PART 4: FINANCIAL STATEMENTS

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Australian Office of Financial Management for the year ended 30 June 2018:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Australian Office of Financial Management as at 30 June 2018 and its financial performance and cash flows for the year then ended.

The financial statements of the Australian Office of Financial Management, which I have audited, comprise the following statements as at 30 June 2018 and for the year then ended:

- Statement by the Accountable Authority and Chief Finance Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; and
- Notes to the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

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

Key Audit Matter

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. The matter set out below was addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on this matter.

Key audit matter	How the audit addressed the matter
Valuation of Australian Government Securities *Refer to Administered Note 1 'Financial Risk Management', 2 'Treasury Bonds', 3 'Treasury*	The audit procedures that I applied to address the matter included testing: • the design and effectiveness of general key IT controls relevant to the treasury

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Indexed Bonds', and 4 'Treasury Notes'. The Australian Office of Financial Management issues Australian Government Securities on behalf of the Commonwealth Government. The securities primarily comprise treasury bonds, treasury indexed bonds, and treasury notes. The valuation of Australian Government Securities is a key audit matter due to: • the significant monetary value of Australian Government Securities relative to the Australian Office of Financial Management's balance sheet ($575,443 million at 30 June 2018) and the range of financial instruments held; and • the valuation of financial instruments uses a variety of different fair value estimation methodologies which involve assumptions about the return on securities over a long period into the future.	management systems used to record and measure Australian Government Securities. • the design and effectiveness of key controls relevant to the issuance of Australian Government Securities, including new tenders, debt coupon payments, coupon redemptions, and debt buybacks. • the design and effectiveness of key controls relevant to the ongoing monitoring of market valuations of debt. • valuations of Australian Government Securities at 30 June 2018, using the following procedures: ○ Checked all treasury bonds, treasury indexed bonds, and treasury notes face values and coupon rates to independent third party reports. ○ Performed a recalculation of the fair value of Australian Government Securities for all issued treasury bonds, treasury indexed bonds, and treasury notes and assessed the assumptions about future returns on these securities against market yield data.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Australian Office of Financial Management the Chief Executive Officer is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Chief Executive Officer is also responsible for such internal control as the Chief Executive Officer determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing the Australian Office of Financial Management's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Chief Executive Officer is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir

Auditor-General

Canberra

23 August 2018

STATEMENT BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2018 comply with subsection 42 (2) of the *Public Governance, Performance and Accountability Act 2013*, and are prepared from properly maintained financial records as required by subsection 41 (2) of the *Public Governance, Performance and Accountability Act 2013*.

In our opinion, and on the condition of receiving continuing appropriations from Parliament, there are reasonable grounds to believe that the Australian Office of Financial Management will be able to pay its debts as and when they fall due.

No matter, transaction or event of a material or unusual nature has arisen in the interval between the end of the reporting period (30 June 2018) and the date of signing this report that has significantly affected or may significantly affect the AOFM's operations.

Signed

R Nicholl
Chief Executive Officer
23 August 2018

Signed

P Raccosta
Chief Financial Officer
23 August 2018

Administered schedule of comprehensive income

for the period ended 30 June 2018

	2018 $'m	2017 $'m	Notes
EXPENSES			
Interest expense:			
Treasury Bonds	**15,363**	14,644	**2**
Treasury Indexed Bonds	**1,566**	1,312	**3**
Treasury Notes	**67**	72	
Other	**..**	1	
Interest expense	**16,996**	16,029	
Supplier expenses	**29**	47	
Grants	**..**	..	
Total expenses	**17,025**	16,076	
INCOME			
Interest revenue:			
Loans to State and Territory Governments:			
Perpetual debt	**..**	..	
Advances	**110**	115	
Deposits	**650**	570	
Residential mortgage-backed securities	**26**	70	
Interest revenue	**786**	755	
Other	**..**	..	
Total income	**786**	755	
GAINS (LOSSES)			
Foreign exchange	**..**	..	
Residential mortgage-backed securities sales	**11**	-	
Debt repurchased	**(523)**	(414)	
Total gains (losses)	**(512)**	(414)	
Surplus (deficit) before re-measurements	**(16,751)**	(15,735)	
RE-MEASUREMENTS (net market revaluation)			
Treasury Bonds	**823**	18,258	
Treasury Indexed Bonds	**(238)**	1,126	
Treasury Notes	**1**	1	
Other	**(5)**	18	
Total re-measurements	**581**	19,403	
Surplus (deficit)	**(16,170)**	3,668	

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

Administered schedule of comprehensive income (continued)

for the period ended 30 June 2018

Interest expense and interest revenue are determined using the effective interest method.

The category 'gains (losses)' represents the total proceeds paid or received from repurchasing debt prior to maturity or from selling a financial asset prior to maturity, less the amortised cost carrying value of the debt or financial asset using the effective interest method at the time of repurchase or sale. The AOFM conducts these transactions at market rates.

The category 'surplus (deficit) before re-measurements' records a financial result that is consistent with an accruals (or amortised cost) basis of accounting under the historic cost accounting convention and is most relevant to the AOFM's role in managing its debt portfolio, whereby debt and other financial instruments are predominately issued and held to maturity, and where portfolio restructuring is performed primarily for portfolio management purposes, rather than for profit making purposes.

The category 're-measurements' provides information on the unrealised changes in the market revaluation of the portfolio of administered financial assets and financial liabilities (which are carried at fair value through profit or loss) during the financial year. This is relevant for assessing changes in financial risk exposures and changes to the value of transactions managed from year to year. The revaluation effect will net to zero over the life of a financial instrument.

Administered schedule of assets and liabilities

as at 30 June 2018

	2018 $'m	2017 $'m	Notes
LIABILITIES			
Interest bearing liabilities at fair value:			
Treasury Bonds	**524,403**	499,040	**2**
Treasury Indexed Bonds	**48,548**	44,718	**3**
Treasury Notes	**2,492**	3,490	**4**
Other debt (at fair value)	-	-	
Interest bearing liabilities at amortised cost:			
Other debt (at amortised cost)	**6**	6	
Interest bearing liabilities	**575,449**	547,254	
Other - liabilities	**..**	..	
Total liabilities	**575,449**	547,254	
FINANCIAL ASSETS			
Cash at bank	**1**	1	
Investments at fair value:			
Term deposits with the RBA	**45,140**	56,860	**5**
Residential mortgage-backed securities	-	1,927	**6**
Loans at amortised cost:			
Loans to State and Territory Governments	**1,792**	1,872	**7**
Total assets	**46,933**	60,660	
Net assets (liabilities)	**(528,516)**	(486,594)	

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

Financial assets and financial liabilities denoted as being measured at amortised cost, are measured at fair value on initial recognition and at amortised cost on subsequent measurement using the effective interest method. Changes in carrying value, including amortisation of premiums or discounts, are recognised in Interest Revenue (for assets) and Interest Expense (for liabilities).

Financial assets and financial liabilities denoted as being measured at fair value, are measured at fair value on initial recognition and at fair value through profit or loss on subsequent measurement. Changes in carrying value are attributed between changes in amortised cost and other changes. Changes in carrying value attributable to amortised cost, including amortisation of premiums or discounts, are recognised in Interest Revenue (for assets) and Interest Expense (for liabilities). Other changes in carrying value (including unrealised changes in valuation due to a change in interest rates) are recognised in Re-measurements.

The AOFM is not aware of any quantifiable or unquantifiable administered contingencies as of the signing date that may have an impact on its operations.

Administered reconciliation schedule

for the period ended 30 June 2018

	2018 $'m	2017 $'m	Notes
NET ASSETS			
Opening value	**(486,594)**	(449,670)	
Administered schedule of comprehensive income:			
Surplus (deficit)	**(16,170)**	3,668	
Administered transfers (to) from Australian Government:			
Special appropriations (unlimited)	**557,571**	529,294	**9**
Transfers to OPA	**(583,323)**	(569,886)	
Change in special account balance	**..**	..	
Net assets	**(528,516)**	(486,594)	

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

Administered schedule of cash flows

for the period ended 30 June 2018

	2018 $'m	2017 $'m	Notes
OPERATING ACTIVITIES			
Cash received (used):			
Interest receipts	**801**	713	
GST refunds from ATO	**2**	3	
Interest payments:			
Treasury Bonds	**(18,295)**	(17,198)	**2**
Treasury Indexed Bonds	**(1,142)**	(908)	**3**
Treasury Notes	**(70)**	(80)	
Other	**(7)**	(7)	
Other payments	**(31)**	(50)	
Net cash from operating activities	**(18,742)**	(17,527)	**8**
INVESTING ACTIVITIES			
Cash received (used):			
Capital proceeds from deposits	**485,150**	443,400	
Capital proceeds from residential mortgage-backed securities	**1,929**	895	
State and Territory loan repayments	**96**	94	
Acquisition of deposits	**(473,450)**	(471,300)	
Net cash from investing activities	**13,725**	(26,911)	
FINANCING ACTIVITIES			
Cash received (used):			
Capital proceeds from borrowings	**94,820**	124,053	
Other receipts	**43**	23	
Repayment of borrowings	**(64,051)**	(39,032)	
Other payments	**(43)**	(14)	
Net cash from financing activities	**30,769**	85,030	
TRANSACTIONS WITH OPA			
Cash from (to):			
Appropriations	**557,571**	529,294	
Special account payments	**..**	9	
Receipts sent to OPA	**(583,323)**	(569,886)	
Special account receipts to OPA	**..**	(9)	
Net cash from OPA	**(25,752)**	(40,592)	
Net change in cash held	**-**	-	
+ cash held at the beginning of period	**1**	1	
Cash held at the end of the period	**1**	1	

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

Statement of comprehensive income

for the period ended 30 June 2018

	2018 $'000	2017 $'000	Notes
NET COST OF SERVICES			
EXPENSES			
Employee benefits	6,822	6,622	A
Supplier expenses	3,460	3,748	A
Depreciation and amortisation	433	205	
Write-down and impairment of assets	-	14	
Total expenses	10,715	10,589	
OWN-SOURCE INCOME			
Staff secondments	447	553	
Resources received free of charge	290	290	
Other	-	115	
Total own-source income	737	958	
Net cost of services	9,978	9,631	
APPROPRIATION FUNDING			
Revenue from government	10,834	11,198	
Total appropriation funding	10,834	11,198	
Surplus (deficit)	856	1,567	

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

Statement of financial position

as at 30 June 2018

	2018 $'000	2017 $'000	Notes
ASSETS			
Financial assets:			
Cash and cash equivalents	73	100	
Receivables	24,586	24,673	B
Non-financial assets:			
Computers, plant and equipment	370	409	
Leasehold improvements	1,677	1,890	C
Computer software	942	1,104	D
Supplier prepayments	223	58	
Total assets	**27,871**	**28,234**	
LIABILITIES			
Payables:			
Supplier payables	136	510	
Salary and superannuation	47	49	
Provisions:			
Employee provisions	2,354	2,279	E
Other provisions	418	418	F
Total liabilities	**2,955**	**3,256**	
Net assets	**24,916**	**24,978**	
EQUITY			
Retained surplus	30,467	29,611	
Contributed equity	(5,551)	(4,633)	
Total equity	**24,916**	**24,978**	

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

The AOFM is not aware of any quantifiable or unquantifiable departmental contingencies as of the signing date that may have an impact on its operations.

Statement of changes in equity

for the period ended 30 June 2018

	2018 $'000	2017 $'000	Notes
RETAINED SURPLUS			
Changes for period:			
Surplus (deficit)	**856**	**1,567**	
Change for period	**856**	**1,567**	
+ opening value	**29,611**	**28,044**	
Closing balance	**30,467**	**29,611**	
CONTRIBUTED EQUITY			
Changes for period:			
Capital injection - capital budget	**713**	**720**	
Capital injection - equity	**-**	**150**	
Return of capital - appropriations extinguished	**(1,631)**	**(8,194)**	
Change for period	**(918)**	**(7,324)**	
+ opening value	**(4,633)**	**2,691**	
Closing balance	**(5,551)**	**(4,633)**	
Total equity	**24,916**	**24,978**	

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

Statement of cash flows

for the period ended 30 June 2018

	2018 $'000	2017 $'000	Notes
OPERATING ACTIVITIES			
Cash received (used):			
Appropriations	**10,256**	**9,822**	
GST received from ATO	**5**	**3**	
Services and other	**537**	**585**	
Employees	**(6,732)**	**(6,470)**	
Suppliers	**(3,543)**	**(3,350)**	
GST paid to ATO	**(8)**	**(2)**	
Transfers to Official Public Account (a)	**(542)**	**(588)**	
Net cash from operating activities	**(27)**	**-**	**G**
INVESTING ACTIVITIES			
Cash received (used):			
Purchase of leasehold improvements	**(204)**	**(1,294)**	
Purchase of plant and equipment	**(9)**	**(392)**	
Net cash from investing activities	**(213)**	**(1,686)**	
FINANCING ACTIVITIES			
Cash received (used):			
Appropriations	**213**	**1,686**	
Net cash from financing activities	**213**	**1,686**	
Net change in cash held	**(27)**	**-**	
+ cash held at the beginning of period	**100**	**100**	
Cash held at the end of the period	**73**	**100**	

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

(a) Non-appropriation receipts are required to be returned to the Official Public Account (OPA). They increase the AOFM's available appropriation under section 74 of the *Public Governance, Performance and Accountability Act 2013* and when subsequently drawn down for use by the AOFM they are recorded as appropriations.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Australian Office of Financial Management (AOFM) is a listed entity under the *Public Governance, Performance and Accountability Act 2013*. The AOFM is a not-for-profit Australian Government entity.

These financial statements cover the AOFM as an administrative entity of the Commonwealth of Australia and are for the reporting period 1 July 2017 to 30 June 2018. They are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*, and are general purpose financial statements prepared on a going concern basis.

The financial statements have been prepared in accordance with:

- the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*, and
- Australian Accounting Standards that apply for the reporting period.

The financial statements have been prepared on an historical cost basis, except for certain assets and liabilities which are carried at fair value or on a discounted cash flow basis as required or allowable by relevant accounting standards.

The financial statements are presented in Australian dollars and values are rounded as indicated.

Amounts rounded to zero are represented as '..' in the statements.

The continued existence of the AOFM in its present form, and with its present outcome and program, is dependent on government policy and on continuing appropriations by Parliament for the AOFM's administration and activities.

New Australian Accounting Standards applicable to the reporting period

During 2017–18 the AOFM adopted all applicable Australian Accounting Standards that became effective during the reporting period.

New Australian Accounting Standards applicable in future reporting periods

A number of revised or new Australian Accounting Standards have been issued that are effective for future reporting periods. With the exception of AASB 16 *Leases* (effective for the 2019-20 financial year), and AASB 9 *Financial Instruments* (effective for the 2018–19 financial year) the revisions are not expected to materially affect the AOFM's assets, liabilities, revenue or expenses.

AASB 16 *Leases*

Currently, accounting standards distinguish between operating leases and finance leases. Lessees are required to recognise finance leases only on the balance sheet. Under AASB 16 the majority of leases will need to be recognised on the balance sheet by lessees. The standard is expected to have a moderate impact on the AOFM's departmental balance sheet arising from its property lease which is currently recognised as an operating lease. The quantitative impact on the

AOFM's departmental balance sheet has not been determined.

AASB 9 *Financial Instruments*

Financial assets

Currently, all of the AOFM's administered financial assets, with the exception of loans to the state and territory governments, are designated at fair value through profit or loss. Loans to the state and the territory governments are measured at amortised cost.

AASB 9 establishes new principles for determining the accounting treatment for financial assets. AASB 9 requires that a financial asset be measured at:

- amortised cost — where the business objective of the entity is to hold the instrument to collect its contractual cash flows (rather than trading to earn capital profits) and those contractual cash flows are solely in the nature of principal and interest on the principal outstanding, or
- fair value through other comprehensive income — where the business objective is achieved by collecting the contractual cash flows and selling financial assets, and those contractual cash flows are solely in the nature of principal and interest on the principal outstanding, or
- fair value through profit or loss — where the financial asset is held for trading to earn capital profits, or is designated as such to reduce an accounting mismatch, or where contractual cash flows are not solely in the nature of principal and interest.

Where an entity's objective for holding a financial asset changes, so too should the accounting treatment, where relevant. The sale of a financial asset for portfolio management, credit or liquidity reasons may not represent a change of purpose from one of collection of contractual cash flows.

The cash flows arising from the AOFM's administered investments are in the nature of principal and interest. Accordingly, the AOFM's objective for holding these assets will be relevant for determining their measurement. The AOFM currently holds term deposit investments to collect contractual cash flows and does not expect to realise them prior to maturity under normal operating conditions. On adoption of AASB 9 the AOFM will need to change its accounting treatment for term deposits investments from fair value through profit or loss to amortised cost.

For assets classified at amortised cost or at fair value through other comprehensive income an allowance for expected credit losses needs to be considered. Refer to Note 12 for the quantitative impact on 1 July 2018 arising from the adoption of AASB 9.

Financial liabilities

The classification requirements for financial liabilities remain largely unchanged in AASB 9 from AASB 139. Accordingly, there is no quantitative impact resulting from the adoption of AASB 9. For financial liabilities carried at fair value through profit or loss, AASB 9 has adopted a revised disclosure for the presentation of unrealised fair value gains and losses due to changes in own credit risk. The unrealised fair value gain or loss is to be apportioned between changes in credit risk (recognised in other comprehensive income) and other changes (recognised in profit or loss). Given that debt instruments issued by the AOFM are widely used by market participants as the risk free pricing benchmark in interest rate markets, changes in the fair value of financial liabilities arising from changes in credit risk are not relevant.

Objectives and activities of the AOFM

The AOFM's activities are focused on delivering to a single outcome:

> *the advancement of macroeconomic growth and stability, and the effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and cash for the Australian Government.*

The AOFM aims to achieve the outcome through the following objectives:

- meeting the budget financing task in a cost-effective manner subject to acceptable risk,
- facilitating the government's cash outlay requirements as and when they fall due, and
- being a credible custodian of the Australian Government Securities market and other portfolio responsibilities.

The AOFM manages a portfolio of debt and financial assets on behalf of the Australian Government. It issues Treasury Bonds and Treasury Indexed Bonds to finance budget deficits. It also manages the government's cash in the Official Public Account (OPA) which is surplus to immediate requirements to manage the within-year financing task. It undertakes the administration, financial and operational risk management, and financial reporting of its portfolio of debt and assets.

Financing the budget

For many years debt issuance by the AOFM was undertaken solely with the objective of maintaining the Treasury Bond and Treasury Bond futures markets, as successive budget surpluses removed the need to borrow to fund the Budget. On 3 February 2009 the Budget outlook changed in the *Updated Economic and Fiscal Outlook* and the objective of issuance changed to funding the Budget. Since that time the AOFM has significantly increased debt issuance and intensified its engagement with investors (including overseas investors) and intermediaries.

Portfolio management

The cost and risk of the debt portfolio is managed through debt issuance and (where appropriate) investment activities. Since early 2009, debt issuance volumes have exceeded those necessary to maintain liquidity in Treasury Bond and Treasury Bond futures markets, affording the AOFM with a greater level of flexibility in setting its issuance program against an overarching objective of minimising cost subject to acceptable risk. In recent years the AOFM has lengthened the duration of its Treasury Bond portfolio through longer term issuance as a means of reducing refinancing risk and the variability of debt servicing costs. The Treasury Bond yield curve extends to 29 years currently (an extension of 17 years since 2011).

Cash management

The AOFM manages the overall level of cash in the OPA to ensure that the government is able to meet its financial obligations as and when they fall due. To this end, it makes short term borrowings by issuing Treasury Notes. It invests OPA cash surplus to immediate requirements in term deposits with the RBA. The AOFM holds continuing balances of short term assets to allow it to respond flexibly and quickly to meet unexpected expenditure requirements and disruptions in the markets.

The OPA is recorded in the Department of Finance's financial statements and is not reported by the AOFM.

Investments in residential mortgage-backed securities (RMBS)

From September 2008 to April 2013 the AOFM invested $15.5 billion in RMBS. On 5 May 2015, the then Treasurer issued a direction to the AOFM to divest the RMBS portfolio through a regular competitive process, subject to appropriate market conditions as determined by the AOFM. Since that time the portfolio has been progressively sold and was fully divested in 2017–18.

Legislation

The AOFM's borrowing and portfolio management activities comply with applicable legislative requirements. The key legislative mechanisms that governed these activities during the reporting period were as follows:

- the *Commonwealth Inscribed Stock Act 1911* represents the Australian Government's primary vehicle for the creation and issuance of stock, including Treasury Bonds, Treasury Indexed Bonds and Treasury Notes. It also provides a standing authority to the Treasurer to borrow in Australian currency,
  - On 9 May 2017 the Treasurer issued a direction under section 51JA of the Act permitting the AOFM to borrow up to $600 billion.
- the *Loans Securities Act 1919* includes provisions relating to overseas borrowings, securities lending, repurchase agreements and other financial arrangements,
- the *Financial Agreement Act 1994* formalises debt consolidation and redemption arrangements applying since 1 July 1990 between the Australian Government and the state and territory governments, and
- section 58 of *Public Governance, Performance and Accountability Act 2013* allows the Treasurer to invest public money in authorised investments.

ADMINISTERED NOTES

Administered items are identified separately from departmental items in the financial statements by shading.

Administered assets, liabilities, revenue and expenses are those items that an entity does not control but over which it has management responsibility on behalf of the government and which are subject to prescriptive rules or conditions established by legislation, or Australian Government policy, in order to achieve Australian Government outcomes. These items include debt issued to finance the government's fiscal requirements and investments of funds surplus to the government's immediate financing needs.

Note 1: Financial risk management

The government is exposed to financial risks arising from its portfolio of financial assets and liabilities — interest rate risk, inflation risk, credit risk, liquidity risk and refinancing risk. These risks are managed by the AOFM within a financial risk management framework that includes directions from the Treasurer and policies and limits approved by the Secretary to the Treasury and overseen by the CEO and senior management of the AOFM.

Timing mismatches between the Australian Government's receipts and expenditures cause large fluctuations in the volume of short term assets and liabilities managed by the AOFM, and thus in the overall size of its net portfolio, relative to the gross volume of debt outstanding. To provide stability in the management of the longer term component of debt, long term financing and short term financing are managed through separate portfolios, the debt portfolio and the cash management portfolio. In addition, loans to state and territory governments are held in a separate portfolio.

Debt portfolio

The debt portfolio is used to meet the Australian Government's budget financing needs and to support efficient Treasury Bond and Treasury Bond futures markets. Issuance is the primary mechanism for managing interest rate risk of the debt portfolio. That is, the AOFM manages the cost structure of the debt portfolio through the choice of instruments and bond series in issuing debt. The annual debt issuance strategy is informed by qualitative and quantitative factors to achieve an interest rate profile that appropriately balances cost and cost variability, investor demand and diversification, the refinancing task and financial market efficiency.

Cash management portfolio

The cash management portfolio is used to manage within year timing mismatches between Australian Government receipts and expenditures. The cash management portfolio holds a fluctuating portfolio of short term investments and short term liabilities. The portfolio is managed to achieve an appropriate balance between refinancing risk, liquidity risk and interest rate risk.

Note 1: Financial risk management (continued)

Interest rate risk

Interest rate risk represents the risk to debt servicing cost outcomes and investment return outcomes, and to the value of debt and financial assets caused by changes in interest rates.

In its ordinary course of business the primary measure used by the AOFM to assess interest rate risk is the accruals basis of accounting under the historic cost accounting convention. Fair value measures of interest rate risk are considered to be secondary.

Financial instruments with a fixed interest rate expose the portfolio to changes in fair value with changes in interest rates, whilst those financial instruments at floating interest rates expose the portfolio to changes in debt servicing costs with changes in interest rates. The extent to which the AOFM can match the repricing profile of financial assets with financial liabilities is limited due to the differences in the volumes and the need for assets to be available for cash management or other purposes. The interest rate exposure is predominately to fixed interest instruments.

Note 1: Financial risk management (continued)

Interest rate risk (continued)

		Interest exposure		
	Carrying value $'m	**Fixed**	**Floating**	**Non-interest bearing**
2018:				
Liabilities:				
Treasury Bonds	**524,403**	**524,403**	**-**	**-**
Treasury Indexed Bonds	**48,548**	**48,548**	**-**	**-**
Treasury Notes	**2,492**	**2,492**	**-**	**-**
Other	**6**	**-**	**-**	**6**
Total	**575,449**	**575,443**	**-**	**6**
Assets:				
Cash at bank	**1**	**-**	**-**	**1**
Term deposits with the RBA	**45,140**	**45,140**	**-**	**-**
Loans to State and Territory Governments	**1,792**	**1,792**	**-**	**..**
Total	**46,933**	**46,932**	**-**	**1**
2017:				
Liabilities:				
Treasury Bonds	499,040	499,040	-	-
Treasury Indexed Bonds	44,718	44,718	-	-
Treasury Notes	3,490	3,490	-	-
Other	6	-	-	6
Total	547,254	547,248	-	6
Assets:				
Cash at bank	1	-	-	1
Term deposits with the RBA	56,860	56,860	-	-
Residential mortgage-backed securities	1,927	-	1,927	-
Loans to State and Territory Governments	1,872	1,872	-	..
Total	60,660	58,732	1,927	1

Note 1: Financial risk management (continued)

Interest rate risk (continued)

	Balance measured at fair value $'m (a)	Fair value determined by Level 1 Market rates	Level 2 Observable inputs	Level 3 Unobservable inputs
2018:				
Liabilities:				
Treasury Bonds	**524,403**	**524,403**	**-**	**-**
Treasury Indexed Bonds	**48,548**	**48,548**	**-**	**-**
Treasury Notes	**2,492**	**2,492**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Total	**575,443**	**575,443**	**-**	**-**
Assets:				
Cash at bank	-	**-**	**-**	**-**
Term deposits with the RBA	**45,140**	**-**	**45,140**	**-**
Loans to State and Territory Governments	-	**-**	**-**	**-**
Total	**45,140**	**-**	**45,140**	**-**
2017:				
Liabilities:				
Treasury Bonds	499,040	499,040	-	-
Treasury Indexed Bonds	44,718	44,718	-	-
Treasury Notes	3,490	3,490	-	-
Other	-	-	-	-
Total	547,248	547,248	-	-
Assets:				
Cash at bank	-	-	-	-
Term deposits with the RBA	56,860	-	56,860	-
Residential mortgage-backed securities	1,927	-	1,927	-
Loans to State and Territory Governments	-	-	-	-
Total	58,787	-	58,787	-

(a) Only those financial assets and financial liabilities measured at fair value as at period end are reported in this column. Those measured at amortised cost are excluded.

Note 1: Financial risk management (continued)

Interest rate risk (continued)

The following sensitivity analysis illustrates the interest rate risk sensitivity of administered financial instruments and the financial impact on profit or loss and equity to financial positions held as at period end.

	Carrying Value $'m	*Sensitivity (basis points)* +20	- 20
2018:		**Impact $'m**	**Impact $'m**
Changes in fair value:			
Treasury Bonds	**524,403**	**6,396**	**(6,532)**
Treasury Indexed Bonds	**48,548**	**728**	**(747)**
Treasury Notes	**2,492**	**1**	**(1)**
Term deposits with the RBA	**45,140**	**(2)**	**2**
		+30	- 30
2017:		Impact $'m	Impact $'m
Changes in fair value:			
Treasury Bonds	499,040	8,705	(8,973)
Treasury Indexed Bonds	44,718	978	(1,016)
Treasury Notes	3,490	2	(2)
Term deposits with the RBA	56,860	(6)	6
Residential mortgage-backed securities	1,927	(9)	9
Changes in interest revenue:			
Residential mortgage-backed securities	1,927	6	(6)

The following assumptions have been made in undertaking the analysis:

- a sensitivity of 20 basis points and 30 basis points has been used for domestic interest rates as at 30 June 2018 and 30 June 2017 respectively as per standard parameters set by the Department of Finance,
- a parallel shift in interest rates (real and nominal) takes place,
- for fixed rate instruments that are carried at fair value, changes in fair value only are considered relevant,
- for fixed rate instruments that are carried at amortised cost, interest rate risk is not considered relevant, and
- for floating rate instruments, the impact on interest revenue or interest expense represents an annualised estimate calculated as if the positions as at period end were outstanding for the whole financial year.

Note 1: Financial risk management (continued)

Inflation risk

Treasury Indexed Bonds have their principal value indexed against the all Groups Australian Consumer Price Index (CPI). The interest is a fixed rate of interest payable on the accreted principal value. Accordingly these debt instruments expose the AOFM to inflation risk on interest payments and on the value of principal payable on maturity. There is a six month lag between the calculation period for the CPI and its impact on the value of interest and principal.

Credit risk

Credit risk is the risk of non-performance (including partial performance) by a counterparty to a financial contract, leading to a financial loss for the creditor.

The AOFM's investment activity is made in accordance with legislative requirements, delegations and directions from the Treasurer and policies and limits established by the Secretary to the Treasury. For 2017–18 and 2016–17, investment in term deposits with the Reserve Bank of Australia were the only eligible investments the AOFM was permitted to acquire. Investments with the RBA are considered to carry zero credit risk.

Under previous Commonwealth-state financing arrangements the Australian Government made concessional loans to state and Northern Territory governments for specific purposes. The AOFM has responsibility for the administration of these loans.

To protect the Australian Government's financial position with respect to securities lending arrangements (which allows market participants to borrow Treasury Bonds and Treasury Indexed Bonds not readily available from other sources), the market value of the collateral securities taken from counterparties is greater than the market value of the Treasury Bonds or Treasury Indexed Bonds lent. There is a right to seek additional collateral if there is a decline in the market value of the collateral securities relative to the lent securities.

Note 1: Financial risk management (continued)

Credit risk (continued)

The following table sets out the AOFM's credit risk by asset class and credit rating as at the reporting date.

	Fair value	*S&P, Fitch or Moody's long term credit rating (a)*		
	$'m	Aaa AAA	Aa1 AA+	Aa2 AA
2018:				
Cash at bank	**1**	**1**	**-**	**-**
Term deposits with the RBA	**45,140**	**45,140**	**-**	**-**
Loans to State and Territory Governments	**2,297**	**975**	**313**	**1,009**
Total	**47,438**	**46,116**	**313**	**1,009**
2017:				
Cash at bank	1	1	-	-
Term deposits with the RBA	56,860	56,860	-	-
Residential mortgage-backed securities	1,927	1,927	-	-
Loans to State and Territory Governments	2,397	1,026	328	1,043
Total	61,185	59,814	328	1,043

(a) Where a counterparty has a split rating between the rating agencies, the AOFM's exposure is allocated to the lower credit rating. The RBA is assumed to have the same credit rating as the Commonwealth of Australia as its liabilities are guaranteed by the Australian Government under section 77 of the *Reserve Bank Act 1959*.

Note 1: Financial risk management (continued)

Liquidity risk and refinancing risk

Refinancing risk is the risk that when maturing debt needs to be funded by debt issuance, it may have to be refinanced at a higher cost or market conditions may prevent sufficient funds from being raised in an orderly manner. The AOFM seeks to control refinancing risk by issuing along the entire yield curve. This creates a range of short-dated and mid-to-long-dated exposures that balance cost and refinancing patterns. In formulating its debt issuance strategy the AOFM considers the volume of debt in any one line and the maturity structure of its debt (including the number of bond lines and the maturity gaps between lines).

The AOFM monitors market conditions in order to form a view on refinancing risk, and considers it when issuing debt along the yield curve. In addition, as a means of further reducing refinancing risk in future years and to improve market efficiency, the AOFM conducts regular buy backs of Treasury Bonds that no longer form part of the ASX three-year futures contract.

The AOFM manages liquidity risk by maintaining sufficient cash and short term investments to ensure that the government can meet its financial obligations as and when they fall due. The AOFM manages the daily volume of cash in the OPA by monitoring the projected daily transactions of major spending and revenue agencies, undertaking investment of funds that are surplus to immediate cash requirements and by issuing Treasury Notes. The cash flows into and out of the OPA are highly variable and difficult to forecast from day to day, and so in consequence are the size and timing of cash management activities. The AOFM also has access to an overdraft facility with the RBA. The overdraft facility is not to be used in normal day-to-day operations but only to cover temporary, unexpected shortfalls of cash and it has a limit of $1 billion (in the absence of Ministerial approval). The AOFM monitors the daily balance in the OPA, holdings of short term assets and short term and long term debt issuance activity.

The following table discloses the undiscounted value of the contractual maturities of financial liabilities as at the reporting date, including estimated future interest payments. Interest payments and the principal value on redemption of Treasury Indexed Bonds are based on capital values as at period end.

Note 1: Financial risk management (continued)

Liquidity risk and refinancing risk (continued)

		Payable within 5 years $'m		
	Total future cash flows	Within 1 year	1 to 5 years	**Up to 5 years sub-total**
2018:				
Principal:				
Treasury Bonds	**493,184**	29,185	180,449	**209,634**
Treasury Indexed Bonds	**43,867**	2,561	15,306	**17,867**
Treasury Notes	**2,487**	2,487	-	**2,487**
Other	**6**	6	-	**6**
Interest:				
Treasury Bonds	**130,147**	17,767	55,431	**73,198**
Treasury Indexed Bonds	**7,462**	1,004	2,904	**3,908**
Treasury Notes	**13**	13	-	**13**
Other	**-**	-	-	**-**
Total	**677,166**	**53,023**	**254,090**	**307,113**
2017:				
Principal:				
Treasury Bonds	464,044	31,169	157,126	188,295
Treasury Indexed Bonds	40,242	-	20,277	20,277
Treasury Notes	3,482	3,482	-	3,482
Other	6	6	-	6
Interest:				
Treasury Bonds	125,277	17,718	54,077	71,795
Treasury Indexed Bonds	7,482	962	3,044	4,006
Treasury Notes	18	18	-	18
Other	-	-	-	-
Total	640,551	53,355	234,524	287,879

Note 1: Financial risk management (continued)

Liquidity risk and refinancing risk (continued)

	Payable in greater than 5 years $'m			
	5 to 10 years	10 to 15 years	15 years+	**5 years and greater sub-total**
2018:				
Principal:				
Treasury Bonds	169,800	75,100	38,650	**283,550**
Treasury Indexed Bonds	12,566	5,506	7,928	**26,000**
Treasury Notes	-	-	-	**-**
Other	-	-	-	**-**
Interest:				
Treasury Bonds	37,009	11,068	8,872	**56,949**
Treasury Indexed Bonds	2,066	968	520	**3,554**
Treasury Notes	-	-	-	**-**
Other	-	-	-	**-**
Total	**221,441**	**92,642**	**55,970**	**370,053**
2017:				
Principal:				
Treasury Bonds	162,499	71,200	42,050	275,749
Treasury Indexed Bonds	8,581	4,705	6,679	19,965
Treasury Notes	-	-	-	-
Other	-	-	-	-
Interest:				
Treasury Bonds	35,806	9,989	7,687	53,482
Treasury Indexed Bonds	1,990	947	539	3,476
Treasury Notes	-	-	-	-
Other	-	-	-	-
Total	208,876	86,841	56,955	352,672

Note 2: Treasury Bonds

Treasury Bonds are denominated in Australian dollars and pay a fixed coupon semi-annually in arrears. Treasury Bonds are redeemable at face value on maturity. There are no options available to either the Australian Government or the holder of the securities to exchange or convert Treasury Bonds. There are also no options to either party for early redemption. The AOFM issues Treasury Bonds primarily through a competitive auction process to registered bidders. In certain circumstances syndicated issuance is undertaken.

Accounting policy

The AOFM monitors the cost and risk on Treasury Bonds primarily on an accruals basis, but also on a fair value basis. The AOFM has designated Treasury Bonds to be carried at fair value through profit or loss under AASB 139.

The fair value of Treasury Bonds is determined by reference to observable market rates for identical instruments.

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED COMPREHENSIVE INCOME		
Interest expense:		
Interest paid / payable	**17,751**	17,236
Amortisation of net premiums	**(2,388)**	(2,592)
Interest expense	**15,363**	14,644
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
Treasury Bonds:		
Face value	**493,184**	464,044
Accrued interest	**3,498**	4,041
Unamortised net premiums	**10,062**	12,473
Market value adjustment	**17,659**	18,482
Carrying value	**524,403**	499,040
SCHEDULE OF ADMINISTERED CASH FLOWS		
Interest paid:		
Coupons paid	**18,529**	17,844
Interest received on issuance	**(478)**	(709)
Interest paid on repurchase	**244**	63
Interest paid	**18,295**	17,198

As at 30 June 2018 the weighted average market yield on Treasury Bonds was 2.39 per cent (30 June 2017: 2.30 per cent). As at 30 June 2018 the weighted average (*nominal*) issuance yield on Treasury Bonds was 3.14 per cent (30 June 2017: 3.24 per cent).

Note 2: Treasury Bonds (continued)

Changes in principal value for the period

	2018 $'m	2017 $'m
Changes in principal (face value):		
New issuance:		
issued via tender	**59,800**	75,100
issued via syndication	**15,700**	27,900
Debt repurchased	**(22,892)**	(12,348)
Matured	**(23,468)**	(11,828)
Change for period	**29,140**	78,824
+ opening value	**464,044**	385,220
Closing balance	**493,184**	464,044

Of the debt repurchased in 2017–18, $7.7 billion was for Treasury Bonds otherwise maturing in 2017–18.

Note 2: Treasury Bonds (continued)

Treasury Bond lines on issue and their carrying values

	Principal (face value)		Carrying value (fair value)	
	2018 $'m	2017 $'m	**2018 $'m**	2017 $'m
Maturity Date - Coupon				
21 Jul 17 - 4.25%	**-**	13,866	**-**	14,148
21 Jan 18 - 5.50%	**-**	17,303	**-**	18,097
21 Oct 18 - 3.25%	**12,975**	15,797	**13,112**	16,226
15 Mar 19 - 5.25%	**16,210**	21,133	**16,842**	22,707
21 Oct 19 - 2.75%	**18,308**	24,400	**18,595**	25,041
15 Apr 20 - 4.50%	**26,643**	27,997	**28,076**	30,233
21 Nov 20 - 1.75%	**26,800**	25,700	**26,687**	25,543
15 May 21 - 5.75%	**30,199**	29,299	**33,511**	33,538
21 Dec 21 - 2.00%	**17,800**	12,800	**17,746**	12,739
15 Jul 22 - 5.75%	**25,000**	24,100	**29,130**	28,832
21 Nov 22 - 2.25%	**11,600**	-	**11,643**	-
21 Apr 23 - 5.50%	**24,100**	24,100	**27,892**	28,582
21 Apr 24 - 2.75%	**25,500**	25,500	**26,150**	26,202
21 Apr 25 - 3.25%	**27,900**	27,900	**29,450**	29,585
21 Apr 26 - 4.25%	**32,400**	32,400	**36,594**	36,986
21 Apr 27 - 4.75%	**29,699**	28,499	**35,025**	34,061
21 Nov 27 - 2.75%	**28,000**	23,100	**28,393**	23,385
21 May 28 - 2.25%	**26,300**	17,600	**25,519**	16,923
21 Nov 28 - 2.75%	**23,500**	14,000	**23,819**	14,099
21 Apr 29 - 3.25%	**22,700**	16,500	**24,157**	17,456
21 Nov 29 - 2.75%	**11,500**	-	**11,636**	-
21 May 30 - 2.75%	**3,500**	-	**3,444**	-
21 Apr 33 - 4.50%	**13,900**	12,600	**16,860**	15,173
21 Jun 35 - 2.75%	**6,950**	6,550	**6,821**	6,244
21 Apr 37 - 3.75%	**11,200**	10,800	**12,614**	11,790
21 Jun 39 - 3.25%	**8,000**	4,000	**8,316**	3,991
21 Mar 47 - 3.00%	**12,500**	8,100	**12,371**	7,459
Total	**493,184**	464,044	**524,403**	499,040

Note 3: Treasury Indexed Bonds

Treasury Indexed Bonds are denominated in Australian dollars and are capital-indexed with the principal value of the bond adjusted by reference to movements in the CPI (based on a six month lag).

Interest payments are made quarterly in arrears, at a fixed rate, on the adjusted capital value. At maturity, investors receive the adjusted capital value of the security.

The AOFM issues Treasury Indexed Bonds primarily through a competitive auction process to registered bidders. In certain circumstances syndicated issuance is undertaken.

Accounting policy

The AOFM monitors the cost and risk on Treasury Indexed Bonds primarily on an accruals basis, but also on a fair value basis. The AOFM has designated Treasury Indexed Bonds to be carried at fair value through profit or loss under AASB 139.

The fair value of Treasury Indexed Bonds is determined by reference to observable market rates for identical instruments.

Capital accretion is recognised in Interest Expense over time with the quarterly release of the CPI.

As future inflation rates are uncertain, an estimate of the adjusted capital value on maturity of each series of Treasury Indexed Bonds is not disclosed in the financial statements.

Note 3: Treasury Indexed Bonds (continued)

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED COMPREHENSIVE INCOME		
Interest expense:		
Interest paid / payable	**984**	914
Capital accretion and amortisation of net premiums	**582**	398
Interest expense	**1,566**	1,312
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
Treasury Indexed Bonds:		
Principal:		
Face value	**36,247**	33,429
Capital accretion (to next coupon)	**7,620**	6,813
Adjusted capital value	**43,867**	40,242
Accrued interest	**82**	78
Unamortised net premiums	**1,308**	1,345
Market value adjustment	**3,291**	3,053
Carrying value	**48,548**	44,718
SCHEDULE OF ADMINISTERED CASH FLOWS		
Interest paid:		
Coupons paid	**983**	912
Interest received on issuance	**(4)**	(4)
Interest paid on repurchase	**1**	..
Accretion since issuance (paid on redemption)	**162**	..
Interest paid	**1,142**	908

As at 30 June 2018, the weighted average market yield on Treasury Indexed Bonds was 0.51 per cent (30 June 2017: 0.61 per cent).

As at 30 June 2018, the weighted average *(real)* issuance yield on Treasury Indexed Bonds was 1.63 per cent (30 June 2017: 1.70 per cent).

Note 3: Treasury Indexed Bonds (continued)

Changes in principal value for the period

	Principal (face value)		Adjusted Capital Value (a)	
	2018 $'m	2017 $'m	**2018 $'m**	2017 $'m
Changes in principal:				
New issuance				
issued via tender	**2,550**	2,550	**2,739**	2,851
issued via syndication	**3,000**	700	**3,010**	721
Debt repurchased	**(2,732)**	..	**(2,922)**	..
Matured	**-**	-	**-**	-
Accretion	**-**	-	**798**	679
Change for period	**2,818**	3,250	**3,625**	4,251
+ opening value	**33,429**	30,179	**40,242**	35,991
Closing balance	**36,247**	33,429	**43,867**	40,242

(a) to next coupon

Treasury Indexed Bond lines on issue and their carrying amounts

	Principal (face value)		Carrying value (fair value)	
	2018 $'m	2017 $'m	**2018 $'m**	2017 $'m
Maturity Date - Coupon				
21 Nov 18 - 1.00%	**2,357**	5,089	**2,565**	5,478
20 Aug 20 - 4.00%	**5,114**	5,114	**9,434**	9,537
21 Feb 22 - 1.25%	**5,840**	5,690	**6,808**	6,521
20 Sep 25 - 3.00%	**7,193**	7,193	**10,226**	10,139
21 Nov 27 - 0.75%	**3,750**	-	**3,853**	-
20 Sep 30 - 2.50%	**4,643**	4,043	**6,653**	5,655
21 Aug 35 - 2.00%	**3,950**	3,650	**5,155**	4,558
21 Aug 40 - 1.25%	**3,400**	2,650	**3,854**	2,830
Total	**36,247**	33,429	**48,548**	44,718

Note 4: Treasury Notes

Treasury Notes are short term discount instruments, denominated in Australian dollars and repayable at face value on maturity.

Accounting policy

The AOFM monitors the cost and risk on Treasury Notes primarily on an accruals basis, but also on a fair value basis. The AOFM has designated Treasury Notes to be carried at fair value through profit or loss under AASB 139.

The fair value of Treasury Notes is determined by reference to observable market rates for identical instruments.

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
Treasury Notes:		
Face value	**2,500**	3,500
Unexpired interest discount	**(8)**	(11)
Market value adjustment	**..**	1
Carrying value	**2,492**	3,490

Changes in principal value for the period

	2018 $'m	2017 $'m
Change in principal (face value):		
New issuance:		
issued via tender	**13,500**	13,000
Matured	**(14,500)**	(14,500)
Change for period	**(1,000)**	(1,500)
+ opening value	**3,500**	5,000
Closing balance	**2,500**	3,500

The average tenor of issuance was around three months (2016–17: four months).

Note 5: Term deposits with the RBA

Term deposits with the RBA are Australian dollar denominated investments placed for a fixed term of less than six months at an agreed fixed interest rate, with interest calculated on a simple interest basis.

Term deposit investments are made under the authority of section 58 of the *Public Governance, Performance and Accountability Act 2013*.

Accounting policy

The AOFM monitors the cost and risk on term deposits primarily on an accruals basis, but also on a fair value basis. The AOFM has designated term deposits to be carried at fair value through profit or loss under AASB 139.

The fair value of term deposits is based on a zero coupon curve using the overnight cash rate and overnight indexed swap rates. These yields reflect a default free credit risk.

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
Term deposits:		
Face value	**45,100**	56,800
Accrued interest	**36**	57
Market value adjustment	**4**	3
Carrying value	**45,140**	56,860

Changes in principal value for the period

	2018 $'m	2017 $'m
Changes in principal (face value):		
New term deposits	**473,450**	471,300
Matured term deposits	**(485,150)**	(443,400)
Change for period	**(11,700)**	27,900
+ opening value	**56,800**	28,900
Closing balance	**45,100**	56,800

Note 6: Residential mortgage-backed securities (RMBS)

Residential mortgage-backed securities (RMBS) are investments in Australian dollar denominated debt instruments secured by pools of mortgages and held by special purpose vehicles.

In 2015 the AOFM began running down its holdings of RMBS investments and in February 2018 sold its last holdings.

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
RMBS:		
Face value	-	1,919
Accrued interest	-	2
Market value adjustment	-	6
Carrying value	-	1,927
Expected to be received:		
Within one year	-	497
In one to five years	-	1,430
In more than five years	-	-
Total	-	1,927

The following table provides a summary of the RMBS portfolio from its inception in September 2008 until its divestment in February 2018.

		Cash inflows			
	Amount invested	**Principal repaid**	**Sales proceeds**	**Coupon receipts**	**Net cash (a)**
	$'m	**$'m**	**$'m**	**$'m**	**$'m**
Financial year:					
2008-09	(6,203)	179	-	76	(5,948)
2009-10	(2,820)	851	74	365	(1,530)
2010-11	(4,349)	1,439	-	600	(2,310)
2011-12	(1,930)	1,509	50	641	270
2012-13	(160)	1,771	517	480	2,608
2013-14	-	2,178	899	313	3,390
2014-15	-	1,595	162	197	1,954
2015-16	-	1,151	299	112	1,562
2016-17	-	894	-	71	965
2017-18	-	410	1,521	27	1,958
Total	**(15,462)**	**11,977**	**3,522**	**2,882**	**2,919**

(a) Net cash proceeds relates directly to cash flows on the RMBS portfolio only. Financing costs arising from acquiring the investments and the financing effects of subsequent cash flows are not included in the figures.

Note 7: Loans to state and territory governments

Loans to state and territory governments predominantly comprise concessional housing advances and specific purpose capital advances made between 1945 and 1989 under Commonwealth — state financing arrangements. These loans are structured with annual repayments which incorporate principal and interest.

Accounting policy

Loans to state and territory governments are measured at fair value on initial recognition and at amortised cost on subsequent measurement using the effective interest method.

Key aggregates are comprised of:

	2018 $'m	2017 $'m
SCHEDULE OF ADMINISTERED ASSETS AND LIABILITIES		
Perpetual debt:		
Face value	..	..
Accrued interest	..	..
Balance of special account	..	..
Advances:		
Face value	1,993	2,089
Unamortised net discounts	(201)	(217)
Accrued interest	..	..
Other	..	..
Total	1,792	1,872
Expected to be received:		
Within one year	82	79
In one to five years	345	338
In more than five years	1,365	1,455
Total	1,792	1,872
Ageing:		
Not overdue	1,792	1,872
Overdue	-	-
Total	1,792	1,872

The fair value of these loans is $2,297 million (2016–17: $2,397 million). In estimating fair value data from Treasury Bonds is used.

Note 8: Cash flow reconciliation

The following table reconciles the surplus (deficit) reported in the Schedule of Comprehensive Income to net cash flows from operating activities reported in the Schedule of Cash Flows.

	2018 $'m	2017 $'m
Surplus (deficit)	**(16,170)**	3,668
Adjustments for non-cash items:		
Amortisation and capital accretion of debt instruments	**(1,806)**	(2,194)
Amortisation of net discounts on Loans to State and Territory Governments	**(16)**	(17)
Net (gains) losses	**512**	414
Re-measurements	**(581)**	(19,403)
Debt Retirement Reserve Trust Account contributions and interest payments	**..**	..
Adjustments for cash items:		
Capital accretion costs on redemption of debt	**(162)**	..
Accrual adjustments:		
Interest accruals on debt	**(543)**	36
Interest accruals on assets	**24**	(31)
Accrued expenses	**..**	..
Net cash from operating activities	**(18,742)**	(17,527)

Note 9: Appropriations

Administered special appropriations (unlimited amount)

	2018 $'000	2017 $'000
Commonwealth Inscribed Stock Act 1911		
s13AA - payment of principal and interest on money raised by Stock issued under the Act and payments on depository interests in Stock issued under the Act.	**57,529,106**	45,105,069
s13A - payment of costs and expenses incurred in relation to issuing and managing debt and depository interests	**31,305**	50,155
s13B - payment of costs and expenses incurred in repurchasing debt prior to maturity	**26,560,649**	12,831,004
Financial Agreement Act 1994		
s5 - debt redemption assistance and payment of interest to bond holders on behalf of the State and Northern Territory Governments on public debt under the Act (a)	**8**	271
Loans Securities Act 1919		
s4 - payment of principal and interest on money raised by stock issued under the Act	**-**	7,686
Public Governance, Performance and Accountability Act 2013		
s58(7) - investments made in the name of the Commonwealth of Australia	**473,450,000**	471,300,000
Total	**557,571,068**	529,294,185

(a) The 2017–18 amount includes $1,131 paid into the Debt Retirement Reserve Trust Account (2016-17: $31,790).

The following table details the investments (in face value terms) made in the name of the Commonwealth under the authority of section 58 of the *Public Governance, Performance and Accountability Act 2013*.

	2018 $'000	2017 $'000
INVESTMENTS MADE IN THE NAME OF THE COMMONWEALTH		
Opening value	**58,718,811**	31,713,365
Acquisitions	**473,450,000**	471,300,000
Redemptions and sales	**(487,068,811)**	(444,294,554)
Closing face value	**45,100,000**	58,718,811

Note 9: Appropriations (continued)

The following details administered special appropriations that are available but were not used by the AOFM during 2017–18 and 2016–17:

- *Australian National Railways Commission Sale Act 1997*, sec 67AW — Purpose: payment of principal and interest on former debts of the National Railways Commission.
- *Loans Redemption and Conversion Act 1921*, sec 5 — Purpose: payment of principal, interest and costs of converting loans made in accordance with the Act.
- *Loans Securities Act 1919*, sec 5B — Purpose: payment of money under a swap or other financial arrangement and any expenditure in connection with the negotiation, management or service of, or a repayment under, any such agreement.
- *Loans Securities Act 1919*, sec 5BA — Purpose: payment of money to enter into securities lending arrangements.
- *Moomba-Sydney Pipeline System Sale Act 1994*, sec 19 — Purpose: payment of principal and interest on former debts of the Pipeline Authority.
- *Public Governance, Performance and Accountability Act 2013*, sec 74A — Purpose: payments of recoverable GST.
- *Treasury Bills Act 1914*, sec 6 — Purpose: payment of principal and interest on money raised by issuance of Treasury Bills.

Administered annual appropriations

	2018 $'000	2017 $'000
Annual appropriations	**10**	10
Total available for payment	**10**	10
Appropriation applied	**-**	-
Variance	**10**	10

Note 9: Appropriations (continued)

Unspent administered annual appropriation

	2018 $'000	2017 $'000
UNSPENT ADMINISTERED ANNUAL APPROPRIATIONS		
Appropriation Act 1 2016-17	**-**	10
Appropriation Act 1 2017-18	**10**	-

Special account — Debt Retirement Reserve Trust Account

	2018 $'000	2017 $'000
DEBT RETIREMENT RESERVE TRUST ACCOUNT (DRRTA)		
Opening balance	**44**	1,037
Appropriation for reporting period:		
Commonwealth contributions	**1**	19
Interest amounts credited	**1**	12
State contributions	**1**	7,824
Available for payments	**47**	8,892
Debt repayments made	**(7)**	(8,848)
Balance	**40**	44
Balance represented by:		
Cash - held in the Official Public Account	**40**	44

Establishing Instrument — *Public Governance, Performance and Accountability Act 2013*, section 80.

Purpose — to fund the redemption of the state and territory debt governed by the *Financial Agreement Act 1994*. Monies standing to the credit of the DRRTA are applied to repurchase debt of the states and the Northern Territory.

Monies standing to the credit of the Debt Retirement Reserve Trust Account are held on behalf of New South Wales and Victoria. These monies are held for the purposes prescribed by the *Financial Agreement Act 1994*.

Note 10: Budgetary report to outcome comparison

The AOFM produces budget estimates of Australian Government Securities (AGS) and certain financial assets for the Australian Government Budget which is released in May each year for the Budget year (the financial year commencing on the following 1 July) and three forward years.

The projections of debt issuance and asset holdings are a consequence of the expenditure, investment and revenue decisions and assumptions made by the government in producing its Budget. As part of the budget process, the AOFM receives an estimate of the aggregated annual financing task for the budget year and forward years from the Treasury. The headline cash deficit (which represents net cash flows after operating activities and investing activities for policy purposes; and before investments for liquidity purposes and financing activities) is the closest published aggregate to this financing task. The financing task plus the volume of maturing AGS debt and planned early repurchases of AGS debt (that would otherwise mature in a future year) determines the size of the debt issuance program in each year.

The volume of AGS debt that needs to be issued in face value terms to generate the required level of financing will depend on the future level of AGS yields (or interest rates) and the mix and tenor of debt to be issued. The mix and tenor of debt to be issued is based on the debt management strategy for the period ahead.

A technical assumption is made about future AGS yields. It is assumed that the AGS yields for different tenors of debt will be the same as the prevailing observed market rates at the time the budget estimates are prepared.

2017–18 Budget

In the 2017–18 Budget (released in May 2017) the government estimated a headline cash deficit of $48.4 billion for 2017–18. After AGS maturities and redemptions of $48.1 billion, operational considerations (such as market conditions, the uncertainty and timing associated with future year funding requirements, the strength of revenue collections relative to forecasts and the level of cash holdings to maintain) and the financing transactions of other government agencies, the long term debt issuance program for 2017–18 was set at $85 billion.

At the time of the Mid-Year Economic and Fiscal Outlook (released in December 2017) the headline cash deficit for 2017–18 was forecast to improve (by $8.8 billion) to $39.6 billion. The long term debt issuance program was reduced (by $5.4 billion) to $79.6 billion.

Note 10: Budgetary report to outcome comparison (continued)

At the time of the 2018–19 Budget (released in May 2018) the headline cash deficit was forecast to improve further (by $2.5 billion) to $37.1 billion. After AGS maturities and redemptions, operational considerations and the financing transactions of other agencies, the long term debt issuance program for 2017–18 was revised to $81.6 billion.

Administered schedule of comprehensive income

	Outcome	Budget	Variance
	2018 $'m	**2018 $'m**	**2018 $'m**
EXPENSES			
Grants	**..**	..	..
Interest expense	**16,996**	17,130	(134)
Supplier expenses	**29**	24	5
Total expenses	**17,025**	17,154	(129)
INCOME			
Interest revenue	**786**	656	130
Other revenue	**..**	-	..
Total income	**786**	656	130
GAINS (LOSSES)			
Foreign exchange	**..**	-	..
Residential mortgage-backed securities sales	**11**	-	11
Debt repurchased	**(523)**	(469)	(54)
Total gains (losses)	**(512)**	(469)	(43)
Surplus (deficit) before re-measurements	**(16,751)**	(16,967)	216
RE-MEASUREMENTS			
Net market revaluation	**581**	1,831	(1,250)
Total re-measurements	**581**	1,831	(1,250)
Surplus (deficit)	**(16,170)**	(15,136)	(1,034)

Original Budget released in May 2017. The Budget figures are not audited.

Significant variances in expenses before re-measurements

Interest expense for 2017–18 was $134 million lower than forecast in the 2017–18 Budget. This comprises a favourable variance for Treasury Bonds interest of $74 million and a favourable variance for Treasury Indexed Bonds interest of $60 million.

Note 10: Budgetary report to outcome comparison (continued)

The lower interest expense is primarily attributable to:

- a lower debt issuance program than forecast,
- a higher debt repurchase program than forecast, and
- lower than forecast CPI for the period.

Significant variances in income before re-measurements

Interest income for 2017–18 was $130 million higher than forecast in the 2017–18 Budget. This comprises a favourable variance of $150 million for term deposits and an unfavourable variance of $20 million for RMBS investments.

Revenue earned on term deposits was higher than forecast due to two factors. Firstly, the AOFM's average term deposit holdings were higher than forecast due to operational considerations. Secondly, the interest rates earned on term deposit investments were higher than forecast due to an increase in short term market rates over the course of 2017–18.

Interest income on RMBS investments was lower than forecast due to the recommencement of the divestment program not being factored into the 2017–18 Budget.

Significant variances in gains (losses) before re-measurements

During 2017–18 as part of its cash management operations the AOFM redeemed $25.623 billion of Treasury Bonds and Treasury Indexed Bonds prior to maturity. This included $7.7 billion of Treasury Bonds maturing in 2017–18. In the 2017–18 Budget, the AOFM forecast the early redemption of $17 billion of Treasury Bonds and Treasury Indexed Bonds maturing in future years. The early redemption of within-year maturities are not forecast in the Budget. The additional repurchases of debt prior to maturity realised additional accounting losses.

In addition, during 2017–18, the AOFM recommenced its RMBS divestment program due to more favourable market conditions. The AOFM sold $1.508 billion of RMBS investments in 2017–18 for an accounting profit of $11 million. The recommencement of the RMBS divestment program was not forecast in the 2017–18 Budget.

Significant variances in re-measurements

A technical assumption is made about future interest rates in budget forecasts. It is

Note 10: Budgetary report to outcome comparison (continued)

assumed that the AGS yields for different tenors of debt will be the same as the prevailing observed market rates (at the time the budget estimates are prepared). Actual long term interest rates as at 30 June 2018 were lower than at budget (May 2017), and short term interest rates were higher. Longer term debt is more price sensitive to changes in interest rates. Overall, the changes in market rates resulted in a small increase in the market value of the AGS portfolio as at 30 June 2018 compared to budget. There is an inverse relationship between yield and price.

Administered schedule of assets and liabilities

	Outcome	Budget	Variance
	2018 $'m	**2018 $'m**	**2018 $'m**
LIABILITIES			
Interest bearing liabilities	**575,449**	584,562	(9,113)
Other - accrued expenses	**..**	..	..
Total liabilities	**575,449**	584,562	(9,113)
ASSETS			
Cash at bank	**1**	1	-
Investments	**45,140**	40,627	4,513
Loans to State and Territory Governments	**1,792**	1,792	-
Total assets	**46,933**	42,420	4,513
Net assets	**(528,516)**	(542,142)	13,626

Significant variances in interest bearing liabilities

The fair value of AGS debt outstanding as at 30 June 2018 was $9.1 billion lower than forecast in the 2017–18 Budget. In face value terms, AGS on issue as at 30 June 2018 was around $8 billion lower than forecast, primarily due to lower issuance activities. Differences in the mix of AGS issuance and repurchase activity for 2017–18, and in market rates as at 30 June 2018 have also contributed.

Significant variances in financial assets

As at 30 June 2018 the AOFM held $5.7 billion (in face value terms) in additional term deposit investments than projected in the 2017–18 Budget. This is due to operational considerations.

In addition, as at 30 June 2018 the AOFM had fully divested its RMBS portfolio. In the Budget the AOFM projected that it would continue to hold around $1.2 billion in RMBS investments.

Note 11: Securities lending facility

The AOFM has a securities lending facility for Treasury Bonds and Treasury Indexed Bonds, operated by the RBA. The purpose of the facility is to enhance the efficiency of the bond markets by allowing bond market participants to borrow Treasury Bonds and Treasury Indexed Bonds when they are not readily available in those markets. Bonds are lent on an intra-day or overnight basis.

	2018 No.	2017 No.	**2018 $'m**	2017 $'m
Transactions completed during the financial year				
Overnight:				
Treasury Bonds	**28**	2	**1,220**	22
Treasury Indexed Bonds	**26**	47	**458**	355
Intra-day:				
Treasury Bonds	**8**	2	**738**	230
Treasury Indexed Bonds	**-**	-	**-**	-
Total - completed	**62**	51	**2,416**	607
Open transactions as at the end of the financial year				
Overnight:				
Treasury Bonds	**-**	-	**-**	-
Treasury Indexed Bonds	**-**	2	**-**	11
Total - open	**-**	2	**-**	11

Note 12: Quantitative impact of AASB 9 on 1 July 2018

From 1 July 2018 AASB 9 *Financial Instruments* will become operational for the AOFM. On first time adoption of AASB 9 reporting entities must revisit accounting treatments for financial assets and liabilities.

The AOFM has assessed that its term deposit investments with the RBA must be measured at amortised cost (based on the AOFM's business objective and the nature of the instruments) from 1 July 2018. As at 30 June 2018 term deposit investments were designated at fair value through profit or loss. AASB 9 allows entities to elect whether to restate comparative information. The AOFM does not plan to restate comparatives (i.e. 30 June 2018) figures in its 2018–19 annual financial statements. Instead the adjustments in carrying value will be recognised directly in opening equity as at 1 July 2018.

The adjustment of $4 million, is represented as follows:

	AASB 139 30 June 2018	Adjustment to equity 1 July 2018	AASB 9 1 July 2018
	$'m	$'m	$'m
Moving from fair value to amortised cost:			
Term deposits - carrying value	45,140	(4)	45,136
Total	45,140	(4)	45,136

DEPARTMENTAL NOTES

Departmental assets, liabilities, revenue and expenses are those items that an entity has control over and include ordinary operating costs and associated funding, and include salaries, accruing employee entitlements and operational expenses.

Note A: Expenses

	2018 $'000	2017 $'000
EMPLOYEE BENEFITS		
Wages and salaries	**5,384**	5,111
Superannuation	**943**	1,021
Leave entitlements	**197**	3
Other employee expenses	**298**	487
Total	**6,822**	6,622

Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The Chief Executive Officer (CEO) (the Accountable Authority under the *Public Governance, Performance and Accountability Act 2013*), the Secretary to the Treasury and the Treasurer have been determined to be key management personnel for the AOFM. The CEO only is remunerated by the AOFM. The below table sets out the CEO's actual remuneration (on an accruals basis):

	2018 $'000	2017 $'000
Short-term employee benefits:		
Salary and other short-term benefits	**354**	345
Annual leave accrued	**29**	28
Long service leave accrued	**9**	9
Post employment benefits:		
Superannuation	**51**	50
Total	**443**	432
Number of key management personnel	**1**	1

	2018 $'000	2017 $'000
SUPPLIER EXPENSES		
ANAO - notional audit fee	**290**	290
Corporate support services	**829**	805
Market data services	**555**	581
Operating lease payments - premises	**277**	258
Depository and transaction services	**168**	160
Travel	**316**	373
Workers compensation premium	**21**	17
Other	**1,004**	1,264
Total	**3,460**	3,748

Note B: Receivables

Accounting policy

Receivables are measured at fair value on initial recognition and at amortised cost on subsequent measurement.

Appropriations receivable are recognised at their nominal amounts. Appropriations receivable are appropriations controlled by the AOFM but held in the OPA under the government's 'just in time' drawdown arrangements.

	2018 $'000	2017 $'000
RECEIVABLES **With related parties:**		
Goods and services	**112**	187
Appropriations receivable	**24,474**	24,485
GST and other	**-**	1
Total	**24,586**	24,673
Receivables are expected to be recovered in:		
No more than 12 months	**12,570**	12,136
More than 12 months	**12,016**	12,537
Total	**24,586**	24,673
Receivables are aged as follows:		
Not overdue	**24,586**	24,673
Overdue	**-**	-
Total	**24,586**	24,673

Note C: Leasehold improvements

Accounting policy

Asset recognition threshold on acquisition

Purchases of leasehold improvements are recognised initially at cost except for purchases costing less than $1,000 which are expensed at the time of acquisition.

Revaluations

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ from fair value as at the reporting date. Fair value is determined by depreciated replacement cost for leasehold improvements.

Depreciation

Leasehold improvements are depreciated on a straight-line basis over the unexpired period of the lease.

	2018 $'000	2017 $'000
LEASEHOLD IMPROVEMENTS		
Gross value	**1,924**	1,914
Accumulated depreciation	**(247)**	(24)
Total	**1,677**	1,890
Reconciliation of gross value:		
Opening value	**1,914**	1,475
Purchases	**10**	1,914
Disposal	**-**	(1,475)
Revaluation	**-**	-
Total	**1,924**	1,914
Reconciliation of accumulated depreciation:		
Opening value	**(24)**	(1,475)
Depreciation charge for period	**(223)**	(24)
Disposal	**-**	1,475
Revaluation	**-**	-
Total	**(247)**	(24)

No indicators of impairment were identified for leasehold improvements.

Note D: Computer software

Accounting policy

Asset recognition threshold on acquisition

Purchases of computer software are recognised initially at cost except for purchases costing less than $10,000 which are expensed at the time of acquisition.

An item of software represents a software licence granted for greater than 12 months, or a developed software application.

Developed software is recognised by capitalising all directly attributable internal and external costs that enhance the software's functionality and therefore service potential.

Amortisation

Software assets are amortised on a straight-line basis over their anticipated useful lives, being three to ten years (2016–17: three to ten years).

Software assets are carried at cost and are not subject to revaluation.

	2018 $'000	2017 $'000
COMPUTER SOFTWARE		
Gross value:		
Debt management system	**1,521**	1,521
Accumulated amortisation	**(579)**	(417)
Total	**942**	1,104
Reconciliation of gross value:		
Opening value	**1,521**	1,619
Disposal	**-**	(98)
Total	**1,521**	1,521
Reconciliation of accumulated amortisation:		
Opening value	**(417)**	(347)
Amortisation charge for period	**(162)**	(168)
Disposal	**-**	98
Total	**(579)**	(417)

No indicators of impairment were identified for computer software.

Note E: Employee provisions

Accounting policy

Leave

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

Long service leave and annual leave are measured at the present value of the estimated future payments to be made. In determining the present value, the AOFM commissions a periodic actuarial assessment.

Superannuation

The AOFM contributes to defined benefit superannuation schemes (the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme) and accumulation plans (defined contribution schemes) on behalf of staff.

The AOFM accounts for its superannuation contributions as if they were defined contribution plans i.e. it has no ongoing liability to report. The superannuation benefits payable to an employee upon termination of employment with the Australian Government from defined benefit schemes is recognised in the financial statements of the Department of Finance and is settled by the Australian Government in due course.

An on-cost liability is recognised for superannuation contributions payable on accrued annual leave and long service leave as at the end of the financial year.

	2018 $'000	2017 $'000
EMPLOYEE PROVISIONS		
Annual leave	**524**	460
Long service leave	**1,583**	1,450
Superannuation	**247**	369
Total	**2,354**	2,279
Employee provisions are expected to be settled in:		
No more than 12 months	**489**	617
More than 12 months	**1,865**	1,662
Total	**2,354**	2,279

Note F: Other provisions

	2018 $'000	2017 $'000
OTHER PROVISIONS		
Make good on leasehold premises	**418**	418
Total	**418**	418
Other provisions are expected to be settled in:		
No more than 12 months	**-**	-
More than 12 months	**418**	418
Total	**418**	418
Reconciliation of movements in other provisions:		
Opening balance	**418**	160
Paid	**-**	(45)
Derecognised	**-**	(115)
New / re-measurements	**-**	418
Total	**418**	418

Note G: Cash flow reconciliation

The following table reconciles the AOFM's operating cash flows as presented in the statement of cash flows to its net cost of services presented in the statement of comprehensive income.

	2018 $'000	2017 $'000
Net cost of services	**(9,978)**	(9,631)
Add revenue from Government	**10,834**	11,198
Adjustments for non-cash items:		
Depreciation and amortisation	**433**	205
Asset disposal	**-**	14
Appropriations extinguished	**(1,631)**	(8,194)
Gain on make good provision derecognised	**-**	(115)
Asset accruals	**194**	(505)
Change in receivables for capital budget items	**500**	(816)
Adjustments for changes in assets:		
(Increase) decrease in receivables	**87**	6,962
(Increase) decrease in supplier prepayments	**(165)**	49
Adjustments for changes in liabilities:		
Increase (decrease) in supplier payables	**(374)**	386
Increase (decrease) in salary and superannuation	**(2)**	26
Increase (decrease) in other payables	**-**	(6)
Increase (decrease) in employee provisions	**75**	169
Increase (decrease) in other provisions	**-**	258
Net cash from operating activities	**(27)**	-

Note H: Appropriations

Annual appropriations

	2018 $'000	2017 $'000
DEPARTMENTAL ANNUAL APPROPRIATIONS		
Annual appropriations:		
Outputs	**10,867**	11,198
Departmental capital budget	**713**	720
Appropriation withheld (a)	**(33)**	-
Public Governance, Performance and Accountability Act 2013:		
Section 74 - retained receipts	**542**	588
Total available for payment	**12,089**	12,506
Appropriation applied (current and prior years)	**(10,496)**	(11,508)
Variance	**1,593**	998

(a) On 29 June 2018, $33,000 relating to savings measure announced at MYEFO 2017–18 was withheld via section 51 of the *Public Governance, Performance and Accountability Act 2013*.

The variance in departmental appropriations available to appropriations applied (spent) is explained by lower administrative costs than expected.

Unspent departmental annual appropriation

	2018 $'000	2017 $'000
UNSPENT DEPARTMENTAL ANNUAL APPROPRIATION		
Appropriation Act (No. 1) 2014-15 (a)	**-**	8,194
Appropriation Act (No. 1) 2015-16 (b)	**1,631**	11,948
Supply Act (No. 1) 2016-17	**4,966**	4,966
Appropriation Act (No. 1) 2016-17	**7,342**	7,521
Appropriation Act (No. 2) 2016-17	**150**	150
Appropriation Act (No. 1) 2017-18	**12,089**	-
Total	**26,178**	32,779
Represented By:		
Cash at bank	**73**	100
Appropriations receivable	**24,474**	24,485
Appropriations extinguished	**1,631**	8,194
Total	**26,178**	32,779

(a) The Appropriation Act was repealed on 1 July 2017 and unspent funds were no longer available for use at this time. Unspent funds were accounted for as a return of capital on 30 June 2017 (refer to statement of changes in equity).

(b) The Appropriation Act was repealed on 1 July 2018 and unspent funds were no longer available for use at this time. Unspent funds were accounted for as a return of capital on 30 June 2018 (refer to statement of changes in equity).

Note I: Budgetary report to outcome comparison

The budgetary comparison is to the original Budget released in May 2017. The Budget figures are not audited.

Statement of comprehensive income

	Outcome	Budget	Variance
	2018 $'000	**2018 $'000**	**2018 $'000**
NET COST OF SERVICES			
EXPENSES			
Employee benefits	**6,822**	6,476	346
Supplier expenses	**3,460**	5,072	(1,612)
Depreciation and amortisation	**433**	400	33
Total	**10,715**	11,948	(1,233)
OWN-SOURCE INCOME			
Revenue	**737**	681	56
Total	**737**	681	56
Net cost of services	**9,978**	11,267	(1,289)
APPROPRIATION FUNDING			
Revenue from government	**10,834**	10,867	(33)
Total	**10,834**	10,867	(33)
Surplus (deficit)	**856**	(400)	1,256

Note I: Budgetary report to outcome comparison (continued)

Statement of financial position

	Outcome	Budget	Variance
	2018 $'000	**2018 $'000**	**2018 $'000**
ASSETS			
Financial assets:			
Cash and cash equivalents	**73**	100	(27)
Receivables	**24,586**	30,545	(5,959)
Non-financial assets:			
Infrastructure, plant and equipment	**2,047**	2,507	(460)
Computer software	**942**	1,722	(780)
Supplier prepayments	**223**	107	116
Total	**27,871**	34,981	(7,110)
LIABILITIES			
Payables	**183**	130	53
Employee provisions	**2,354**	2,218	136
Other provisions	**418**	160	258
Total	**2,955**	2,508	447
Net assets	**24,916**	32,473	(7,557)
EQUITY			
Retained surplus	**30,467**	28,199	2,268
Contributed equity	**(5,551)**	4,274	(9,825)
Total	**24,916**	32,473	(7,557)

Statement of changes in equity

	Outcome	Budget	Variance
	2018 $'000	**2018 $'000**	**2018 $'000**
EQUITY			
RETAINED SURPLUS			
Opening balance	**29,611**	28,599	1,012
Surplus (deficit)	**856**	(400)	1,256
Total	**30,467**	28,199	2,268
CONTRIBUTED EQUITY			
Opening balance	**(4,633)**	3,561	(8,194)
Capital injections	**713**	713	-
Appropriations extinguished	**(1,631)**	-	(1,631)
Total	**(5,551)**	4,274	(9,825)

Note I: Budgetary report to outcome comparison (continued)

Statement of cash flows

	Outcome	Budget	Variance
	2018 $'000	**2018 $'000**	**2018 $'000**
OPERATING ACTIVITIES			
Cash received	**10,798**	11,546	(748)
Cash used	**(10,825)**	(11,546)	721
Net cash from operating activities	**(27)**	-	(27)
INVESTING ACTIVITIES			
Cash received	**-**	-	-
Cash used	**(213)**	(713)	500
Net cash from investing activities	**(213)**	(713)	500
FINANCING ACTIVITIES			
Cash received - appropriations	**213**	713	(500)
Net cash from financing activities	**213**	713	(500)
Net change in cash held	**(27)**	-	(27)
+ cash held at the beginning of period	**100**	100	-
Cash held at the end of the period	**73**	100	(27)

Significant variances in the departmental financial statements

Employee expenses were higher than forecast at budget due to higher leave entitlements and other employee expenses.

During 2017–18, the AOFM incurred lower than anticipated supplier expenses (represented in supplier expenses) for undertaking its issuance program and managing its portfolio of financial assets and liabilities.

As at 30 June 2018, appropriations receivable was lower than projected at budget by $6.0 million. This is due to the sunsetting of appropriations funding from prior years not being factored into the Budget estimates of $9.8 million which was partially offset by higher cash surpluses than projected for both 2017–18 and the prior year.

The balance of infrastructure, plant and equipment was lower than at budget due to lower than anticipated capital expenditure.

The balance of computer software was lower than estimated at budget due to expenditure on the AOFM's upgrade of its debt management system being less than expected.

Note I: Budgetary report to outcome comparison (continued)

As at 30 June 2018, the AOFM reported higher other provisions than projected at Budget due to a reassessment of make good requirements arising from AOFM's new lease premises.

The balance of contributed equity as at 30 June 2018 was lower than budget forecasts due to the extinguishment of appropriations.