services

The Blood Service also receives grants from the Commonwealth and State governments for the provision of transplantation services, tissue typing, organ donor program and the Bone Marrow Registry.

5.1.4 Other operating activities

Other operating activities predominantly consist of special grant funding for repayments of borrowings on the Sydney and Melbourne Processing Centres. Interest revenue includes interest earned on special and capital reserves and unallocated prior year surplus funds. Other external revenue was received from third parties and donations.

5 REVENUE AND RESULTS FROM FUNDED PROGRAM (CONTINUED)

5.2 Revenues by programs

	Government	Investment Income	Other	Total
2018				
Main Operating Program	514,853	3,390	3,659	521,902
Capital programs	53,857	1,720	574	56,151
External and hosted services	27,880	267	7,552	35,699
Other operating activities	12,598	2,074	154	14,826
Total revenues by programs	**609,188**	**7,451**	**11,939**	**628,578**

	Government	Investment Income	Other	Total
2017				
Main Operating Program	495,853	3,834	3,788	503,475
Capital programs	52,376	1,833	422	54,631
External and hosted services	24,375	349	7,841	32,565
Other operating activities	12,570	2,016	117	14,703
Total revenues by programs	**585,174**	**8,032**	**12,168**	**605,374**

The current year government funding for the Main Operating Program of $514.853 million (2017: $495.853 million) is net of a provision to return $39.657 million (2017: $22.277 million) to the NBA.

5.3 Reconciliation of surplus for the year

	Notes	2018 $'000	2017 $'000
Surplus of Main Operating Program		5,521	5,292
Surplus of Capital Programs and Processing Centre Programs (net of depreciation and amortisation)		4,465	10,741
Surplus on External and Hosted Services		4,533	1,829
Provision for employee entitlements		(2,604)	(2,206)
Loss on disposal of non-current assets		(1,128)	(1,078)
Loss on disposal of other financial assets (excluding MOP portion)		(97)	(329)
Impairment losses of other financial assets	17.4	(310)	(239)
Loss on foreign exchange		(21)	(30)
Components of defined benefit costs recognised in surplus	16.5	(59)	(168)
Decrease in blood and blood product inventory	7	(1,525)	(4,835)
Surplus for the year		**8,775**	**8,977**

6 TRADE AND OTHER RECEIVABLES

	2018 $'000	2017 $'000
Trade receivables	1,911	2,131
Total trade receivables	**1,911**	**2,131**
Accrued income	2,655	1,471
Prepayments	8,745	8,879
Goods and services tax receivable	807	765
Total other receivables	**12,207**	**11,115**
Total trade and other receivables	**14,118**	**13,246**

Trade receivables are non-interest bearing and are generally on 30-day terms for products and services provided to customers on a fee-paying basis funded primarily by governments and hospitals, and to a smaller extent, by private patients.

	2018 $'000	2017 $'000
Ageing of past due but not impaired trade receivables		
1 to 30 days	456	161
31 to 60 days	226	262
61 to 90 days	60	22
91 to 120 days	11	9
Over 120 days	23	30
Total amount of past due but not impaired trade receivables	**776**	**484**

	2018 $'000	2017 $'000
Movement in the allowance for doubtful debts		
Balance at beginning of the year	-	36
Impairment losses recognised on receivables	-	-
Amounts written off as uncollectable	-	(36)
Balance at end of the year	**-**	**-**

Trade receivables are reviewed regularly for recoverability. Government and hospital debts are considered recoverable. Where debts are assessed to be non-recoverable from private patients, these are written off in certain circumstances.

7 INVENTORIES

	2018 $'000	2017 $'000
7.1 Inventory of blood and blood products		
Blood & blood products	8,647	10,255
Work in progress	1,063	980
Total inventory of blood and blood products	**9,710**	**11,235**
7.2 Consumables inventory		
Consumables	8,336	7,226
Total consumables inventory	**8,336**	**7,226**
Total inventories	**18,046**	**18,461**

8 OTHER FINANCIAL ASSETS

8.1 Available-for-sale financial assets

	2018 $'000	2017 $'000
Current		
Australian equities	26,849	27,999
Bonds - listed	11,634	10,078
Bonds - unlisted	57,663	52,293
Total current other financial assets	**96,146**	**90,370**

8.2 Fair value measurements recognised in the statement of financial position

Level 2 investments are independently priced by a third party who perform valuations of financial assets for reporting purposes. The valuation model uses an adapted version of the Australian Government Treasury Adjustable Rate Bond formula to derive evaluations of floating rate securities. Traded margins are set using one of three possible methods:
1) average of traded margin information received from market participants on a daily basis
2) with reference to new issues for more illiquid issues
3) with reference to asset swap margins of fixed rate bonds plus a spread of 2-5 basis points to reflect illiquidity.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, categorised into levels 1 to 3 based on the degree to which the fair value is observable, as described in note 3.2.

Available-for-sale financial assets

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2018				
Australian equities	26,849	-	-	26,849
Bonds - listed	11,634	-	-	11,634
Bonds - unlisted	-	57,663	-	57,663
Total available-for-sale financial assets	**38,483**	**57,663**	**-**	**96,146**

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2017				
Australian equities	27,999	-	-	27,999
Bonds - listed	10,078	-	-	10,078
Bonds - unlisted	-	52,293	-	52,293
Total available-for-sale financial assets	**38,077**	**52,293**	**-**	**90,370**

There were no transfers between levels in the reporting period.

9 PROPERTY, PLANT AND EQUIPMENT

	Notes	Land & buildings $'000	Computer equipment $'000	Plant & equipment $'000	Leased furniture, fittings & equipment $'000	Motor vehicles $'000	Work in progress (WIP) $'000	Total $'000
At 1 July 2016								
Cost		262,186	26,792	140,918	63,939	19,994	35,876	549,705
Accumulated depreciation		(88,066)	(23,767)	(88,437)	(28,380)	(12,616)	-	(241,266)
Net book amount		**174,120**	**3,025**	**52,481**	**35,559**	**7,378**	**35,876**	**308,439**
Year ended 30 June 2017								
Opening net book amount		174,120	3,025	52,481	35,559	7,378	35,876	308,439
Additions	9.4	135	-	-	-	-	35,874	36,009
Disposals	9.3	(153)	(121)	(938)	-	(75)	-	(1,287)
Transfer to/(from) WIP	9.1	4,172	2,634	8,068	-	740	(15,614)	-
Transfers to intangibles	10	-	462	-	-	-	-	462
Impairment losses recognised in profit or loss	9.5	-	-	(374)	-	-	(2,367)	(2,741)
Depreciation charge		(14,218)	(2,680)	(12,811)	(4,782)	(1,593)	-	(36,084)
Closing net book amount		**164,056**	**3,320**	**46,426**	**30,777**	**6,450**	**53,769**	**304,798**
At 30 June 2017								
Cost		265,686	17,429	141,080	63,925	18,552	53,769	560,441
Accumulated depreciation		(101,630)	(14,109)	(94,654)	(33,148)	(12,102)	-	(255,643)
Net book amount		**164,056**	**3,320**	**46,426**	**30,777**	**6,450**	**53,769**	**304,798**
Year ended 30 June 2018								
Opening net book amount		164,056	3,320	46,426	30,777	6,450	53,769	304,798
Additions	9.4	-	-	-	-	-	28,164	28,164
Disposals	9.3	(483)	(44)	(695)	-	(127)	-	(1,349)
Transfer to/(from) WIP	9.1	52,506	5,720	8,527	-	773	(67,526)	-
Assets reclassification		(4)	-	-	-	4	-	-
Depreciation charge		(16,695)	(3,517)	(13,060)	(4,781)	(1,551)	-	(39,604)
Closing net book amount		**199,380**	**5,479**	**41,198**	**25,996**	**5,549**	**14,407**	**292,009**
At 30 June 2018								
Cost		316,320	19,685	144,338	63,919	19,036	14,407	577,705
Accumulated depreciation		(116,940)	(14,206)	(103,140)	(37,923)	(13,487)	-	(285,696)
Net book amount		**199,380**	**5,479**	**41,198**	**25,996**	**5,549**	**14,407**	**292,009**

9.1 Work in progress (WIP)

The carrying amounts of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment, which are in the course of construction:

	2018 $'000	2017 $'000
Freehold land and buildings and leasehold improvements	4,164	38,558
Computer equipment	6,924	10,597
Plant and equipment	3,155	4,447
Donor mobile units	164	167
	14,407	**53,769**

9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

9.1 Work in progress (WIP) (continued)

In 2018, approximately $35.868 million was capitalised in relation to the Perth Processing Centre Refurbishment, which opened in November 2017. The completion of another 3 relocation and 7 refurbishment projects resulted in the capitalisation of $6.506 million and $5.148 million, respectively.

At reporting date, freehold land and buildings and leasehold improvements include $2.353 million and a residual amount of $0.090 million in relation to the development of both the Civic (Canberra) and Townsville Plasma Donor Centres, respectively. In addition, $0.642 million and $0.304 million relate to the remaining works for the Perth Processing Centre Refurbishment and Frankston Donor Centre Rebuild projects respectively. The computer equipment balance includes hardware upgrades to several operating systems under various asset replacement program activities, including the Application Hosting & Oracle Infrastructure Upgrade ($1.751 million), the Sydney Processing Centre Switch Upgrade ($1.385 million) and the Data Storage Encryption Protection & Management ($1.359 million).

9.2 Leased furniture, fittings & equipment

The net book value for leased furniture, fittings & equipment of $25.996 million (2017: $30.777 million), includes amounts relating to the leasehold improvements for the processing centres in Brisbane (2018: $13.713 million, 2017: $15.145 million) and Melbourne (2018: $12.283 million, 2017: $15.633 million) which are funded through finance leases.

9.3 Asset disposals

During the reporting period, the Blood Service disposed of assets with a total written down value of $1.349 million (2017: $1.287 million), excluding proceeds.

9.4 Asset additions

All additions have been reported through WIP and subsequently recognised via ‘transfer to/(from) WIP' directly to cost within each asset category.

9.5 Impairment losses recognised in the year

In 2017, an impairment loss of $1.898 million was recognised to provide against equipment WIP balances where the carrying value was estimated to be greater than recoverable amount. In addition, the Bulk Shipper project based on the expected marginal financial benefits and a residual balance from the prior year Laboratory Information Management System (LIMS) project were both impaired with charges of $0.624 million and $0.219 million recognised respectively. No impairment losses were recognised in 2018.

10 INTANGIBLE ASSETS

	2018 $'000	2017 $'000
Carrying amounts of:		
Software	21,899	18,801
Work in progress	13,696	8,946
Total intangible assets	**35,595**	**27,747**

	Notes	Software $'000	Work in Progress (WIP) $'000	Total $'000
At 1 July 2016				
Cost		51,532	11,328	62,860
Accumulated amortisation		(32,789)	-	(32,789)
Net book amount		**18,743**	**11,328**	**30,071**
Year ended 30 June 2017				
Balance as at 1 July 2016		18,743	11,328	30,071
Additions		-	8,127	8,127
Transfer to/(from) WIP		9,842	(9,842)	-
Impairment losses recognised in profit or loss		-	(667)	(667)
Transfer from property, plant and equipment	9	(462)	-	(462)
Amortisation charge		(9,322)	-	(9,322)
Closing net book amount		**18,801**	**8,946**	**27,747**
At 30 June 2017				
Cost		71,009	8,946	79,955
Accumulated amortisation		(52,208)	-	(52,208)
Net book amount		**18,801**	**8,946**	**27,747**
Year ended 30 June 2018				
Balance as at 1 July 2017		18,801	8,946	27,747
Additions		-	18,756	18,756
Transfer to/(from) WIP		14,006	(14,006)	-
Amortisation charge		(10,908)	-	(10,908)
Closing net book amount		**21,899**	**13,696**	**35,595**
At 30 June 2018				
Cost		85,015	13,696	98,711
Accumulated amortisation		(63,116)	-	(63,116)
Net book amount		**21,899**	**13,696**	**35,595**

The net book value for software includes $6.717 million from DonorConnect, $5.693 million from the National Blood Management System Infrastructure upgrade, $2.902 million from MyTime (electronic time and attendance system) and $1.214 million from the Improving Disaster Recovery Capabilities project.

In 2018, the WIP balance includes $4.980 million for the National Organ Matching Service Platform, $3.350 million for the ISBT-128 Labelling Standards and various other software related initiatives.

11 TRADE AND OTHER PAYABLES

	2018 $'000	2017 $'000
Trade payables	25,014	21,460
Accrued wages and salaries	14,064	13,349
Deferred income	5,648	8,822
Total trade and other payables	**44,726**	**43,631**

Trade payables also include payments due to suppliers for key capital projects. The average credit period on purchases of goods and services is 30 days. No interest is charged on the trade payables for the first 30 days from the date of the invoice. Specific suppliers may choose to charge interest after that period. The continuous monitoring of cash flow ensures that the majority of payables are paid within the credit period and no material interest is incurred on overdue balances.

Accrued wages and salaries comprise of liabilities related to staff expenses payables including salaries and wages payable, superannuation and group tax.

Deferred income includes funds received relating to reciprocal grants and in accordance with the Blood Service revenue recognition policy, it is deferred until services are performed or conditions fulfilled. In the current reporting period, the Blood Service deferred $3.480 million (2017: $6.890 million) of funds received from the Australian Organ and Tissue Donation and Transplantation Authority for the design, build and implementation of an Australian Organ Matching System.

12 BORROWINGS

	Notes	2018 $'000	2017 $'000
Current			
Processing centre fit-out loans	20.3	5,877	5,380
Processing centre fit-out lease liabilities	20.2.2	7,524	9,268
Total current borrowings		**13,401**	**14,648**
Non-current			
Processing centre fit-out loans	20.3	10,983	16,860
Processing centre fit-out lease liabilities	20.2.2	10,709	18,233
Total non-current borrowings		**21,692**	**35,093**
Total borrowings		**35,093**	**49,741**

Leased assets pledged as security for lease liabilities
The total current and non-current lease liabilities, which are effectively secured as the rights to the leased assets, are recognised in the financial statements and revert to the lessor in the event of default.

13 PROVISIONS

	Notes	2018 $'000	2017 $'000
Current			
Employee benefits		61,945	58,714
Make good for property leases	13.2	946	1,319
Total current provisions		**62,891**	**60,033**
Non-current			
Employee benefits		7,057	7,889
Make good for property leases	13.2	4,740	4,477
Total non-current provisions		**11,797**	**12,366**
Total provisions		**74,688**	**72,399**

13 PROVISIONS (CONTINUED)

13.1 Provisions for employee benefits

13.1.1 Current provision

The current provision for employee benefits includes accrued annual leave, long service leave and termination benefits. For long service leave it comprises all unconditional entitlements where employees have completed the required period of service, in addition to those where employees are entitled to pro-rata payments in certain circumstances. In 2018, the Blood Service financial statements have reflected the standard entitlement period of long service leave at seven years of continuous service. This obligation is presented as current since the organisation does not have an unconditional right to defer settlement. Based on past experience however, the Blood Service does not expect all employees to take the full amount of accrued leave within the next 12 months.

The following amounts reflect annual leave and long service leave, presented as a current obligation, that are not expected to be taken in the next 12 months:

	2018 $'000	2017 $'000
Annual leave obligation expected to be settled after 12 months	-	-
Long service leave obligation expected to be settled after 12 months	32,583	31,675
Total current obligations not expected to be taken in the next 12 months	**32,583**	**31,675**

13.1.2 Non-current provision

Employee benefits refer to provisions for long service leave for employees who have not completed the required years of service, calculated on the basis described in note 3.17.1.1.

13.2 Provision for make good for property leases

Make good provisions represent the present value of management's best estimate of the future sacrifice of economic benefits that will be required to remove leasehold improvements from leasehold property at the end of the particular lease. The estimate has been made based on historical make good costs, a review of leases and future rentals. The unexpired term of the leases range from 2 to 20 years.

	2018 $'000	2017 $'000
Movements in make good provisions are as follows:		
Carrying amount of make good provisions at beginning of the year	5,796	5,663
Provision movement	(110)	133
Carrying amount of make good provisions at end of the year	**5,686**	**5,796**

14 PREPAID GOVERNMENT FUNDS

	2018 $'000	2017 $'000
Output funding net cash advance	61,132	63,760
Government grants refundable	39,657	22,277
Total prepaid government funds	**100,789**	**86,037**

Output funding net cash advance relates to the working capital advance received from the NBA upon commencement of the Output Based Funding Model from 1 July 2011, less June 2018 revenue not received until July 2018.

Government grants refundable relate to the expected return of funds to the NBA for surpluses in the reported period as disclosed in note 3.19.1.

15 OTHER LIABILITIES

	2018 $'000	2017 $'000
Current		
Lease incentive	938	837
Total current other liabilities	**938**	**837**
Non-current		
Lease incentive	4,647	4,534
Total non-current other liabilities	**4,647**	**4,534**
Total other liabilities	**5,585**	**5,371**

16 RETIREMENT BENEFIT PLAN OBLIGATION

The Blood Service has recognised a liability in the statement of financial position in respect of its defined benefit superannuation arrangements. Currently, contributions are made to the following defined benefit plans:
1) Local Government Super (NSW); and
2) Australian Red Cross Queensland Staff Retirement Fund (QLD).

All contributions are expensed when incurred.

Local Government Super (NSW): Local Government Super provides defined benefits whereby components of the final benefit are derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. The defined benefits scheme was closed to new members effective from 15 December 1992. The Local Government Superannuation Scheme was established on 1 July 1997 to specifically cater for the superannuation requirements of Local Government employees. LGSS Pty Limited (ABN 68 078 003 497) (AFSL 383558) is the Trustee of the Local Government Superannuation Scheme (known as Local Government Super). Local Government Super is a resident regulated superannuation scheme within the meaning of the Superannuation Industry (Supervision) Act 1993.

Australian Red Cross Queensland Staff Retirement Fund (QLD): The fund, offering both defined benefit and defined contribution plans, is a final average (3 years) lump sum benefit arrangement providing benefits on death, disability, resignation and retirement. The defined benefit section provides benefits based on the length of service and final average salary. The defined contribution section receives fixed contributions and the employer's legal or constructive obligation is limited to these contributions. The fund commenced on 15 June 2006 as a successor fund transfer from the Australian Red Cross Qld Staff Superannuation Plan. This fund is a sub-fund of the AMP Superannuation Savings Trust, which was established under a Trust Deed dated 1 July 1998. The Trustee is AMP Superannuation Limited.

The plans expose the Blood Service to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk:

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit.
Interest rate risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan’s debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan’s liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan’s liability.

The risk relating to benefits to be paid to the dependents of plan members (widow and orphan benefits) is re-insured by an external insurance company. No other post-retirement benefits are provided to these employees.

16 RETIREMENT BENEFIT PLAN OBLIGATION (CONTINUED)

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation was carried out at 30 June 2018 by:

- Mr Richard Boyfield, Partner, Representative of Mercer Consulting (Australia) Pty Ltd for Local Government Super (NSW)
- Mr Jeff Humphries, Principal, CHR Consulting Pty Ltd for Australian Red Cross Queensland Staff Retirement Fund (QLD)

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

16.1 Principal actuarial assumptions

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2018	2017
Discount rate	3.9%	4.0%
Expected rate of salary increase	2.5%	3.0%
Anticipated rate of return on plan assets	6.0%	6.4%

16.2 Amounts recognised in the statement of financial position

	Notes	2018 $'000	2017 $'000
Present value of funded defined benefit plan obligation	16.3	17,702	19,209
Fair value of defined benefit plan assets	16.4	(18,470)	(18,461)
Net [(asset)/liability arising from defined benefit plan obligation		**(768)**	**748**

16.3 Reconciliation of movement in the present value of the defined benefit plan obligation

	2018 $'000	2017 $'000
Balance at beginning of the year	19,209	21,276
Current service cost	694	848
Interest cost	702	677
Remeasurements:		
- Actuarial gain arising from changes in financial assumptions	(122)	(1,253)
- Actuarial gain arising from experience adjustments	(615)	(355)
Benefits paid	(2,066)	(1,863)
Other	(101)	(121)
Balance at end of the year	**17,702**	**19,209**

16.4 Reconciliation of movement in the fair value of plan assets

	2018 $'000	2017 $'000
Balance at beginning of the year	18,461	17,995
Interest income	677	577
Remeasurement:		
- Return on plan assets (excluding amounts included in net interest expense)	839	1,093
Contributions by the employer	613	726
Contributions by plan participants	47	54
Benefits paid	(2,066)	(1,863)
Other	(101)	(121)
Balance at the end of the year	**18,470**	**18,461**

16 RETIREMENT BENEFIT PLAN OBLIGATION (CONTINUED)

16.4 Reconciliation of movement in the fair value of plan assets (continued)

The fair value of the plan assets at the end of the reporting period for each category, are as follows:

	2018 $'000	2017 $'000
Australian equities	4,341	4,505
International equities	4,562	4,689
Property	1,866	1,938
Australian fixed interest	3,417	1,458
International fixed interest	425	332
Cash	1,884	1,754
Other	1,975	3,785
Total fair value of the plan assets	**18,470**	**18,461**

The fair value of the above equity and debt instruments is determined as follows:

Local Government Super (NSW): Determined based on one of the following; quoted prices in active markets for identical assets, other inputs other than quoted prices observable for the asset directly or indirectly or inputs that are not based on observable market data. Derivatives can be used by investment managers, however the trustee requires that all derivatives positions are fully cash covered, are offset to existing assets, or are used to alter the exposures in underlying assets classes. It is the policy of the fund that no gearing or speculative trading is permitted.

Australian Red Cross Queensland Staff Retirement Fund (QLD): The issue price is determined by reference to the net asset value and transaction costs pertaining to the relevant class of units, and the number of units on issue in that unit class. The market value and net asset value of the fund are normally determined at least each business day, using the market prices and unit prices of the assets in which the fund is invested. The fund may use derivatives such as options, futures or swaps, which support the fund’s investment objectives. However, certain restrictions are imposed on the use of derivatives within the fund in accordance with the AMP Capital Derivative Risk Statement.

The actual return on plan assets was $0.979 million (2017 $1.022 million)

16.5 Amounts recognised in the statement of comprehensive income

	2018 $'000	2017 $'000
Service cost:		
- Current service cost	694	848
- Employer contributions	(613)	(726)
- Member contributions	(47)	(54)
- Net interest cost	25	100
Components of defined benefit costs recognised in surplus	**59**	**168**
Remeasurement:		
- Return on plan assets (excluding amounts included in net interest expense)	(839)	(1,093)
- Actuarial gain arising from changes in financial assumptions	(122)	(1,253)
- Actuarial gain arising from experience adjustment	(615)	(355)
Components of defined benefit gain recognised in other comprehensive income	**(1,576)**	**(2,701)**
Total	**(1,517)**	**(2,533)**

The current service cost and the net interest expense for the year are included in the staff expenses in the statement of profit or loss. The remeasurement of the net defined benefit liability is included in other comprehensive income.

16 RETIREMENT BENEFIT PLAN OBLIGATION (CONTINUED)

16.6 Category of investments

	2018 %	2017 %
Australian equities	23.5%	24.4%
International equities	24.7%	25.4%
Property	10.1%	10.5%
Australian fixed interest	18.5%	7.9%
International fixed interest	2.3%	1.8%
Cash	10.2%	9.5%
Other	10.7%	20.5%
Total	**100.0%**	**100.0%**

16.7 Sensitivity analysis for actuarial assumptions

Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected salary increase. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant:

- If the discount rate is 50 basis points higher/(lower), the defined benefit obligation would (decrease)/increase by $0.659 million (2017: $0.653 million)
- If the expected salary growth increases/(decreases) by 50 basis points, the defined benefit obligation would increase/(decrease) by $0.322 million (2017: $0.259 million)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

16.8 Asset-liability matching study

There were no asset-liability matching strategies adopted by the funds during the period.

16.9 Effects on future cash flows

Local Government Super's funding arrangements are assessed at least every three years following the release of a triennial actuarial review. Following completion of the last review as at 30 June 2015, the Blood Service had sufficient assets to cover its liabilities, and no adjustments to funding have occurred. The next triennial valuation as at 30 June 2018 will occur over the next 6 months with final reports to be issued in December 2018. The Blood Service reviews its funding positions annually with funding arrangements adjusted as appropriate.

Members of the Australian Red Cross Queensland Staff Retirement Fund contribute at the rate of 5% of salary. The Blood Service pays the residual contribution (including back service payments). The funding requirements are based on the local actuarial measurement framework. In this framework, the discount rate is set on the expected return on the Fund's assets. The Blood Service carries the investment volatility risk and may be required to make additional contributions from time to time if assets do not cover members' vested benefits.

The average duration of the benefit obligation for the funds at 30 June 2018 is 9.64 years (2017: 9.29 years). This number can be analysed as follows:
- active members: 9.06 years (2017: 9.53 years);
- retired members: 8.51 years (2017: 8.78 years).

16 RETIREMENT BENEFIT PLAN OBLIGATION (CONTINUED)

16.9 Effects on future cash flows (continued)

The Blood Service expects to make a contribution of $0.604 million (2017: $0.551 million) to the defined benefit plans during the next financial year.

17 RESERVES

	Notes	2018 $'000	2017 $'000
General reserve	17.1	232,531	223,702
Special reserves	17.2	74,856	72,950
Capital reserve	17.3	57,877	58,261
Investment revaluation reserve	17.4	3,450	1,870
Total reserves		**368,714**	**356,783**

17.1 General reserve

	Notes	2018 $'000	2017 $'000
Balance at beginning of year		**223,702**	**222,137**
Transfer to special reserves	17.2	(1,906)	(7,438)
Transfer from/(to) capital reserve	17.3	384	(2,674)
Subtotal transfer to general reserve		**(1,522)**	**(10,112)**
Net Surplus		8,775	8,976
Actuarial gain on retirement benefit plan obligations		1,576	2,701
Balance at end of year		**232,531**	**223,702**

General reserves held are surplus funds not yet allocated for a specific purpose.

17.2 Special reserves

	Notes	2018 $'000	2017 $'000
Balance at beginning of the year		**72,950**	**65,512**
Income received and transferred to the reserve		43,374	38,485
Expenditure incurred and transferred from the reserve		(41,468)	(31,047)
Subtotal transfer from general reserve	**17.5**	**1,906**	**7,438**
Balance at end of year		**74,856**	**72,950**

The Blood Service's special reserves records retained surpluses over which the Blood Service has restricted use. The majority of the balance is comprised of Commonwealth government (NBA) funded reserves which include the OBFM risk reserve (2018: $6.016 million, 2017: $5.599 million), corporate risk reserve (2018: $33.982 million, 2017: $31.107 million) and unallocated prior year surpluses (2018: $4.344 million, 2017: $5.388 million). The remainder of the balance consists of State government and other externally funded reserves.

17 RESERVES (CONTINUED)

17.3 Capital reserve

	2018 $'000	2017 $'000
Balance at beginning of the year	**58,261**	**55,587**
Income received and transferred to the reserve	55,609	54,452
Expenditure incurred and transferred from the reserve	(55,993)	(51,778)
Subtotal transfer (to)/from general reserve	**(384)**	**2,674**
Balance at end of year	**57,877**	**58,261**

The Blood Service's capital reserve records retained surpluses less capital expenditure relating to various capital funded programs or funds received for the purpose of future capital expenditure.

17.4 Investment revaluation reserve

	2018 $'000	2017 $'000
Balance at beginning of year	**1,870**	**(1,576)**
Net gain arising on revaluation	1,270	3,207
Transfer of impairment loss of other financial assets	310	239
Net fair value gain on other financial assets	**1,580**	**3,446**
Balance at end of year	**3,450**	**1,870**

The Blood Service's investment revaluation reserve represents the cumulative unrealised gains and losses arising from the changes in the fair value of available-for-sale financial assets that have been recognised in other comprehensive income, net of the realised gains and losses reclassified to profit or loss when those financial assets have been disposed of or are determined to be impaired.

17.5 Movement within reserves

17.5.1 Transfer between general and special reserve

The current year movement of $1.906 million (2017: $7.438 million) is primarily driven by:
• allocation of surplus funds of $5.000 million (2017: $5.000 million) as agreed with the NBA to a special reserve
• allocation of funds to the corporate risk reserve includes interest earned of $0.795 million (2017: $0.824 million)
• allocation of additional R&D funding of $0.521 million (2017: $0.292 million)

18 EQUITY

	2018 $'000	2017 $'000
Accumulated funds at beginning of the year	356,783	341,660
Total profit and other comprehensive income for the year	11,931	15,123
Accumulated funds at end of the year	**368,714**	**356,783**

19 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

19.1 Cash flows from operating activities

	Notes	2018 $'000	2017 $'000
Net surplus for the period		**8,775**	**8,976**
Adjustments for:			
Depreciation	9	39,604	36,084
Amortisation	10	10,908	9,322
Impairment losses of property, plant and equipment	9.5	-	2,741
Impairment losses of intangibles	10	-	667
Impairment losses of other financial assets	17.4	310	239
Loss on foreign exchange		21	30
Loss on disposal of non-current assets		1,128	1,078
Loss on disposal of other financial assets		665	535
Interest paid on finance leases		3,562	4,453
Investment income received	5.2	(7,451)	(8,032)
Components of defined benefit costs recognised in surplus	16.5	59	168
Changes in operating assets and liabilities:			
Increase in trade and other receivables		(872)	(5,447)
Increase in trade and other payables		1,309	1,233
Increase/(Decrease) in prepaid government funds		14,752	(24,424)
Increase in provisions		2,289	2,524
Increase in consumables inventory		(1,110)	(430)
Decrease in blood and blood product inventory		1,525	4,835
Net cash inflow from operating activities		**75,474**	**34,552**

19.2 Reconciliation of cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 30 June:

	2018 $'000	2017 $'000
Cash at bank and on hand	221	1,104
Term deposits and investments	172,692	158,984
	172,913	**160,088**

20 COMMITMENTS

20.1 Non-cancellable operating leases

The Blood Service leases various premises used as offices, blood collection centres, processing and testing centres, and warehouses under non-cancellable leases expiring within 2 to 20-years. The leases include a 20-year lease (expiring April 2028) for a property at Kelvin Grove, Brisbane, a 20-year lease (expiring January 2031) for the property at Alexandria, Sydney, an 11-year lease (expiring November 2021) for the National Office on St. Kilda Road, Melbourne and several donor centres nationally.

A number of lease arrangements entered into by the Blood Service provide the option to extend the term beyond the initial expiration date. The commitment for minimum lease repayments in relation to non-cancellable operating leases has been calculated based on the initial lease term under the contract. This approach is consistent with the calculation of the make good provision.

20 COMMITMENTS (CONTINUED)

20.1 Non-cancellable operating leases (continued)

	2018 $'000	2017 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
- Within one year	23,430	22,856
- Later than one year but not later than five years	66,074	65,057
- Later than five years	69,033	77,387
Total non-cancellable operating leases	**158,537**	**165,300**

Of this total, $0.815 million (2017: $0.772 million) of commitments for minimum lease payments relates to transactions with the Society - see note 25. This $0.815 million (2017: $0.772 million) is payable within one year.

20.2 Finance leases

The Blood Service leases various items of equipment and fit-outs with a carrying value of $18.233 million (2017: $27.501 million) under finance leases expiring within 1 to 10 years. Under the terms of the leases, the Blood Service has the option to acquire the leased assets on expiry of the leases. These leases relate to:

20.2.1 Property fit-out leases

Upon completion of the Brisbane Processing Centre in Kelvin Grove in 2008, the constructed asset was used to underwrite a $32.473 million 10-year finance lease with a financial institution. As at 30 June 2018, the residual balance of this facility was $3.663 million (2017: $9.366 million). The lease repayments relating to this arrangement are funded by the annual capital program.

In 2012, the Melbourne Processing Centre in West Melbourne was completed and the constructed asset was used to underwrite a $33.500 million 10-year finance lease. As at 30 June 2018, the residual balance of this facility was $14.570 million (2017: $18.135 million). The Blood Service receives special grant funding to cover the lease repayments under this arrangement.

The weighted average effective interest rate for the finance leases was 7.58%.

20.2.2 Total equipment and property fit-out finance leases

	2018 $'000	2017 $'000
Minimum lease payments:		
- Within one year	8,634	11,139
- Later than one year but not later than five years	11,795	20,429
- Later than five years	-	-
Minimum future lease payments	**20,429**	**31,568**
Less: future finance charges	(2,196)	(4,067)
Total lease liabilities	**18,233**	**27,501**

	Notes	2018 $'000	2017 $'000
Representing lease liabilities:			
Current	12	7,524	9,268
Non-current	12	10,709	18,233
Total lease liabilities	20.2.1	**18,233**	**27,501**

20 COMMITMENTS (CONTINUED)

20.3 Borrowings

	Notes	2018 $'000	2017 $'000
Secured bank loans:			
Current	12	5,877	5,380
Non-current	12	10,983	16,860
Total bank loans		**16,860**	**22,240**

In 2011, the Society had entered into a 10-year loan agreement for the value of $47.500 million to partially fund the building works of the Sydney Processing Centre in Alexandria. The loan is secured by a fixed charge on the building works and equipment (including fixtures and fittings) and a charge over the Deed of Indemnity between the Society and the NBA. The Blood Service receives special grant funding to cover the loan repayments under this arrangement. The weighted average effective interest rate was 8.63%.

20.4 Capital expenditure commitments

Capital commitments contracted for at the reporting date but not recognised as liabilities are as follows:

	2018 $'000	2017 $'000
Property, plant & equipment		
Payable:		
- Within one year	7,961	14,355
Total capital expenditure commitments	**7,961**	**14,355**

Of the reported total capital expenditure commitments, $2.363 million relates to the asset replacement program, $0.991 million is attributable to premises related activities with the balance committed to various other business initiatives.

21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

21.1 Contingent liabilities

The Blood Service is entitled to seek, and the NBA may at its discretion grant, indemnities in respect of potential liabilities arising from litigation in relation to pre-July 2000 transfusion-transmitted diseases.

There is a potential for claims to arise from viral/bacterial infections or blood-borne diseases, which are currently unidentified, or in circumstances where there is no test or screening procedures available to test for a virus/bacteria/disease state. In the event that commercial insurance does not cover financial exposure arising as a result of transmission of blood-borne disease occurring subsequent to 1 July 2000, a national managed fund has been established with claims covered at the discretion of the NBA.

There are no contingent liabilities or events identified which could be expected to have a material impact on the financial statements in the future.

22 EVENTS AFTER REPORTING PERIOD

There were no known significant events after the reporting period.

23 KEY MANAGEMENT PERSONNEL COMPENSATION

23.1 Key management personnel

23.1.1 Board members during 2017-2018 were:

Mr James Birch AM	Chair
Ms Shelly Park	Chief Executive and Board Member
Mr Nigel Ampherlaw	Board Member
Prof Christopher Baggoley, AO	Board Member
Ms Hannah Crawford	Board Member
Ms Jenni Mack	Board Member
Assoc Prof Larry McNicol AM	Board Member
Prof John Zalcberg OAM	Board Member
Ms Fiona Balfour	Board Member
Mr Ross Pinney	Board Member (resigned 2 December 2017)
Ms Lyndal Herbert	Board Member (appointed 6 December 2017)

23.1.2 Executive directors during 2017-2018 (not including the Chief Executive) were:

Mr John Brown	Executive Director, Finance
Dr Joanne Pink	Executive Director, Clinical Services and Research
Ms Janine Wilson	Executive Director, Donor Services (resigned 3 October 2017)
Ms Cath Stone	Executive Director, Donor Services (appointed 15 January 2018)
Ms Cath Gillard	Executive Director, People and Culture
Dr Philip Nesci	Executive Director, Information and Communications Technology
Mr Greg Wilkie	Executive Director, Manufacturing
Mr Peter McDonald	Executive Director, Corporate Strategy and Transformation
Dr Frances Guyett	Executive Director, Innovation and Commercial Strategy (resigned 14 September 2017)
Mr Stuart Chesneau	Executive Director, Innovation and Commercial Strategy (seconded 19 September 2017, appointed 19 February 2018)
Ms Marion Hemphill	General Counsel and Head of Government Relations

The key management personnel compensation included in the surplus or deficit are as follows:

		Short-term employee benefits	Post employment benefits	Long term employee benefits	
	Number of	Salaries and fees	Superannuation	Long service leave	Total
		$'000	$'000	$'000	$'000
2018					
Total compensation	22	4,388	325	228	4,941
2017					
Total compensation	21	4,181	357	189	4,727

Key management personnel remuneration includes paid short-term employee benefits comprising of salaries and wages, annual leave, sick leave and non-monetary benefits. Also included in remuneration are amounts relating to long-term employee benefits, which have accrued, but not been paid, to the employees during the period such as long-service leave.

24 REMUNERATION OF AUDITORS

	2018 $'000	2017 $'000
Amounts paid or due and payable to Deloitte for:		
- Audit and review of financial statements	105	108
- Audit for grant acquittals	22	22
- Other non-audit services	257	148
Total remuneration of auditors	**384**	**278**

Other non-audit services relate to consulting fees for technology projects including the Technology Architecture & Roadmap Service and the National Contact Centre Network Review.

25 RELATED PARTY DISCLOSURES

Transactions with the Australian Red Cross Society:

During the reporting period, net trading transactions of $1.531 million (2017: $1.625 million) were transacted between the Blood Service and the Society. The transactions largely relate to the Blood Service's occupancy of premises owned by the Society, whereby there are contractual arrangements for the sub-lease of these facilities by the Blood Service. As at 30 June 2018, an aggregate of $0.815 million (2017: $0.772 million) of commitments for minimum lease payments in relation to non-cancellable operating leases are payable to the Society over a 5-year period.

There was no material debt between the Blood Service and the Society at 30 June 2018.

26 FINANCIAL RISK MANAGEMENT

The Blood Service's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign currency risk and price risk), credit risk and liquidity risk. The Blood Service's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Blood Service.

It is the Blood Service's policy that no trading in derivative financial instruments shall be undertaken. The policy also prohibits trading in speculative investments and short-term profit taking. All investments are held to generate additional income and must be classified as 'available-for-sale' or 'held-to-maturity'. The Blood Service policy permits sale of selected investments which are described in the financial statements as 'available-for-sale', when the Blood Service elects to adjust its portfolio in relation to risk exposure and diversification as advised by its investment portfolio managers.

The Executive Director, Finance is responsible for financial risk management, which is carried out by a central treasury function under policies approved by the Board. It is the Blood Service's policy to conduct its banking business, including instruments used to hedge risk, with high credit quality financial institutions.

Fair value estimation

	Notes	2018 $'000	2017 $'000
The Blood Service holds the following financial instruments:			
Financial assets			
Cash - Australian currency		200	185
Cash - foreign currency		21	919
Total cash at bank and on hand		**221**	**1,104**
Bank bills and term deposits		172,692	158,984
Total cash and cash equivalents	**19.2**	**172,913**	**160,088**
Trade and other receivables	6	14,118	13,246
Other financial assets	8	96,146	90,370
Total trade receivables and other financial assets		**110,264**	**103,616**
Total financial assets		**283,177**	**263,704**
Financial liabilities			
Trade and other payables	11	44,726	43,631
Borrowings - finance leases	12	18,233	27,501
Borrowings - loans	12	16,860	22,240
Prepaid government funds	14	100,789	86,037
Other liabilities	15	5,585	5,371
Total financial liabilities		**186,193**	**184,780**

26 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2018 $'000	2017 $'000
Financing facilities available		
At reporting date, the following financing facilities had been negotiated and were available:		
Credit card and travel account	1,150	1,150
Borrowings - finance leases	18,233	27,501
Borrowings - loans	16,860	22,240
Total financing facilities available	**36,243**	**50,891**

	2018 $'000	2017 $'000
Financing facilities unused at reporting date		
Credit card and travel account	480	526
Borrowings - finance leases	-	-
Borrowing - loans	-	-
Total financing facilities unused at reporting date	**480**	**526**

26.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: (i) interest rate risk; (ii) foreign currency risk; and (iii) price risk.

26.1.1 Interest rate risk

The Blood Service has significant interest-bearing financial assets and is exposed to interest rate fluctuations on its investments in bank term deposits. The Blood Service accepts the risk in relation to its financial assets, as the balances held fluctuate in the short-term and are held to generate investment income on unused funds.

The Blood Service's main interest rate exposure on financial liabilities arises from long-term borrowings. The Blood Service's policy is to maintain its long-term borrowings at fixed rates. As at 30 June 2018, all of the Blood Service's borrowings were fixed interest borrowings.

26.1.2 Foreign currency risk

Foreign currency risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The Blood Service treasury policy allows contracts to be negotiated in foreign currency where it is financially more advantageous than negotiating in Australian dollars. The Blood Service either holds appropriate foreign currency balances or uses financial instruments such as forward foreign currency contracts for cash flow hedging purposes; that is, not as trading or speculative instruments. It is Blood Service policy to purchase standard foreign exchange contracts to cover foreign currency liabilities. As at 30 June 2018, the Blood Service did not have any forward exchange contracts. The Blood Service assessed its foreign currencies as at 30 June 2018 and they are as follows:

		2018		2017
	$'000 Foreign currency	$'000 AUD equivalent	$'000 Foreign currency	$'000 AUD equivalent
USD	16	21	734	919
Total		**21**		**919**

The Blood Service has no other foreign currency assets or liabilities.

26.1.3 Price risk

The Blood Service manages the risks associated with its investments in accordance with established and approved governance guidelines and principles set out and approved through the Blood Service Board. Investments are managed at arm's length by independent and fully qualified organisations under an agreed and approved mandate, which stipulates diversification criteria based on asset classes and percentages within the total investment portfolio of each approved class. In addition, part of the risk assessment criteria are benchmarks regarding expected rates of return and ethical overlay restrictions.

26 FINANCIAL RISK MANAGEMENT (CONTINUED)

26.2 Sensitivity analysis

26.2.1 Interest rate sensitivity analysis

The sensitivity analysis below summarises the impact of changes in interest rates for both derivative and non-derivative instruments to the surplus and equity at the end of the reporting period.

26.2.2 Foreign currency risk sensitivity analysis

The Blood Service is mainly exposed to movements in exchange rates relating to US dollars (USD). The analysis below details the Blood Service's sensitivity to a 10% increase or decrease in the Australian dollar against the USD. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translations at the yearend for a 10% change in foreign currency rates.

If the Australian dollar (AUD) had strengthened by 10% against the USD with all other variables held constant, the surplus for the year ended 30 June 2018 would increase by $0.002 million (2017: $0.102 million). Conversely, if the AUD had weakened by 10% against the USD, the surplus for the reporting period would decrease by $0.002 million (2017: $0.083 million).

26.2.3 Equity price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the end of the reporting period.

If the equity prices of available-for-sale Australian equities had been 5% higher or lower:

- the surplus for the year ended 30 June 2018 would have been unaffected as the equity investments are classified as available-for-sale and any increment or decrement in the fair value, with the exception of impairment, is an adjustment to other comprehensive income
- other comprehensive income for the year ended 30 June 2018 would have increased or decreased by $1.342 million (2017: $1.400 million) as a result of the change in the fair value of available-for-sale Australian equities.

26.3 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Blood Service. It arises from cash and cash equivalents, derivative instruments and deposits with financial institutions, as well as credit exposure to customers. For financial institutions, only those that are rated with a minimum BBB+ equivalent Standard & Poor's rating are accepted. In respect of customers, the Blood Service ensures that invoices for products and services are largely made to customers with an appropriate credit history.

There is no significant credit risk with respect to receivables, as the major receivables are from the Commonwealth, State and Territory governments.

The credit quality of financial assets can be assessed by reference to external credit ratings.

	Notes	2018 $'000	2017 $'000
Maximum exposure to credit risk at the reporting date:			
Cash and cash equivalents	19.2	172,913	160,088
Trade and other receivables	6	14,118	13,246
Other financial assets	8	96,146	90,370
Total maximum exposure to credit risk at the reporting date		**283,177**	**263,704**

26.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities and funding arrangements. The Blood Service manages liquidity risk by monitoring forecast cash flows and ensuring that adequate liquid funds are available.

The following table details the Blood Service's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Blood Service can be requested to pay. The table includes principal cash flows only.

26 FINANCIAL RISK MANAGEMENT (CONTINUED)

26.4 Liquidity risk (continued)

Financial liabilities 2018	Notes	Weighted average effective interest rate %	Less than 1 month $'000	1 - 3 months $'000	3 months to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
Non-interest bearing		-	105,934	39,813	704	3,624	1,023	151,098
Fixed loan liability	20.3	8.63	476	947	4,454	10,983	-	16,860
Finance lease liability	20.2.2	7.51	438	884	6,202	10,709	-	18,233
Total financial liabilities			**106,848**	**41,644**	**11,360**	**25,316**	**1,023**	**186,191**
2017								
Non-interest bearing		-	107,461	22,416	628	3,474	1,060	135,039
Fixed loan liability	20.3	8.63	429	862	4,089	16,860	-	22,240
Finance lease liability	20.2.2	7.62	506	1,023	7,739	18,233	-	27,501
Total financial liabilities			**108,396**	**24,301**	**12,456**	**38,567**	**1,060**	**184,780**

Non-derivative financial assets

2018							
Non-interest bearing	-	40,967	-	-	-	-	40,967
Fixed interest rate instruments	2.83	-	161,620	1,417	48,870	19,011	230,918
Variable interest rate instruments	1.58	11,292	-	-	-	-	11,292
Total non-derivative financial assets		**52,259**	**161,620**	**1,417**	**48,870**	**19,011**	**283,177**
2017							
Non-interest bearing	-	41,245	-	-	-	-	41,245
Fixed interest rate instruments	2.68	-	149,000	2,025	33,906	26,440	211,371
Variable interest rate instruments	1.54	11,088	-	-	-	-	11,088
Total non-derivative financial assets		**52,333**	**149,000**	**2,025**	**33,906**	**26,440**	**263,704**

26.5 Fair value measurement

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

BOARD MEMBERS' DECLARATION

In accordance with a resolution of the Board of the Blood Service, I state that:

In the opinion of the Board:

(a) the financial statements and notes of the Blood Service:
  (i) give a true and fair view of the Blood Service's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
  (ii) comply with Australian Accounting Standards and Interpretations, and other requirements of the law; and

(b) there are reasonable grounds to believe that the Blood Service will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Mr James Birch AM
Chair

Melbourne
25 September 2018

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Independent Auditor's Report to the board members of the Australian Red Cross Blood Service

Opinion

We have audited the accompanying financial report of Australian Red Cross Blood Service (the Entity), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and board members declaration as set out on pages 1 to 38.

In our opinion the accompanying financial report presents fairly, in all material respects, the Entity's financial position as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Board Members' are responsible for the other information. The other information comprises the Australian Red Cross Blood Service Annual Report 2017/2018, which is expected to be made available to us after the date of this auditor's report.

When we read the Annual Report 2017/2018 if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and the Board Members for the Financial Report

Management of the Entity is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as management determine is necessary to enable the preparation and fair presentation of the financial report and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so

The Board Members are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 Board Members.

- Conclude on the appropriateness of the management 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management and Board Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Anneke du Toit
Partner
Chartered Accountants
Melbourne, 25 September 2018