

Australian Defence Force Superannuation Scheme (ABN 90 302 247 344)

Statement by the Trustee of the Australian Defence Force Superannuation Scheme ('Scheme')

The Board of Directors hereby states that in its opinion:

- (a) The accompanying financial statements are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2018 and the financial performance, changes in equity, changes in member benefits and cash flows of the Scheme for the year ended on that date;
- (b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;
- (c) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;
- (d) the financial statements have been prepared based on properly maintained financial records; and
- (e) the operations of the Scheme were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011*, the *Australian Defence Force Superannuation Act 2015*, the Trust Deed establishing the Scheme, the requirements of the *Superannuation Industry (Supervision) Act 1993* and regulations, and the relevant requirements of the *Corporations Act 2001* and regulations (to the extent applicable).

Signed this 24th day of September 2018 in accordance with a resolution of directors of Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Scheme.

Patricia Cross
Chair

Margaret Staib
Director

Australian Defence Force Superannuation Scheme
Statement of Financial Position
As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
Assets			
Cash and cash equivalents		11 478	4 404
Other receivables	4	24	9
Investments in pooled superannuation trust	5	124 812	33 330
Total assets		136 314	37 743
Liabilities			
Benefits payable		(9)	(3)
Income tax payable		(10 899)	(4 071)
Other payables	8	(94)	(48)
Total liabilities excluding member benefits		(11 002)	(4 122)
Net assets available for member benefits		125 312	33 621
Defined contribution member liabilities			
Allocated to members	10	(124 555)	(33 343)
Unallocated to members	10	(757)	(278)
Total defined contribution member liabilities		(125 312)	(33 621)
Net assets		-	-
Equity			
Total equity		-	-

The attached notes form part of these financial statements.

**Australian Defence Force Superannuation Scheme
Income Statement
For the Financial Year Ended 30 June 2018**

	Note	2018	2017
		\$'000	\$'000
Investment revenue			
Interest		97	23
Changes in fair value of investments	6c	6 092	749
Total revenue		6 189	772
Other administration expenses		(403)	(117)
Total expenses		(403)	(117)
Operating results		5 786	655
Net benefits allocated to members' accounts		(5 832)	(669)
Operating result before income tax benefit		(46)	(14)
Income tax benefit	9a	46	14
Operating result after income tax benefit		-	-

The attached notes form part of these financial statements.

**Australian Defence Force Superannuation Scheme
Statement of Changes in Member Benefits
For the Financial Year Ended 30 June 2018**

	Note	2018 \$'000	2017 \$'000
Opening balance of member benefits allocated at the beginning of the financial year		33 343	-
Contributions:			
Member contributions	7a	1 573	667
Employer contributions	7a	72 460	27 121
Transfers from other funds	7a	25 377	9 618
Government co-contributions	7a	74	-
Low income superannuation contributions	7a	595	-
Income tax on contributions	9b	<u>(10 997)</u>	<u>(4 085)</u>
Net after tax contributions		89 082	33 321
 Benefits to members	 7b	 (3 223)	 (369)
 Net benefits allocated to members' accounts		 5 832	 669
Net (decrease) in amounts not yet allocated to members' accounts		(479)	(278)
Closing balance of member benefits allocated at the end of the financial year		124 555	33 343

The attached notes form part of these financial statements.

**Australian Defence Force Superannuation Scheme
Statement of Changes in Equity
For the Financial Year Ended 30 June 2018**

	Total equity \$'000
Opening balance as at 1 July 2016	-
Operating result	-
Net transfers to / (from) reserves	-
Closing balance as at 30 June 2017	<u>-</u>
Opening balance as at 1 July 2017	-
Operating result	-
Net transfers to / (from) reserves	-
Closing balance as at 30 June 2018	<u>-</u>

The attached notes form part of these financial statements.

**Australian Defence Force Superannuation Scheme
Statement of Cash Flows
For the Year Ended 30 June 2018**

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Interest received		89	19
Other administration expenses paid		(388)	(75)
Income tax benefit received		14	-
Net cash (outflows) from operating activities	11b	<u>(285)</u>	<u>(56)</u>
Cash flows from investing activities			
Purchase of investments		(86 993)	(32 763)
Proceeds from sale of investments		1 603	183
Net cash (outflows) from investing activities		<u>(85 390)</u>	<u>(32 580)</u>
Cash flows from financing activities			
Contributions received			
Employer		72 484	27 121
Member		1 573	667
Transfers from other funds		25 377	9 618
Government co-contributions		74	-
Low income superannuation tax offset		595	-
Income tax paid on contributions		(4 137)	-
Benefits paid		(3 217)	(366)
Net cash inflows from financing activities		<u>92 749</u>	<u>37 040</u>
Net increase in cash held		7 074	4 404
Cash at the beginning of the financial year		4 404	-
Cash at the end of the financial year	11a	<u>11 478</u>	<u>4 404</u>

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

1. DESCRIPTION OF THE SCHEME

The Australian Defence Force Scheme ('Scheme') is a defined contribution scheme constituted by Trust Deed dated 17 September 2015 under the *Australian Defence Force Superannuation Act 2015* and is domiciled in Australia. The Trustee of the Scheme is the Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243).

The principal place of business and registered office of the Scheme is 7 London Circuit, Canberra, ACT 2601.

The Scheme was established on 1 July 2016 for members of the Australian Defence Force, together with a new invalidity scheme, the Australian Defence Force Cover Scheme.

Contributions of the employer and the employees are made in accordance with the terms of the Trust Deed. The members' accounts are credited or debited each year with contributions and their proportionate share of the net investment income, expenses and income tax expense of the Scheme.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of the Scheme is a general purpose financial report which has been prepared in accordance with Accounting Standards and Interpretations and the *Superannuation Industry (Supervision) Act 1993*. For the purposes of preparing financial statements, the Scheme is a not-for-profit entity.

The form of these financial statements has been agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011*.

The financial statements of the Scheme were authorised for issue by the Directors of the Trustee on 24 September 2018.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no significant impact on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the disclosures or amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard / Interpretation	Effective for annual reporting periods
AASB 1048 'Interpretation of Standards'	ending on or after 31 December 2017
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	beginning on or after 1 January 2017
AASB 2016-7 'Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities'	beginning on or after 1 January 2017

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards in issue but not yet effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Scheme were in issue but not yet effective. The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Scheme.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending after
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards - Effective Date of AASB 15', and AASB 2016-3 'Amendments to Australian Accounting Standards - Clarifications to AASB 15'	1 January 2018	30 June 2019
AASB 1058 'Income of Not-for-Profit Entities'	1 January 2019	30 June 2020
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities '	1 January 2019	30 June 2020
AASB 2017-4 'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'	1 January 2019	30 June 2020
AASB 2017-6 'Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation'	1 January 2019	30 June 2020
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128', AASB 2017-5 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.'	1 January 2019	30 June 2020

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

(b) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional currency of the Scheme.

Amounts in these financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

(c) Use of judgements and estimates

In the application of Accounting Standards, 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 associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. 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 Accounting Standards that have significant effects on the financial statements, and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2018 and the comparative information presented in these financial statements for the year ended 30 June 2017. Where necessary, disclosures of comparative numbers have been restated to be consistent with the current period.

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash at bank used to transact member and employer contributions, transfers to and from other funds, benefit payments and tax liabilities.

(b) Financial assets

Financial assets (being investments in a pooled superannuation trust, cash at bank and other receivables) are recognised on the date the Scheme becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. After initial measurement, any gains and losses from changes in fair value are recognised in the Income Statement.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair values have been determined as follows:

- (i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the fair value of the underlying investments.
- (ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Foreign Currency Transactions

The Scheme does not undertake transactions denominated in foreign currencies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Payables

Payables (being other payables and benefits payable) are recognised at their nominal value which is equivalent to fair value.

Other payables

Other payables represent liabilities for services provided to the Scheme during the financial period and which are unpaid at reporting date. All amounts are unsecured. Creditors are subject to normal credit terms.

Benefits payable

Benefits payable to a member are recognised where a valid withdrawal notice has been received from the employer sponsor, and approved, but payment has not been made by reporting date.

(e) Defined contribution member liabilities

Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date (Note 10).

(f) Contributions

Employer and member contributions, transfers from other funds, superannuation co-contributions and low income superannuation contributions from the Commonwealth Government are recognised when there is a right to receive the contribution.

(g) Operational risk reserve

The Scheme's operational risk reserve (ORR) is held as Trustee Capital in the financial statements of the Trustee. The purpose of the ORR is to provide adequate financial resources to address potential losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Scheme.

(h) Derivatives

The Scheme does not directly enter into derivative financial instruments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues are recognised as follows:

Investment revenue

Interest revenue is recognised on an accrual basis.

Changes in the fair value of investments are recognised as income and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

(j) Expenses

Expenses are recognised on an accruals basis and, if not paid at reporting date, are reflected in the Statement of Financial Position as an accrual or payable depending upon whether or not the expense has been billed.

(k) Income Tax

Income tax is recognised in the Income Statement and the Statement of Changes in Member Benefits. As the Scheme invests in the ARIA Investments Trust ('AIT'), which is a pooled superannuation trust, tax on this investment revenue is paid by the AIT.

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Income Tax (continued)

Deferred tax (continued)

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Scheme expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Scheme intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax for the period is recognised as an expense or benefit in the Income Statement, except for tax on contributions, which is recognised in the Statement of Changes in Member Benefits.

(l) Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit. Where the amount of GST incurred is not recoverable from the ATO, it is recognised as part of the cost of acquisition of an asset or as an expense item.

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

4. OTHER RECEIVABLES

	2018 \$'000	2017 \$'000
Interest receivable	12	4
GST receivable	12	5
	<u>24</u>	<u>9</u>

There are no receivables that are past due or impaired.

5. INVESTMENTS

	2018 \$'000	2017 \$'000
Pooled superannuation trust - ARIA Investments Trust	124 812	33 330
	<u>124 812</u>	<u>33 330</u>

6. CHANGES IN FAIR VALUE OF INVESTMENTS

	2018 \$'000	2017 \$'000
(a) Investments held at 30 June:		
Pooled superannuation trust - ARIA Investments Trust	5 939	739
(b) Investments realised during the year:		
Pooled superannuation trust - ARIA Investments Trust	153	10
(c) Total changes in fair value of investments	<u>6 092</u>	<u>749</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS

(a) Contributions

Employer Contributions

The Department of Defence contributes at least 16.4% (2017: 16.4%) of a member's superannuation salary to the Scheme, subject to superannuation law. The employer may also make salary sacrifice contributions (before tax) to the Scheme on behalf of members.

Member Contributions

Members may make voluntary contributions to the Scheme in the form of personal contributions (after tax).

Transferring superannuation from other funds

Money invested in other superannuation funds can be rolled over to the Scheme.

Spouse Contributions

Additional contributions can be made by a spouse on behalf of a member of the Scheme.

Government Co-Contributions

For the financial years ended 30 June 2018 and 30 June 2017, the Commonwealth Government contributed \$0.50 for every \$1.00 of eligible personal after-tax member contributions paid to the Plan up to a maximum of \$500 per member.

Low income superannuation tax offset

The low income superannuation tax offset (LISTO) is a Commonwealth Government superannuation payment of up to \$500 for the financial years 2017-18 onwards. LISTO payments are recognised as revenue when received.

(b) Benefits paid

Where a member meets a condition of release and a valid application is received, the benefit is paid to the beneficiary from the Scheme.

Benefits paid by the Scheme during the year are as follows:

	2018	2017
	\$'000	\$'000
Lump sum benefits paid and payable	3 223	369
Total	3 223	369

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS (continued)

(c) Costs of Managing, Investing and Administering the Scheme

Costs of and incidental to the management of the Scheme and the investment of its money are charged against the assets of ARIA Investments Trust ('AIT') that are referable to the Scheme. Transactions in respect of these costs have been brought to account in the financial statements of AIT.

Expenses met by the AIT and referable to the Scheme are as follows:

	2018 \$'000	2017 \$'000
Investment		
Investment manager fees	100	31
Custodian fees	11	3
Investment consultant and other service provider fees	14	2
Other investment expenses	5	1
Total direct investment expenses	130	37
Regulatory fees	6	3
Other operating expenses	82	14
Total costs	218	54

Administration fees are paid by members and used to pay costs other than those incurred in managing and investing Scheme assets. Costs funded by these administration fees are disclosed as 'other administration expenses' in the Income Statement and include \$73,813 (2017: \$24,148) charged to the Scheme by CSC for acting as Trustee of the Scheme during the reporting period. As the Scheme is yet to reach the sufficient scale required to cover its total administration costs from the administration fees paid by members, the Department of Defence has contributed further administration funding of \$808,231 (2017: \$808,231). Transactions in respect of the receipt of this additional funding and the associated administration costs have been brought to account in the financial statements of the Trustee.

8. OTHER PAYABLES

	2018 \$'000	2017 \$'000
Employer contributions refundable	24	-
Accrued expenses	70	48
	94	48

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

9. INCOME TAX

	2018	2017
	\$'000	\$'000
(a) Income tax recognised in operating results		
Income tax benefit comprises:		
Current tax benefit	(46)	(14)
Total tax benefit	<u>(46)</u>	<u>(14)</u>
The prima facie income tax benefit on the operating result before income tax reconciles to the income tax benefit in the Income Statement as follows:		
Operating result before income tax	<u>(46)</u>	<u>(14)</u>
Income tax benefit calculated at 15%	(7)	(2)
Net benefits allocated to members during the year	875	100
Investment revenue already taxed	(914)	(112)
Total tax benefit	<u>(46)</u>	<u>(14)</u>
(b) Income tax recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	1 573	667
Employer contributions	72 460	27 121
Government co-contributions	74	-
Low income superannuation tax offset	595	-
Transfers from other funds	25 377	9 618
Total Contributions	<u>100 079</u>	<u>37 406</u>
Contributions tax calculated at 15%	15 012	5 611
Member contributions not subject to tax	(236)	(100)
Government co-contributions not subject to tax	(11)	-
Low income superannuation tax offset not subject to tax	(89)	-
Transfers from other funds not subject to tax	(3 745)	(1 443)
Net No-TFN-quoted contributions subject to additional tax	14	17
Under/(over) relating to prior year	52	-
Total income tax on contributions	<u>10 997</u>	<u>4 085</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

10. DEFINED CONTRIBUTION MEMBER LIABILITIES

Defined contribution members bear the investment risk relating to the underlying assets and unit prices used to measure defined contribution member liabilities. Unit prices are updated on a daily basis for movements in investment markets.

At 30 June 2018 \$756,999 (2017: \$277,654) has not been allocated to members' at balance date. The amount not yet allocated to members' accounts relates to timing differences, which includes contributions received by the Scheme that have not been able to be allocated to members as at balance date and valuation differences.

The Scheme's management of the investment market risks is as disclosed in Note 13.

11. CASH FLOW INFORMATION

	2018	2017
	\$'000	\$'000
(a) Reconciliation of cash		

For the purposes of the Statement of Cash Flows, cash represents cash at bank. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	<u>11 478</u>	4 404
(b) Reconciliation of operating result after income tax to net cash inflows / (outflows) from operating activities		
Operating result after income tax expense	-	-
Net benefits allocated to members' accounts	5 832	669
Changes in fair value of investments	(6 092)	(749)
(Increase)/decrease in other receivables	(15)	(9)
Increase/(decrease) in other payables	22	47
Increase/(decrease) in income tax payable	(32)	(14)
Net cash (outflows) from operating activities	<u>(285)</u>	(56)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

12. AUDITOR'S REMUNERATION

2018	2017
\$	\$

Amounts paid or payable to the Australian National Audit Office for audit services:

Financial statements	48 600	30 442
Regulatory returns and compliance	32 400	15 558
Total	81 000	46 000

The audits and reviews were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the ARIA Investments Trust that are referable to the Scheme.

Deloitte Touche Tohmatsu are contracted by the ANAO to provide audit services on its behalf. Fees for those services are included above.

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu to the Scheme during the reporting period.

13. FINANCIAL INSTRUMENTS

(a) Financial instruments management

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The investments of the Scheme (other than cash held for managing contribution receipts, benefit payments and tax payments) comprise units in the ARIA Investments Trust ('AIT'). AIT is a pooled superannuation trust which is also governed by the Trustee. This type of investment has been determined by the Trustee to be appropriate for the Scheme and is in accordance with the Scheme's published investment strategy. The Trustee applies strategies to manage risk relating to the investment activities of the AIT. The investments of AIT are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets in accordance with contractual investment mandates.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

The RSE licence of the Trustee of the Scheme requires the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect registrable superannuation entities within its business operations in the form of operational risk reserve(s), operational risk trustee capital or a combination thereof to meet the target amount of financial resources that the RSE licensee determines is necessary to respond to these losses. The Trustee of the Scheme was in compliance with this requirement throughout the reporting period.

(d) Categories of financial instruments

The financial assets and liabilities of the Scheme are recognised at fair value as at the reporting date. Changes in fair value are recognised in the Income Statement.

(e) Financial risk management objectives

The Scheme is exposed to a variety of financial risks as a result of its pooled investments in the AIT. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Scheme's risk management and investment policies, approved by the Trustee, seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. These policies may include the use of financial derivative instruments.

The Trustee ensures that there is an effective risk management control framework in place for the Scheme. Consistent with regulatory requirements, the Trustee has developed, implemented and maintains a Risk Management Framework to identify the policies, procedures, processes and controls that comprise its risk management and control systems for the Scheme and for the Scheme's investments through the AIT. The overall investment strategy of the Scheme is set out in the Trustee's approved investment policies which address the investment strategy and objectives and risk mitigation strategies including risk mitigation relating to the use of derivatives.

The Trustee's internal investment team monitors and manages the financial risks relating to the Scheme's investments. Derivative Risk Statements set out the strict parameters for the Trustee's investment managers authorised to use derivatives. In essence, derivatives cannot be used to raise the level of risk above the level it would otherwise have been, and derivatives cannot be used to leverage the investments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

The Scheme's investments are managed on behalf of the Trustee by specialist external investment managers who invest their respective fund allocation in accordance with the terms of a written investment mandate or disclosure document. The Trustee has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with its investment strategy.

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Scheme. In its capacity as trustee of AIT, the Trustee has adopted a policy of spreading the aggregate value of transactions across approved creditworthy counterparties as a means of mitigating the risk of financial loss. The Scheme's exposure to its counterparties are continuously monitored by the Trustee.

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within AIT exceeded 5% of net assets of that trust at 30 June 2018.

The credit risk on the Scheme's directly held cash and cash equivalents and interest receivable is limited because the counterparty is the Reserve Bank of Australia.

The table below shows the maximum exposure of financial assets to credit risk at the reporting date:

	2018	2017
	\$'000	\$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	124 812	33 330
Other financial assets		
Cash and cash equivalents	11 478	4 404
Receivables	12	4
Total financial assets	136 302	37 738

There has been no change to the Scheme's exposure to credit risk or the manner in which it manages and measures that risk during the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in either realising assets or otherwise raising sufficient funds to meet its financial liabilities and/or member benefit payments or tax liabilities.

The Trustee's approach to managing liquidity is to ensure that the Scheme will always have sufficient liquidity to meet its liabilities and member withdrawals. The Scheme allows members to withdraw benefits, and it is therefore exposed to the liquidity risk of meeting member withdrawals at any time. The Scheme has a high level of net inward cash flows through new contributions which provide capacity to manage liquidity risk. The Trustee undertakes forecasting and scenario testing of the cashflow requirements of the Scheme to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements.

As a further risk mitigation strategy, it is the Trustee's policy that the target asset allocation to illiquid assets is limited to around 25% of the investments of the AIT (with a plus or minus 10 percentage point rebalancing range around that target). Regular scenario testing is performed to confirm the validity of the strategy.

The following tables summarise the maturity profile of the Scheme's financial liabilities. The tables have been drawn up based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Scheme can be required to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000
30 June 2018					
Benefits payable	9	-	-	-	9
Other payables	94	-	-	-	94
Member liabilities	125 312	-	-	-	125 312
Total financial liabilities	125 415	-	-	-	125 415
30 June 2017					
Benefits payable	3	-	-	-	3
Other payables	48	-	-	-	48
Member liabilities	33 621	-	-	-	33 621
Total financial liabilities	33 672	-	-	-	33 672

There has been no change to the Scheme's exposure to liquidity risk or the management and measurement of that risk during the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(h) 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: foreign currency risk, interest rate risk and other market price risk. The policies and procedures put in place to mitigate the exposure to market risk are detailed in the Trustee's investment policies and the Risk Management Framework.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Scheme does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Scheme is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee's approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of AIT, relating to emerging markets, may remain unhedged due to lack of suitable currency instruments for hedging.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2018 and 30 June 2017 had a maturity profile of less than one month.

The Scheme is indirectly exposed to interest rate risk through its investments in AIT. The Trustee manages interest rate risk through its investment strategy including diversification of asset allocation and the use of a diversity of specialist investment sector managers.

The following table illustrates the Scheme's sensitivity to a 0.2% p.a. (2017: 0.3%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of the reasonably possible change in interest rates as at that date. Had interest rates been lower or higher by 0.2% (2017: 0.3%) at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as demonstrated:

	Carrying amount \$'000	Interest rate risk \$' 000			
		Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
2018					
Cash and cash equivalents	11 478	-0.2%		+0.2%	
2017		(23)	(23)	23	23
Cash and cash equivalents	4 404	-0.3%		+0.3%	
		(13)	(13)	13	13

In the Trustee's opinion, the sensitivity analysis at reporting date approximates the direct interest rate exposures of the Scheme during the financial year.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all similar financial instruments traded in the market.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

The Scheme's investment in AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in AIT is carried at fair value through profit or loss, all changes in market conditions will directly affect the Scheme's net investment income. In its capacity as trustee of AIT, the Trustee manages the market price risk arising from these investments by diversifying the portfolio in accordance with its investment strategy.

The following table illustrates the Scheme's sensitivity to a reasonably possible change in the value of its investment in AIT, based on risk exposures at reporting date. The volatility factors represent the average annual historical volatility in the investment option unit prices. For the Cash option a factor of 0.2% (2017: 0.3%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at the reporting date, and all other variables were held constant, the financial result would have improved/ (deteriorated) as follows:

<i>Financial Assets</i>	Change in price	Carrying amount \$'000	Price risk \$' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
ARIA Investments Trust:						
			(Lower price)		Higher price	
2018						
Cash option	-/+0.2%	268	(1)	(1)	1	1
Income focused option	-/+1.7%	360	(6)	(6)	6	6
MySuper balanced option	-/+4.0%	116 894	(4 676)	(4 676)	4 676	4 676
Aggressive option	-/+4.9%	7 290	(357)	(357)	357	357
Total		124 812	(5 040)	(5 040)	5 040	5 040

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

<i>Financial Assets</i> ARIA Investments Trust:	Change in price	Carrying amount \$'000	Price risk \$' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
			(Lower price)		Higher price	
2017						
Cash option	-/+0.3%	54	-	-	-	-
Income focused option	-/+1.7%	51	(1)	(1)	1	1
MySuper balanced option	-/+4.2%	32 066	(1 347)	(1 347)	1 347	1 347
Aggressive option	-/+5.2%	1 159	(60)	(60)	60	60
Total		33 330	(1 408)	(1 408)	1 408	1 408

In the Trustee's opinion, the sensitivity analysis at reporting date is representative of the other market price exposures during the financial year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

The Scheme's financial instruments are included in the Statement of Financial Position at fair value. The fair value is determined per the accounting policies in Note 3.

Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of the Scheme's financial instruments whereby the assets and liabilities are each grouped into one of three categories based on the degree to which their method of valuation is observable.

Level 1: fair value measurements are those derived from quoted prices in active markets.

Level 2: fair value measurements are those derived from inputs (other than quoted prices included within Level 1) that are observable such as prices or derived from prices.

Level 3: fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2018				
Financial Assets				
Pooled superannuation trust	-	124 812	-	124 812
2017				
Financial Assets				
Pooled superannuation trust	-	33 330	-	33 330

There were no transfers between Level 1 and 2 in the period.

Units in the pooled superannuation trust are valued daily based on the latest listed and unlisted market prices and values of the underlying investments, less any tax and expenses.

Reconciliation of Level 3 fair value measurements

There were no Level 3 financial assets or liabilities for the period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

14. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. Included in 'other administration expenses' is an amount of \$73,813 (2017: \$24,148) charged to the Scheme by CSC for acting as Trustee of the Scheme during the reporting period.

(b) Key Management Personnel

The Directors of CSC throughout the year ended 30 June 2018 and to the date of the report were:

Ariane Barker	Sunil Kemppi
Patricia Cross (Chair)	Anthony Needham
Christopher Ellison	Peggy O'Neal
Nadine Flood	Margaret Staib
Winsome Hall	Michael Vertigan
Garry Hounsell	

In addition to the Directors listed above, the following executives of the Trustee had authority and responsibility for planning, directing and controlling the activities of the Scheme throughout the year ended 30 June 2018 :

Paul Abraham	Executive Manager, Investment Operations
Peter Carrigy-Ryan	Chief Executive Officer
Robert Firth	Head of Risk
Philip George	Executive Manager, Program Management (Previously General Manager, Scheme Administration until 6 August 2017)
Richard Hill	Executive Manager, Technology
Bronwyn McNaughton	Executive Manager, Corporate
Christine Pearce	Executive Manager, Member & Employer Services
Alison Tarditi	Chief Investment Officer
Philip Yardy	Executive Manager, Scheme Administration (Commenced 7 August 2017)
Andy Young	Chief Operating Officer (Previously General Manager, Finance until 31 May 2018)

The following changes to the executives of the Trustee were made subsequent to 30 June 2018:

Alana Scheiffers	Head of Legal & Compliance (From 1 July 2018)
Adam Nettheim	Head of Scheme Operations (From 6 August 2018)
Philip Yardy	Executive Manager, Scheme Administration (Contract ended 3 August 2018)
Christine Pearce	Services Transformation Lead (Previously Executive Manager, Member & Employer Services until 9 September 2018)

The terms and conditions of membership for any related parties are the same as for any other member who is are not related parties of the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

14. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

The aggregate compensation of the key management personnel in relation to the Scheme is set out below:

	2018	2017
	\$	\$
Short-term employee benefits	4 325	836
Post-employment benefits	369	86
Other long-term benefits	347	65
Termination benefits	-	45
	5 041	1 032

Aggregate compensation in relation to the Scheme is a pro-rata apportionment of the overall compensation paid by the Trustee, based on the net assets of the entities under its trusteeship or actual control.

The compensation of key management personnel (including Directors) related to investment management is charged against the assets of the ARIA Investments Trust that are referable to the Scheme.

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally-related entities at any time during the year.

(d) Investing entities

Throughout the year ended 30 June 2018, the Scheme's only investment consisted of units in AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

The other investors in AIT throughout the year were the Public Sector Superannuation Scheme, the Commonwealth Superannuation Scheme, the Military Superannuation and Benefits Scheme and the Public Sector Superannuation Accumulation Plan. All investing transactions are conducted under normal industry terms and conditions.

The Trustee of the Scheme, Commonwealth Superannuation Corporation, is the trustee of the following regulated superannuation schemes: Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme.

The Trustee pays costs of and incidental to the management of the Scheme and the investment of its money from the assets of the ARIA Investments Trust that are referable to the Scheme (Note 7(c)). No fees were charged to the Scheme or its assets for acting as Trustee during the year ended 30 June 2018 (2017: \$nil).

The Scheme held the following investments in related parties at 30 June :

	Fair Value of Investment	Fair Value of Investment	Share of Net Income after tax	Share of Net Income after tax
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
ARIA Investments Trust	124 812	33 330	6 092	749
	124 812	33 330	6 092	749

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital commitments at 30 June 2018 (2017: \$nil).

The Scheme had the following commitments for other expenditure as at 30 June 2018:

	2018	2017
	\$'000	\$'000
BY TYPE		
Commitments receivable		
Net GST recoverable on commitments ¹	<u>155</u>	205
	<u>155</u>	<u>205</u>
Commitments payable		
Administration expenses ²	<u>(2 270)</u>	(3 006)
	<u>(2 270)</u>	<u>(3 006)</u>
Net commitments by type	<u><u>(2 115)</u></u>	<u><u>(2 801)</u></u>
BY MATURITY		
One year or less	(945)	(709)
From one to three years	(1 170)	(2 092)
Over three years	-	-
Total commitments	<u><u>(2 115)</u></u>	<u><u>(2 801)</u></u>

¹ Commitments payable are GST inclusive.

² Administration expenses are estimates of operational activities, including the outsourcing of administration of the Scheme. These expenses will be met through the collection of member administration fees received from members through the redemption of member benefits held by the Scheme and through funding received from the Department of Defence. Actual expenses will depend on future member numbers.

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme, which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustee, these requests do not represent a material liability on the Scheme.

There were no other contingent liabilities or contingent assets as at the reporting date (2017: \$nil).

16. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2018 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.