
THE
AAF COMPANY
ANNUAL REPORT 2017 - 2018

THE

AAF COMPANY
as Trustee of the

ARMY AMENITIES FUND
and
MESSES TRUST FUND

Annual Report

For the period

1 July 2017 to 30 June 2018

DIRECTORS OF THE
AAF COMPANY
FINANCIAL YEAR 2017-18

Brigadier **L.S. WILTON** (Chair)

*

Brigadier **C. PEARCE**

*

Colonel **M.R. KENNEDY**

*

Colonel **J.A. KING**

*

Colonel **A.R. FIELDING**

*

Warrant Officer **D. SPINKS**

*

Mr **G.E. WARNER**

*

Warrant Officer **D.A. GALLOWAY**

Table of Contents	Page
Directors of the AAF Company	1
Table of Contents	2
Letter to Minister	3
Directors Report	5
Annual Performance Statement	11
Audit Report	15
Certification	
Directors' Declaration	19
Primary financial statements	
Statement of Comprehensive Income	20
Statement of Financial Position	21
Statement of Changes in Equity	22
Cash Flow Statement	23
Overview	
AAF Company	24
Notes	
Financial Performance	
Note 1: Revenue and expenses	25
Note 2: Trusts liabilities and right of indemnity	25
Note 3: Statement of cash flow	25
Note 4: Company limited by guarantee	25
People and Relationships	
Note 5: Key management personnel remuneration	26
Note 6: Related party disclosures	26
Note 7: Remuneration of auditors	27
Managing Uncertainties	
Note 8: Contingent liabilities and contingent assets	27
Other Information	
Note 9: Company details	27

AAF COMPANY

The Hon Darren Chester MP

Dear Minister

The Directors of the AAF Company have the honour to submit their report of operations for the year ended 30 June 2018.

Enabling legislation and responsible Minister

The AAF Company was incorporated on 17 July 1987, to administer the assets of the Army Amenities Fund and the Messes Trust Fund, and is subject to the *Corporations Act 2001*.

The AAF Company operates within the Defence portfolio, reporting to the Minister for Defence Personnel (the Minister), at the date of this report.

Public Governance, Performance and Accountability Act 2013 and Australian Charities and Not-for-profits Commission Act 2012

The AAF Company also complies with the requirements of the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)* and *Not-for-profits Commission Act 2012* with respect to:

- reporting to Minister and Parliament;
- contents of Annual Report;
- audit of the AAF Company's financial statements by the Auditor-General;
- banking and investment powers of authority;
- general policies of the Australian Government; and
- conduct of directors and officers, including the civil consequences of any breach of their duties by the directors and officers.

Statement of Expectations

In a letter to the Chairman of Trustees dated 27 May 2009, the then Minister for Defence Science and Personnel, the Hon Warren Snowdon MP, provided the following Statement of Expectations for the Board's guidance in the performance of its functions:

This Statement of Expectations formally outlines my expectations concerning the operations and performance of the AAF Company.

The Government's vision for the AAF Company is that it will successfully manage, promote and support the Army Amenities Fund and the Messes Trust Fund.

As Chairman, you are to ensure that the AAF Company keeps me, as the Minister for Defence Science and Personnel (the Minister), fully informed of any significant events or issues that may impact on the operations of the AAF Company. All communication provided to me, as the Minister is to be forwarded, in parallel, to Defence.

My expectations for the Board are that it will ensure that the AAF Company will:

1. manage the assets of the identified Trusts in a manner which ensures financial independence and long term viability;

2. encourage continuous improvement practices to maximise opportunities that will ensure its long term viability;
3. in response to this Statement of Expectations, provide the Minister with its Statement of Intent;
4. make both Statements publicly available;
5. provide the Minister with its quarterly and annual financial and compliance reports, with copies to be provided to the Secretary for Defence, the Chief of the Defence Force and the Chief of Army;
6. adopts best practice governance principles and implement risk management strategies as determined by the Commonwealth, as appropriate for the operation of small agencies;
7. identify and manage all actual and perceived conflicts of interest, promptly advising the Minister of any significant issues as they arise; and
8. demonstrate its compliance with appropriate government policy and directions.

Statement of Intent

This statement outlines the Board of Directors of the AAF Company (as trustee of the Army Amenities Fund and the Messes Trust Fund) intent concerning the operations and performance of the AAF Company, as detailed in the Minister's Statement of Expectations.

The Board of Directors, through the Chairman, will also ensure that the Minister is kept fully informed of any significant event or issue that may impact the operations of the AAF Company and all communication provided to the Minister will be forwarded, in parallel, to the Department of Defence.

The Board of Directors of the AAF Company will:

1. manage the assets of the AAF Company in a manner which ensures financial independence and long term sustainability;
2. encourage continuous improvement practices to maximise opportunities that will ensure its long term sustainability;
3. in response to the Statement of Expectations, provides this Statement of Intent and make both statements publicly available;
4. provide the Minister with annual financial and compliance reports, with copies to be provided to the Secretary for Defence, the Chief of the Defence Force and the Chief of Army;
5. adopt best practice governance principles and implement risk management strategies as determined by the Commonwealth, as appropriate for the operation of small agencies;
6. identify and manage all actual and perceived conflicts of interest, promptly advising the Minister of any significant issues as they arise; and
7. demonstrate compliance with appropriate government policy and directions.

DIRECTORS REPORT

Organisational structure

The AAF Company is a Commonwealth Company and is managed by the Board of Directors (the Board), appointed by the Chief of Army and the Chair of the Board. The AAF Company head office is located in Canberra, ACT.

Review of operations and future prospects

Operations comprised the provision of discounted holiday accommodations for Army members, their families and other eligible persons. Also to provide financial support to units to assist in the provision of amenities to Army members.

There have not been any significant activities or changes that have occurred during this reporting period that have significantly affected or may affect the AAF Company operations.

Reviews by outside bodies

The AAF Company financial statements are subject to audit by the Australian National Audit Office.

Significant non-compliance issues with finance law

Section 17AG and 17BE of the PGPA Rule require that Commonwealth entities' annual reports must include a statement of any significant non-compliance issues notified to the responsible Minister under paragraph 19(1)(e) of the *PGPA Act* during the reporting period and outline the actions taken to remedy the non-compliance. There have not been any non-compliance issues in this reporting period.

Board of Directors

All members of the Board are appointed by the Chief of Army or the Chair as set by the Company's Constitution.

- The Board comprises serving members of the Army and a Defence Australian Public Service employee.
- Board members are not entitled to any remuneration.
- Directors are expected to comply with the Conflict of Interest policy and declare any potential conflict according to the policy at the start of each Board meeting.

During 2017-18 the Board met five times including an AGM. These meetings were held in Canberra.

Table 1: Board member's attendance at meetings

Name	Responsibilities	Number of Possible Attendances	Number Actually Attended
Leigh Suzanne Wilton	Chair	5	5
Jocelyn Anne King	Director	5	4
Amanda Ruth Fielding	Director	5	1
Donald Garry Spinks	Director	5#	3
David Alexander Galloway	Director	2#	0
Grant Eric Warner	Director/Chair Audit Committee	5	3
Cheryl Pearce	Director	5	2
Mitch Kennedy	Director	5	5

Resigned during the 2017-18 financial year.

Directors of the AAF Company

Brigadier Leigh Wilton graduated from the Royal Military College, Duntroon, to the Royal Australian Army Ordnance Corps (RAAOC) in 1991. Her early appointments included regimental and staff positions as a supply officer, and as a project manager involved in the enhancement of the Standard Defence Supply System.

Brigadier Wilton's command experience includes a posting as the Officer Commanding Supply Company, 7th Combat Service Support Battalion and, being appointed as the inaugural Commanding Officer/Chief Instructor of the Army School of Ordnance.

Brigadier Wilton has held a range of staff appointments at both Lieutenant Colonel and Colonel. She has held positions as the Senior Officer Manager within the Career Management Agency, Directing Staff at both the Australian Command and Staff College (ACSC) and the Centre for Defence and Strategic Studies (CDSS), and as the Chief of Staff for Headquarters 633 – Afghanistan, and Chief of Staff for Army Headquarters.

Brigadier Wilton is a graduate of ACSC and CDSS. She holds a Master of Arts in Strategic Studies, a Masters of Management, a Bachelor of Business and a Graduate Diploma in Information Systems. Brigadier Wilton has also completed the Australian Institute of Company Directors Course.

Brigadier Wilton was appointed as the Director General Personnel – Army in 2016. In this role she also holds the appointment as Deputy Head Army People, and was recently recognised for her work by being awarded the Member of the Order of Australia (AM) on the Queen's Birthday 2018.

Brigadier Cheryl Pearce was born in Loxton South Australia and graduated from the Officer Cadet School Portsea in December 1985, commissioning into the Royal Australian Corps of Military Police. Brigadier Pearce's regimental service includes command appointments within both the operational and domestic environment. During the period 2003 to 2006 Brigadier Pearce commanded the Defence Police Training Centre (2003) and 1st Military Police Battalion (2004-2006) and was appointed as a Member of the Order of Australia for exceptional Service during her four year command tenure.

Staff appointments include experience within Headquarters 1st Brigade, G3 Branch Land Headquarters, Staff Officer Commandant Australian Defence Force Academy, Provost Marshal-Army, Directing Staff Australian Command and Staff College, Director Network Centric Warfare Capability Development Group, Director Special Operation Support and Chief of Staff Army Headquarters. Brigadier Pearce also holds the Military Police Head of Corps appointment.

Brigadier Pearce's operational experience includes working as part of the United Nations in East Timor (2002) where she was awarded a Chief of Defence Force Commendation for bravery and her most recent appointment as Commander Task Group Afghanistan (2016).

Brigadier Pearce attended the Australian Command and Staff College in 2001 and Higher Defence College in 2013. Her post-graduate qualifications include a Graduate Diploma of Management in Defence Studies from the University of Canberra, Masters of Intelligence, Policing and Counter Terrorism from Macquarie University and a Masters of Arts (Defence Studies) from Deakin University. Brigadier Pearce has also participated in a number of short courses including the Australian Institute of Company Directors Course, Harvard Leadership Program, and the Commander Joint Task Force Seminar.

Colonel Jocelyn King has served in the Australian Army since 1990 and is currently appointed as the Director or Soldier Career Management-Army within the Career Management Agency. She joined the Australian Regular Army in 1995, following a period of service as an Army Reservist while completing university studies in Western Australia. She graduated from the Royal Military College into the Royal Australian Army Medical Corps in 1996.

Throughout her career, Colonel King has completed a broad range of regimental, administrative and training appointments. She has worked in health and logistic units, as well as completing staff officer roles at the Australian Defence College and Army Headquarters. She completed Australian Command and Staff College in 2008 and unit command as the Commanding Officer of the Army School of Health from 2011-2013.

Colonel King's operational service has included deployments to Operations MAZURKA, SOLOMON ASSIST and SLIPPER. She was awarded a DCJOPS Commendation for her role as Officer-in-Charge of the Army Health Team that responded to the Solomon Islands Tsunami in 2007. For her work as the Deputy CJ4 and Deputy Support on the US-led Headquarters Regional Command-South (Afghanistan) in 2014, she was awarded the NATO Meritorious Service Medal.

Colonel King holds a Bachelor of Arts (Law and Industrial Relations) from the University of Western Australia, a Master of Management Studies (Human Resource Management) from the University of New South Wales and a Master of Arts (Strategy and Management) from the University of New South Wales.

Colonel Amanda Fielding has been in the Australian Regular Army for 25 years having trained at both the Australian Defence Force Academy and the Royal Military College of Australia. The majority of her career has been spent in supply and logistics appointments, mainly in combat service support units, supporting the Australian Army's 3rd Brigade. She has also worked as a Logistic Planner at Headquarters Joint Operations Command and as the Chief of the ISAF Redeployment Cell in Afghanistan.

She has personnel policy and training experience, having spent time working at Defence Force Recruiting, as an instructor at the Royal Military College - Australia and in Army career management. She has also assisted in facilitating Flexible Work Arrangements workshops for the Australian Regular Army and she has completed the Australian Chief Executive Women's Program. Her command experience includes time as a Platoon Commander, Officer Commanding and most recently as the Commanding Officer and Chief Instructor of the Army School of Ordnance. While in command, she also undertook the duties of the Deputy Head of Corps for the Royal Australian Army Ordnance Corps.

COL Fielding has operational experience in East Timor, Iraq and Afghanistan. She has recently completed her second tour of Afghanistan, this time as the Senior Gender Advisor for the NATO led Resolute Support Mission, working directly to Commander Resolute

Support. COL Fielding currently works as the Gender Advisor to the Australian Defence Force's, Chief of Joint Operations.

She has a Bachelor of Arts majoring in Politics and Geography and a Master of Arts in Strategic Policy and Management.

Colonel Michael (Mitch) Kennedy was born in Hong Kong and educated in the United Kingdom. After graduating from university he attended the Royal Military Academy Sandhurst and was commissioned into the British Army in 1991, serving in the United Kingdom, Denmark, Norway, Kenya, Canada and Germany. Colonel Kennedy migrated to Australia in 1997 and was appointed into the Australian Army. As a junior officer Colonel Kennedy enjoyed regimental service with 1st and 4th Field Regiments, Royal Australian Artillery in Brisbane and Townsville respectively.

Notable postings include Career Adviser Artillery and Military Police at the Directorate of Officer Career Management - Army, SO1 Workforce Plans within Personnel Branch-Army and SO1 Joint Fires - Army within Development and Plans Branch-Army. Colonel Kennedy's command appointment was as the Commanding Officer and Chief Instructor of the School of Artillery. On promotion to his current rank, Colonel Kennedy was appointed as the Deputy Chief of Staff for Army Headquarters responsible for the management of Army's serious, sensitive and complex issues. He has also served as Army's Director Personnel Policy and Director Workforce Strategy. Colonel Kennedy's current appointment is the Director Career Management Integration - Army.

Colonel Kennedy's operational service includes a deployment with the British Army on an emergency tour to Northern Ireland, deployment to East Timor as the Officer Commanding Civil Military Affairs for AUSBATT VIII, and deployment to Afghanistan as the Chief of Staff Headquarters Deputy Commander Joint Task Force 633 - Afghanistan.

Colonel Kennedy holds a Bachelor of Arts (with Honours) majoring in English and Modern History, and a Masters of Management in Defence Studies. For his service in East Timor Colonel Kennedy was awarded a Commander Australian Theatre Commendation.

Warrant Officer Donald Garry Spinks, OAM, was born, raised and educated in the Upper Hunter Valley, New South Wales. He enlisted in the Australian Regular Army in January 1979. Warrant Officer Spinks' Regimental Sergeant Major appointments include the 2nd Cavalry Regiment, Multi National Force and Observers - Sinai Egypt in 2004, Royal Australian Armoured Corps, 1st Brigade in 2008-2009 and Joint Task Force 633 on Operation Slipper in 2010. In 2011, he was appointed Command Sergeant Major Forces Command - Army. In January 2007 he was awarded the Medal for the Order of Australia for meritorious service to the Royal Australian Armoured Corps and to the Multi-National Force and Observers - Sinai. He commenced his appointment as the 10th Regimental Sergeant Major of the Australian Army on 9 July 2015.

He is a graduate of the Australian Institute of Company Directors 2015 (Not for Profit Course). Throughout his military career he has held numerous committee appointments for Army Messes, to include President of the 1st Brigade Sergeant Mess on two occasions.

Warrant Officer Class One David Galloway has served in the Royal Australian Infantry Corps since his enlistment in the Australian Regular Army in 1982. His service in the Royal Australian Regiment has been with the 8th/9th, 2nd/4th, and the 2nd Battalions. He has also served with the North West Mobile Force, the 5th/6th Battalion the Royal Victoria Regiment, and the 51st Battalion the Far North Queensland Regiment. Warrant Officer Galloway has instructed recruits at the First Recruit Training Battalion; soldiers on promotion courses for Corporal and Sergeant; Officers at the Officer Cadet School of New Zealand, and United

States Marines in Twenty Nine Palms, California. He has also completed the Foundation Studies and Single Service component of the Australian Command and Staff College.

Warrant Officer Galloway has deployed on Active Service to Rwanda, East Timor, and Afghanistan. In January 2015 he was appointed as the Command Sergeant Major of Forces Command in Sydney.

Mr Grant Warner has worked in Commonwealth Departments as an Australian Public Servant since 1990 and has been with the Department of Defence since 2003. Mr Warner is currently the Deputy Director Financial Management -Army. Prior to his current role, Mr Warner was the Deputy Director Asset Accounting (Defence Materiel Organisation) from 2003 to 2006. Mr Warner has worked in financial accounting and reporting roles in the Australian Customs Service, Department of Immigration and Multicultural Affairs, Department of the Parliamentary Library and the Australian National Audit Office

In January 2016 Mr Warner became a Director and member of the AAF Company and chaired the Audit Committee. Grant has a Bachelor of Arts and Graduate Diploma of Accounting from the University of South Australia and is a member of CPA Australia.

Audit Committee

The AAF Company has established an Audit Committee in accordance with the *PGPA Act*. The primary objectives of the Audit Committee are:

- improving the effectiveness and efficiency of the Company's internal control framework;
- ensuring that the Company has appropriate risk identification and management practices in place;
- improving the objectivity and reliability of financial reporting;
- ensuring that the Company has adequate procedures on matters of audit independence; and
- assisting the Board to comply with all governance and other obligations.

Freedom of Information (FOI)

There have not been any FOI enquiries were received during the reporting period. Requests for access to AAF Company documents should be directed to the Board of Directors of the AAF Company.

Indemnities and insurance premiums for officers

The AAF Company has coverage with COMCOVER for Association Liability Insurance. The premium for financial year 2017-18 was \$2,419.88 (GST exclusive) and was paid by the Trusts. Where applicable, the insurance cover is provided for all Directors, staff and contractors. No indemnity has been provided to an officer against any potential liability for legal costs.

Risk management and fraud control

The Directors have established a Risk Management and Fraud Control Plan in line with the Commonwealth's endeavours to make risk management an integral part of everyday business practice. The AAF Company does not receive any funding from the Commonwealth and therefore not to apply the promulgated Commonwealth Risk Management Policy. However, the Directors have adopted the Guidelines as best practice standards for fraud control and have implemented fraud control arrangements commensurate with the AAF Company's activities.

Protective security

The Directors have developed and implemented a security plan that is appropriate to the AAF Company functions and security risks.

Work Health and Safety (WH&S)

Staff supporting the operations of the AAF Company are employed by the Commonwealth - Department of Defence and, as such, fall within the policies and procedures of the Department for WH&S purposes.

Related party and entity transactions

There were no related party and entity transactions to be separately disclosed during the financial year.

CONCLUSION

The Directors are responsible under the *PGPA Act 2013* for the preparation and content of the report of operations in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*. This report of operations is made in accordance with a resolution of the Directors and is signed for and on behalf of the Directors.



L.S. WILTON
Chair and Director

// September 2018

ANNUAL PERFORMANCE STATEMENT 2017-18

Introductory statement

We, the Board of Directors of the AAF Company, as the accountable authority of the Trust Funds present the Company's Annual Performance Statement 2017-18. The reporting of the actual performance of the Company, in the annual report against the planned performance information outlined in its corporate plan is an important part of the the Commonwealth's performance framework, established under the *PGPA Act 2013*.

Purpose

The purpose outlined in the AAF Company Corporate Plan 2017-18 is to provide amenity and related services to Army members and their families not normally provided at Departmental level. It is achieved through amenity grants, loans, affordable holiday accommodations, and sound financial investment for self sustainment.

Results

Amenity related services

<p><i>Performance criterion</i> Provide financial assistance through a loan or grant to fund unit amenity initiatives not normally provided at a Departmental level.</p>
<p><i>Criterion source</i> Corporate Plan 2017-18. Activity 1</p>
<p><i>Results against performance criterion</i></p> <ol style="list-style-type: none"> During the reporting period Army Amenities Fund sponsored 12 grant bids from units totalling \$46,083. The grants ranged from \$455 up to \$7,000 and overall were well within available funds. The new website launched in June 2017 has promoted the availability of amenity funding and resulted in an increase in grant funding. For this reporting period funds have been used to help sponsor the amenity costs for sporting and adventure training activities, purchase of new social club equipment, set up costs for a Welfare Hub and sponsorship support for four events attended by Army members and their families.

Holiday facilities

<i>Performance criterion</i> Provide below market price quality accommodation for Army members and eligible persons through owned holiday properties.			
<i>Criterion source</i> Corporate Plan 2017-18. Activity 2			
<i>Results against performance criterion</i>			
<ol style="list-style-type: none"> Holiday facilities profile met its goal with book valuations that reflect a sound property investment profile. The purchase of a second property at Docklands for \$859,487 and the asset fair value increased as at 30 June of \$230,000. For buildings the total book value of the portfolio has increased to \$5,534,487. Tariff rates were reviewed and found to be under the 75% commercial rate criteria. The Board agreed to increase rates for 2018-19 reporting period. Overall the property portfolio is to achieve an annual cash break even or better outcome. For 2017-18 reporting period a total cash loss (excluding depreciation) of \$9,632 was reported (2016-17 profit \$19,222). The loss was due to the additional cost for preparing the new Docklands property for rental and some much needed repairs for Goolwa property. The next reporting period it is expected the property portfolio will be back in profit. Occupancy levels during the reporting period have underachieved their targets. Coogee's drop in occupancy against its target didn't have a negative impact on its financial outcome. Goolwa's major wet area renovations reduced availability for each property for up to a month. Docklands second property was purchased in December and its slow start with bookings has distorted the overall occupancy percentage for the second half of this period. The Army occupancy level continues to be higher for Coogee and Docklands compared to other Services or eligible persons. Goolwa's Army occupancy level increased this reporting period however retired member's usage of 35% remains high. Total occupancy days of 1,367 were down from 1,388 in 2016-17. 			
Location	Target occupancy %	Actual occupancy %	Army occupancy %
Coogee	65	59	56
Goolwa	60	53	25
Docklands	80	67	63
<ol style="list-style-type: none"> Bookings during this reporting period numbered 413 (44% Army) compared to 375 (33% Army) in 2016-17. Army has the highest level of bookings compared to other services, civilians and retired/others at Coogee 50% and Docklands 58%. While Goolwa Army bookings increased to 23% from 17% in 2016-17. 			

Financial Investment

Performance criterion

Conduct sound financial investment strategies that ensures sufficient capital is available to meet the operational goals and the Trusts remain self-sustaining.

Criterion source

Corporate Plan 2017-18. Activity 3

Results against performance criterion

1. The Company's (as trustee for the Army Amenity Funds) investment portfolio currently totals \$8,715,948. Over this reporting period \$1,100,000 was withdrawn for a property purchase and operating expenses, which has partly been offset by a \$757,019 increase in growth. Operational goals have been met and income generated from the investment portfolio will ensure available cash for future years of operation.
 - a) The investment strategy is to invest according to a balanced profile; 70% growth and 30% defensive with a tolerance of +/- 2%. During the reporting period the growth component increased beyond the + 2% and the Board discussed options and moved funds to bring the portfolio back to balanced.
 - b) The 'Administrative' component of the investment portfolio is to generate sufficient income to fund 'normal' operations. \$700,000 was withdrawn for operations and \$175,000 has been transferred from Fiducian portfolio to cover future operational withdrawals. Asgard's growth this reporting period of \$35,417 equates to an annual net return of 2.8% which exceeds inflation of 2.1% by 0.7%.
 - c) 'Growth' component is expected to generate a positive return and is to be invested at the direction of the Board. \$400,000 was withdrawn for operations and \$175,000 was transferred to Asgard. During this reporting period Fiducian's growth was \$721,602 which equates to an annual net return of 10.8% which exceeds inflation of 2.1% by 8.7%.
2. The Company's (as trustee for the Messes Trust Fund) term deposit provided an interest return of \$15,018 at this reporting period. Total deposit balance is \$637,980 as at 30 June 2018.

Analysis of performance against purpose

The purpose of providing an affordable holiday accommodation to Army and other eligible persons has been the primary activity for the reporting period. In November 2017 an additional apartment was purchased at Docklands in Melbourne, in recognition for the high demand for the existing apartment. This strategic decision was able to be funded by the high growth in the investment portfolio over recent years. The overall property portfolio has once again reported an annual asset growth. Repairs and maintenance have been addressed and a focus on marketing in 2018-19 will see occupancy levels improve.

The purpose of providing Army Amenities Fund grants now has greater visibility since the new website was launched in June 2017, which contributed to an increase in numbers. An increased focus on grants is planned by the Board for 2018-19 and future years, this has been costed and will not impact on the Fund's sustainability.

The Messes Trust Fund was non-operational in this reporting period and its closure will be explored in 2018-19.

Other contributing factors that have enabled the performance of the Company to achieve its purpose as set out in its Corporate Plan 2017-18 are:-

- a. strategic direction and decisions of the Board, and the oversight of the Audit Committee;
- b. the delivery of its activities through the secretariat's management of operations ensured;
- c. self-sustainment achieved through investment portfolio continuing to generate growth to cover annual operational costs with reserves for the future needs of the Trusts;
- d. the environment that the Company as the trustee operates in has not experienced any changes that would significantly impact on operations; and
- e. the ability to mitigate any risk during the reporting period.



L.S. WILTON
Chair and Director

// September 2018

THE
AAF COMPANY
ANNUAL REPORT 2017 - 2018



INDEPENDENT AUDITOR'S REPORT

Minister for Defence Personnel

Opinion

In my opinion, the financial report of AAF Company for the year ended 30 June 2018 is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of AAF Company's financial position as at 30 June 2018 and of its performance for the year then ended; and
- (b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

The financial report of AAF Company, which I have audited, comprises the following statements as at 30 June 2018 and for the year then ended:

- Directors' Declaration;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to and forming part of the financial statements, comprising an Overview, Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of AAF Company in accordance with the *Corporations Act 2001* and the relevant ethical requirements for financial report audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code.

I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of AAF Company, would be in the same terms if given to the directors as at the time of this auditor's report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is the annual report for the year ended 30 June 2018 but does not include the financial statements and my auditor's report thereon.

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

In connection with my audit of the financial report, my 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 my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Directors' Responsibility for the Financial Report

The directors of AAF Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing AAF Company'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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objective is 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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

- Identify and assess the risks of material misstatement of the financial 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 my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- 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.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Australian National Audit Office



Garry Sutherland

Audit Principal
Delegate of the Auditor-General
Canberra

11 September 2018



Brigadier L.S. Wilton
Chair of the Board of Directors
AAF Company
Russell Offices
PO Box 7901
CANBERRA ACT 2601

**AAF COMPANY FINANCIAL REPORT 2017-18
AUDITOR'S INDEPENDENCE DECLARATION**

In relation to my audit of the financial report of the AAF Company for the year ended 30 June 2018, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contravention of any applicable code of professional conduct.

Australian National Audit Office

Garry Sutherland
Audit Principal

Delegate of the Auditor-General

Canberra

11 September 2018

AAF Company

ABN 82 008 629 490

DIRECTORS' DECLARATION

The Directors of the AAF Company declare that:

- 1 The financial statements and notes, as set out in the financial report:
 - (a) comply with Australian Accounting Standards - Reduced Disclosure Requirement (including Australian Accounting Interpretations) and the *Corporations Act 2001*; and
 - (b) give a true and fair view of the financial position as at 30 June 2018 and performance for the year ended on that date for the Company.
- 2 In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors of the Company.



L.S. WILTON
Chair and Director

// September 2018

AAF Company
Statement of Comprehensive Income
for the year ended 30 June 2018

	Notes		AAF Company	
			2018	2017
			\$	\$
NET COST OF OPERATIONS				
Expenses				
Total expenses			-	-
Own-Source revenue				
Total own-source revenue			-	-
Net (cost of) / contribution by operations			-	-
Total comprehensive income for the year			-	-

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

AAF Company
Statement of Financial Position
as at 30 June 2018

	Notes	AAF Company	
		2018 \$	2017 \$
ASSETS			
Financial assets			
Cash and cash equivalents		-	-
Total financial assets		-	-
Non-financial assets			
Total non-financial assets		-	-
Total assets		-	-
LIABILITIES			
Payables		-	-
Total liabilities		-	-
Net assets		-	-
EQUITY			
Retained surplus		-	-
Total equity		-	-

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

AAF Company
Statement of Changes in Equity
for the year ended 30 June 2018

	Retained earnings	Financial Asset Reserves	Total Equity
Balance at 01 July 2017	-	-	-
	-	-	-
Comprehensive income: attributed to members of the Company	-	-	-
Total comprehensive income	-	-	-
Balance at 30 June 2018	-	-	-

for the year ended 30 June 2017

	Retained earnings	Financial Asset Reserves	Total Equity
Balance at 01 July 2016	-	-	-
	-	-	-
Other comprehensive income			
Revaluation of assets	-	-	-
Profit/(loss) for the year	-	-	-
Total comprehensive income	-	-	-
Balance as at 30 June 2017	-	-	-

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

AAF Company
Cash Flow Statement

for the year ended 30 June 2018

	AAF Company	
	2018	2017
	\$	\$
OPERATING ACTIVITIES		
Cash received	-	-
Cash used	-	-
Net cash from / (used by) operating activities	-	-
INVESTING ACTIVITIES		
Cash received	-	-
Cash used	-	-
Net cash from /(used by) investing activities	-	-
Net increase in cash held	-	-
Cash and cash equivalents at the beginning of the reporting period	-	-
Cash and cash equivalents at the end of the reporting period	-	-

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

Overview

The financial statements are for the entity AAF Company (the Company) as an individual entity. The Company is a company limited by guarantee, subject to the *Corporations Act 2001* and domiciled in Australia. It is registered as a charity with the Australian Charities and Not-for-profit Commission.

The sole activity of the Company is to act as the trustee for the Army Amenities Fund and Messes Trust Fund.

Basis of preparation

Under the *Corporations Act 2001* the Company is required to produce financial statements. The financial statements are general purpose financial statements.

The financial statements have been prepared in accordance with:

- a. Australian Accounting Standards and Interpretations – Reduced Disclosure Requirements issued by the Australian Accounting Standards Board that apply for the reporting period.

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

New Accounting Standards

Adoption of New Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

All new /revised/amending standards and/or interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a material effect on the AAF Company's financial statements.

Future Australian Accounting Standard Requirements

All new/revised/amending standards and/or interpretations that were issued prior to the sign-off date and are applicable to the future reporting period(s) are not expected to have a future material impact on the AAF Company's financial statements.

Taxation

The AAF Company is Income Tax exempt but not exempt from Fringe Benefits Tax and the Goods and Services Tax.

Events after the reporting period

There was no subsequent event that had the potential to significantly affect the ongoing structure and financial activities of the AAF Company.

AAF Company

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2018***Financial Performance**

This section analyses the financial performance of the AAF Company for the year ended 2017 -18

Note 1: Revenue and expense

The Company acts solely as trustee of the Trusts and does not carry on any business activity on its own behalf during the current year or the preceding year. Therefore, there are no revenues or expenses in relation to the Company during the current or preceding financial year.

Note 2: Trust liabilities and right of indemnity

The Company acts solely as trustee of the Trusts and liabilities have been incurred on behalf of the Trusts in the Company's capacity as corporate trustee.

Liabilities incurred on behalf of the Trusts are not recognised in the financial report when it is not probable that the Company will have to meet any of the Trusts liabilities from its own resources. If the Company becomes obliged to meet Trusts liabilities, the trustee has a right to be indemnified from Trusts assets. If it is probable that there will be a deficiency in Trusts assets, a liability is recognised by the Company to the extent of that deficiency.

Liabilities of the Trusts were not recorded in the financial statement of the Company were:

	2018	2017
	\$	\$
LIABILITIES - Army Amenities Fund		
Payables		
Trade payables	32,839	31,034
Other payables	9,647	290,711
Total payables	<u>42,486</u>	<u>321,745</u>
Provisions		
Employee Provisions	12,729	10,236
Total provisions	<u>12,729</u>	<u>10,236</u>
Total liabilities	<u>55,215</u>	<u>331,981</u>
	2018	2017
	\$	\$
LIABILITIES - Messes Trust Fund		
Payables		
Trade payables	-	-
Total liabilities	<u>-</u>	<u>-</u>

The assets of the Trusts, which lie behind the right of indemnity, are not directly available to meet any liability of the Company acting in its own right. The assets of the Trusts with \$15.059m were sufficient to discharge all liabilities of the Trusts as at 30 June 2018 (\$14.566m as at 30 June 2017).

Note 3: Statement of cash flows

The Company acts solely as Trustee of the Trusts and does not carry on any business activity on its own behalf during the current or preceding financial year. Therefore, there are no cash flows in relation to the Company during the current or preceding financial year. All movements in assets and liabilities relate to the Trusts and are not cash flows of the Company.

Note 4: Company limited by guarantee

The AAF Company is a company limited by guarantee and by its constitution, members' liability is restricted to \$100 per member. As of 30 June 2018, the Company had eight members (2017 nine members)

AAF Company

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 30 June 2018***People and relationships**

This section describes our relationship with other key people

Note 5: Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

The Directors of the AAF Company during the financial year are as follows:

		Appointed	Resigned
Donald Garry Spinks	Army Officer	9 July 2015	29 June 2018
Leigh Suzanne Wilton	Army Officer	15 February 2016	
David Alexander Galloway	Army Officer	27 January 2016	3 February 2018
Grant Eric Warner	Public Servant	27 January 2016	
Jocelyn Anne King	Army Officer	16 June 2016	
Amanda Ruth Fielding	Army Officer	20 June 2016	
Cheryl Pearce	Army Officer	29 March 2017	
Michael Kennedy	Army Officer	5 May 2017	

Directors act in an honorary capacity therefore no income was received, due or receivable by any directors of the AAF Company during the financial year 2017-18:

- a. from the AAF Company or any related party in connection with the management of the AAF Company, or
- b. from the AAF Company in connection with the management of a related party.

Note 6: Related party disclosures**Related party relationships:**

The entity is an Australian Government controlled entity. Related parties to this entity are Army Amenities Fund, Messes Trust Fund, key management personnel including the executives, Chief of Army, the responsible Minister and other Australian Government entities.

Transactions with related parties:

Significant transactions with related parties can include:

- the payments of grants or loans;
- purchases of goods and services;
- asset purchases;
- debts forgiven; and
- guarantees.

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

AAF Company

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Note 7: Remuneration of auditors

	2018	2017
	\$	\$
Fair Value of the services provided		
Financial statement audit services	6,000	10,000
Total	6,000	10,000

The auditors remuneration for the AAF Company is covered by the Army Amenities Fund

Managing uncertainties

This section analyses how the AAF Company manages financial risks within its operating environment.

Note 8: Contingent Liabilities and Contingent Assets**Quantifiable Contingencies**

The AAF Company had no quantifiable contingencies as at 30 June 2018 (2017: nil).

Unquantifiable Contingencies

The AAF Company had no unquantifiable contingencies as at 30 June 2018 (2017: nil).

Accounting Policy

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

Other information**Note 9: Company details**

The principal place of business for the AAF Company is :

AAF Company
C/O Army Headquarters
PO Box 7901
CANBERRA BC ACT 2610

Email: AHQ.ARTF@defence.gov.au

