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Financial statements



Defence Housing Australia ABN 72 968 504 934
Annual Report - 30 June 2016

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INDEPENDENT AUDITOR'S REPORT

To the Ministers for Defence and Finance

I have audited the accompanying annual financial statements of Defence Housing Australia and the consolidated entity for the year ended 30 June 2016, which comprise:

- Statement by the Directors, Acting Managing Director and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Cash Flows;
- Statements of Changes in Equity; and
- Notes to the Consolidated Financial Statements comprising significant accounting policies and other explanatory information.

The consolidated entity comprises the Defence Housing Australia and the entities it controlled at the year's end or from time to time during the year.

Opinion

In my opinion, the financial statements of Defence Housing Australia and the consolidated entity:

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial positions of Defence Housing Australia and the consolidated entity as at 30 June 2016 and their financial performance and cash flows for the year then ended.

Accountable Authority's Responsibility for the Financial Statements

The directors of Defence Housing Australia are 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 and are also responsible for such internal control as the directors determine are necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, as well as evaluating the overall presentation of the financial statements.

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

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office



Clea Lewis
Executive Director

Delegate of the Auditor-General

Canberra
17 August 2016

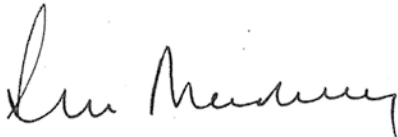
Defence Housing Australia
Statement by the Directors, Acting Managing Director and Chief Financial Officer
30 June 2016

Statement by Directors, Acting Managing Director, and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2016 comply with subsection 42 (2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41 (2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that Defence Housing Australia will be able to pay its debts as and when they fall due.

This statement is made in accordance with a resolution of the directors.



The Hon J A L (Sandy) Macdonald
Chairman



Ms Jan Mason
Acting Managing Director



Mr Jon Brocklehurst
Chief Financial Officer
17 August 2016

Defence Housing Australia
Statement of Comprehensive Income
For the year ended 30 June 2016

	Notes	Consolidated entity		Parent entity	
		30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
INCOME					
Revenue					
Housing Services Provided	3	669,958	673,819	669,829	673,679
Allocation Services Provided	4	11,721	10,537	11,721	10,537
Sale of Inventories		643,354	596,864	643,354	596,864
Interest Received	5	8,582	8,362	8,562	8,334
Other Income		64	198	269	362
Total Revenue		1,333,679	1,289,780	1,333,735	1,289,776
Gains					
Gains from Disposal of Investment Properties	6	36,333	41,159	36,333	41,159
Total Income		1,370,012	1,330,939	1,370,068	1,330,935
EXPENSES					
Employee Benefits	7	69,409	72,161	69,354	72,106
Housing Services Lease Rentals		355,173	350,646	355,173	350,646
Rates, Repairs and Maintenance	8	181,294	181,124	181,294	181,124
Depreciation and Amortisation	9	15,764	14,533	15,764	14,533
Cost of Inventories Sold		539,940	525,031	539,940	525,031
Finance Costs	10	26,521	28,610	26,521	28,610
Write-Down and Impairment of Assets	11	2,882	3,186	2,882	3,186
Other Expenses		39,388	35,262	39,352	35,216
Total Expenses		1,230,371	1,210,553	1,230,280	1,210,452
Share of Joint Venture Profits					
Share of Joint Venture Profits accounted for using the Equity Method		432	43	432	43
Total Share of Joint Venture Profit		432	43	432	43
Profit Before Income Tax on Continuing Operations					
		140,073	120,429	140,220	120,526
Income Tax Expense					
Income Tax Expense		35,411	29,355	35,455	29,384
Share of Income Tax on Joint Venture Profit		130	13	130	13
Total Income Tax Expense	12	35,541	29,368	35,585	29,397
Profit After Income Tax					
		104,532	91,061	104,635	91,129
Other Comprehensive Income					
		-	-	-	-
Total Comprehensive Income					
		104,532	91,061	104,635	91,129

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Defence Housing Australia
Statement of Financial Position
As at 30 June 2016

	Notes	Consolidated entity		Parent entity	
		30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
ASSETS					
Current Assets					
Cash and Cash Equivalents	13	321,233	264,409	320,453	263,517
Trade and Other Receivables	14	46,289	16,183	46,276	16,209
Other Current Assets	16	33,751	32,346	33,751	32,346
Inventories	18	563,401	655,947	563,401	655,947
Investment Properties Held for Sale	15	16,764	13,318	16,764	13,318
Total Current Assets		981,438	982,203	980,645	981,337
Non-Current Assets					
Deferred Tax Assets	17	20,929	25,412	20,923	25,403
Inventories	18	521,826	470,890	521,826	470,890
Investment Properties	19	807,364	797,636	807,364	797,636
Property, Plant and Equipment		9,030	8,199	9,030	8,199
Intangibles		5,685	6,660	5,685	6,660
Investments Accounted for Using the Equity Method		91	177	91	177
Investment in Subsidiary		-	-	1,000	1,000
Total Non-Current Assets		1,364,925	1,308,974	1,365,919	1,309,965
Total Assets		2,346,363	2,291,177	2,346,564	2,291,302
LIABILITIES					
Current Liabilities					
Trade and Other Payables	20	58,305	61,444	58,329	61,502
Current Tax Liabilities		11,825	15,818	11,825	15,818
Provision for Dividend	2	62,719	54,637	62,719	54,637
Borrowings	22	-	65,480	-	65,480
Other Financial Liabilities	23	52,808	41,752	52,808	41,752
Provisions	24	40,829	44,971	40,805	44,940
Total Current Liabilities		226,486	284,102	226,486	284,129
Non-Current Liabilities					
Borrowings	22	509,580	444,100	509,580	444,100
Other Financial Liabilities	23	1,278	819	1,278	819
Provisions	24	101,892	96,842	101,892	96,842
Total Non-Current Liabilities		612,750	541,761	612,750	541,761
Total Liabilities		839,236	825,863	839,236	825,890
Net Assets		1,507,127	1,465,314	1,507,328	1,465,412
EQUITY					
Contributed Equity		403,863	403,863	403,863	403,863
Retained Earnings		1,103,264	1,061,451	1,103,465	1,061,549
Total Equity		1,507,127	1,465,314	1,507,328	1,465,412

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Defence Housing Australia
Statement of Cash Flows
For the year ended 30 June 2016

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Notes				
OPERATING ACTIVITIES				
Cash Received				
Sales of Goods and Services	653,381	719,564	653,441	719,642
Sales of Inventory	622,884	598,535	622,884	598,535
Interest	7,341	10,101	7,322	10,072
Other Cash Received	4	161	4	161
Stamp Duty and Land Tax Equivalents Received	21,592	30,568	21,592	30,568
GST Received	24,641	31,258	24,641	31,258
Total Cash Received	1,329,843	1,390,187	1,329,884	1,390,236
Cash Used				
Employees	81,578	83,567	81,523	83,512
Suppliers	549,073	547,846	549,026	547,790
Borrowing Costs	26,521	27,730	26,521	27,730
Income Taxes Paid	28,221	30,052	28,252	30,080
Other Expenses	22,020	12,620	22,020	12,620
Acquisition and Construction of Inventories	498,386	680,140	498,386	680,140
Stamp Duty and Land Tax Equivalents	42,059	36,023	42,059	36,023
GST Paid	35,929	26,304	35,929	26,304
Total Cash Used	1,283,787	1,444,282	1,283,716	1,444,199
Net Cash from/(used by) Operating Activities	46,056	(54,095)	46,168	(53,963)
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INVESTING ACTIVITIES				
Cash Received				
Proceeds from Sales of Investment Properties	96,488	98,499	96,488	98,499
Cash Used				
Acquisitions and Construction of Investment Properties	25,271	5,240	25,271	5,240
Acquisition of Plant and Equipment	5,812	3,789	5,812	3,789
Total Cash Used	31,083	9,029	31,083	9,029
Net Cash from/(used by) Investing Activities	65,405	89,470	65,405	89,470
FINANCING ACTIVITIES				
Cash Used				
Dividend Paid	54,637	53,991	54,637	53,991
Total Cash Used	54,637	53,991	54,637	53,991
Net Cash from/(used by) Financing Activities	(54,637)	(53,991)	(54,637)	(53,991)
Net Increase/(Decrease) in Cash Held Cash and Cash Equivalents at the Beginning of the Reporting Period	56,824	(18,616)	56,936	(18,484)
Cash and Cash Equivalents at the End of the Reporting Period	264,409	283,025	263,517	282,001
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The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Defence Housing Australia Statement of Changes in Equity For the year ended 30 June 2016			
Consolidated entity	Retained earnings \$'000	Contributed equity \$'000	Total equity \$'000
Balance at 1 July 2014	1,025,027	403,863	1,428,890
Profit for the Year	91,061	-	91,061
Other Comprehensive Income	-	-	-
Total Comprehensive Income	91,061	-	91,061
Transactions with Owners			
Returns on Capital:			
Dividends	(54,637)	-	(54,637)
Balance at 30 June 2015	1,061,451	403,863	1,465,314
Balance at 1 July 2015	1,061,451	403,863	1,465,314
Profit for the Year	104,532	-	104,532
Other Comprehensive Income	-	-	-
Total Comprehensive Income	104,532	-	104,532
Transactions with Owners			
Returns on Capital:			
Dividends	(62,719)	-	(62,719)
Balance at 30 June 2016	1,103,264	403,863	1,507,127

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Defence Housing Australia
Statement of Changes in Equity
For the year ended 30 June 2016
 (continued)

Parent entity	Retained earnings \$'000	Contributed equity \$'000	Total equity \$'000
Balance at 1 July 2014	1,025,057	403,863	1,428,920
Profit for the Year	91,129	-	91,129
Other Comprehensive Income	-	-	-
Total Comprehensive Income	91,129	-	91,129
Transactions with Owners			
Dividends	(54,637)	-	(54,637)
Balance at 30 June 2015	1,061,549	403,863	1,465,412
Balance at 1 July 2015	1,061,549	403,863	1,465,412
Profit for the Year	104,635	-	104,635
Other Comprehensive Income	-	-	-
Total Comprehensive Income	104,635	-	104,635
Transactions with Owners			
Dividends	(62,719)	-	(62,719)
Balance at 30 June 2016	1,103,465	403,863	1,507,328

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016

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Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

1 Overview

(a) Objectives of DHA

Defence Housing Australia (DHA) is an Australian Government (Government) controlled entity. The objective of DHA is to provide housing and related services for members of the Australian Defence Force (ADF) and their families in line with the Department of Defence (Defence) operational requirements.

DHA is structured to meet one outcome:

To contribute to the Department of Defence's outcomes by providing total housing services that meet the Department of Defence operational and client needs through a strong customer and business focus.

The continued existence of DHA in its present form and with its present operations is dependent on Government policy. DHA receives no appropriations or receipts from Government.

(b) Basis of Preparation of the Financial Statements

The financial statements are required by section 42 of the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)* and are general purpose financial statements.

The financial statements and notes have been prepared in accordance with:

- Public Governance, Performance and Accountability Financial Reporting Rule 2015 (FRR) for reporting periods ending on or after 1 July 2015; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

DHA is classified as a Government Business Enterprise (GBE) as stipulated in section 5(1)(c) of the *PGPA Act* and is a for-profit entity. It should also be noted that DHA is governed by the *Defence Housing Australia Act 1987 (DHA Act)*.

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

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
 (continued)

1 Overview (continued)

(c) Significant Accounting Judgements and Estimates

Preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management base their judgement on experience and historical information to ensure they are reasonable and fair; and continually monitor and reassess their judgements, estimates and assumptions. Management have identified the following significant accounting policies and judgements;

- The net realisable value of completed inventory properties is assessed annually by an independent valuer. Where the net realisable value for an individual property is less than its costs, the carrying value of the property is written down to its net realisable value.
- The net realisable value of an inventory development site is the finished product's gross realisable value less costs to complete and selling costs. Where the net realisable value is lower than costs to date for the development site, the costs to date are written down by the value of the estimated loss.
- Investment properties are assessed for indicators of impairment annually. Where there is an indicator of impairment the recoverable amount of each investment property is estimated. The recoverable amount is the higher of the property's fair value less costs to sell and its value in use. Fair value is assessed annually by an independent valuer. Value in use is calculated by management using various assumptions in relation to the cost of debt and equity and future rental income of the property. Where the recoverable amount is less than the carrying amount, the carrying amount of the investment property is impaired to the greater of the fair value less cost to sell and value in use.
- A liability is recognised for make good costs to be incurred on the expiry of long term leases. Management has made assumptions regarding the future economic outflows associated with the make good expenditure, based on historical data. DHA records the entire sale proceeds as revenue at the time of settlement. DHA is required under the leaseback agreement to undertake prescribed maintenance (make good) at the end of the lease period. At the time of recording the sale, a provision is raised to recognise the make good obligation. The provision is based on an assessment of the present value of the necessary costs to make good properties at the end of their lease terms. The estimate includes an inflation factor of 2.50% (2015: 2.50%) and a discount rate of 2.03% (2015: 2.76%), being the five year commercial bank swap rate as at 30 June 2016. Actual make good expenditure is charged, as incurred against the provision. The estimate of future make good maintenance is reviewed annually to ensure that the make good provision is adequate to meet the liability.

No other accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

(d) New Australian Accounting Standards

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

In the current year, DHA has adopted all of the new and revised standards issued by the AASB that are relevant to its operations and effective for the current annual reporting period. Adoption of these standards did not have a material impact on the financial statements of DHA, and are not expected to have a future material effect on DHA's financial statements.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

1 Overview (continued)

(d) New Australian Accounting Standards (continued)

The following new standards were issued by AASB prior to the signing of the statements by the Directors, Acting Managing Director and Chief Financial Officer, that are expected to have an impact on DHA's financial statement for future reporting periods;

- *AASB 15 - Revenue from Contracts with Customers*, applicable to reporting periods beginning on or after 1 January 2018. To be applied by DHA for the financial report for the period ended 30 June 2019. Preliminary assessment of *AASB 15* indicates there is unlikely to be a material impact on the financial statements of DHA.
- *AASB 16 - Leases*, applicable to reporting periods beginning on or after 1 January 2019. To be applied by DHA for the financial report for the period ended 30 June 2020. Preliminary assessment of *AASB 16* indicates there will be a material impact on the financial statements of DHA, and is likely to significantly impact DHA's financial statements, and financial ratios including; liquidity, gearing and the current ratio. DHA will develop a detailed plan to address all impacts in 2017 financial year. Refer to Note 25 for current operating lease commitments.

There are no other standards issued but not yet effective that will have a material impact on DHA.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

2 Final Dividends

The DHA Board has declared a final dividend for the year ended 30 June 2016 of \$62,718,905. (2015: \$54,636,762). The DHA Board resolved on 5 May 2016 to pay a dividend of 60 percent of net profit after tax.

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Final Dividend	62,719	54,637	62,719	54,637

3 Housing Services Provided

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Defence Rent and Charges	518,905	526,244	518,905	526,244
Defence Other Charges	83,237	82,494	83,237	82,494
Lessor Management Fees	51,101	50,439	51,101	50,439
Other Revenue	16,586	12,328	16,586	12,328
Annuity Revenue	-	2,174	-	2,174
Other Management Fees	129	140	-	-
Total Housing Service Provided	669,958	673,819	669,829	673,679

Defence Rent and Charges

Defence Rent and Charges includes rent from investment properties of \$57,654,277 (2015: \$60,541,610)

Rent and property management fees are charged to Defence in line with the Services Agreement and Members Choice Accommodation contracts. Revenue is recognised when a property is tenanted and occupied by an ADF member on a weekly basis for the term of the tenancy.

Defence Other Charges

Defence Other Charges - includes expenses which are recovered from Defence under the Services Agreement, such as Defence funded capital projects, utilities and repairs and maintenance. The revenue is recognised each month to the extent that the expenses have been incurred. This is based on a cost recovery model.

Lessor Management Fees

A set percentage management fee based on the rent paid to lessors on a monthly basis.

Other Revenue

Other Revenue - includes rent received from the private rental market, where there are excess rental properties, not currently occupied by ADF members. Revenue is recognised when a property is tenanted and occupied by a civilian, on a monthly basis for the term of the tenancy.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

4 Allocation Services Provided

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Allocation Administration Fees	11,721	10,537	11,721	10,537

DHA provides the service of allocating ADF members to available and suitable accommodations based on Defence requirements and policies. For this service, DHA receives set annual management fees from Defence per the Allocations and Tenancy Management and Living In Accommodation contracts. These annual management fee revenues are recognised by DHA on a monthly basis in line with when the service is provided to Defence.

5 Interest Received

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Interest on Deposits	8,562	8,334	8,562	8,334
Interest Income - Investments	15	22	-	-
Interest Income - Bank Accounts	5	6	-	-
Total Interest Received	8,582	8,362	8,562	8,334

Interest revenue is recognised on an accrual basis using the effective interest method as set out in AASB 139 - *Financial Instruments: Recognition and Measurement*, taking into account the interest rates applicable to the financial assets.

6 Gains from Disposal of Investment Properties

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Proceeds from Sale	97,578	97,513	97,578	97,513
Carrying Value of Assets Sold	(60,273)	(55,629)	(60,273)	(55,629)
Selling Expenses	(972)	(725)	(972)	(725)
Net Gains from Disposal of Investment Properties	36,333	41,159	36,333	41,159

Profits or losses from the disposal of investment properties are recognised when all specified conditions relating to the sale are satisfied and there is an unconditional sale. This is when settlement occurs.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

7 Employee Benefits

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Wages and Salaries	47,349	50,770	47,294	50,715
Superannuation:				
Defined Contribution Plans	7,219	6,796	7,219	6,796
Defined Benefit Plans	2,979	3,048	2,979	3,048
Leave and Other Entitlements	6,335	5,676	6,335	5,676
Payroll Tax Equivalent	4,754	4,698	4,754	4,698
Workers' Compensation Premiums	773	1,173	773	1,173
Total Employee Benefits	69,409	72,161	69,354	72,106

Payroll tax equivalent and workers compensation premiums are related party transactions with Defence. All other employee benefits are incurred with external parties.

Superannuation

Staff of DHA are employed under the *Public Service Act 1999* and are entitled to benefits from the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) and the Public Sector Superannuation accumulation plan (PSSap), under the *Superannuation (Productivity Benefit) Act 1988*. DHA meets its liability for the employer share of benefits payable under the Superannuation Acts by fortnightly payments to the Commonwealth Superannuation Corporation (CSC) in accordance with section 159(2) of the *Superannuation Act 1976* and section 15 of the *Superannuation Act 1990*, or to other superannuation funds nominated by employees in accordance with part 3A of the *Superannuation Guarantee (Administration) Act 1992*. The CSS and PSS are defined benefit schemes for the Government. The PSSap is a defined contribution scheme.

The Department of Finance has advised the Commonwealth Superannuation Corporation (CSC) that for the purpose of actuarial costing of the CSS and PSS, it is essential to be able to identify employer superannuation contributions made under each scheme by the organisation. The separate CSS, PSS and PSSap employer superannuation contribution rates and contributions paid by DHA for the reporting period are:

- CSS members: Contributions at the rate of 16.2% (2015: 20.3%) of salary for superannuation purposes, amounting to \$92,223 (2015: \$131,077);
- PSS members: Contributions at the rate of 18.5% (2015: 19.6%) of salary for superannuation purposes, amounting to \$2,886,664 (2015: \$2,916,732); and
- PSSap members: Contributions at the rate of 15.4% (2015: 15.4%) of salary for superannuation purposes, amounting to \$5,287,417 (2015: \$5,107,208).

For other schemes (choice funds nominated by employees) the contribution rate was 15.4% (2015: 15.4%) and this amounted to \$1,931,538 (2015: \$1,688,821).

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance administered schedules and notes.

DHA makes employer contributions to the employee's superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. The entity accounts for the contributions as if they were contributions to defined contribution plans.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

8 Rates, Repairs and Maintenance

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Rates and Municipal Charges	11,067	10,862	11,067	10,862
Stamp Duty and Land Tax Equivalents	29,979	28,600	29,979	28,600
Repairs and Maintenance	40,852	43,203	40,852	43,203
Other Property Charges	99,396	98,459	99,396	98,459
Total Rates, Repairs and Maintenance	181,294	181,124	181,294	181,124

Rates, Repairs and Maintenance includes expenditure for investment properties of \$19,264,382 (2015: \$19,343,032).

Rates and Municipal Charges

Includes land, council and water rates for DHA's property portfolio, which are not recoverable from Defence.

The expenses are incurred from external parties, and are expenses in profit or loss in the month they are incurred.

Stamp Duty and Land Tax Equivalents

Stamp Duty and Land Tax Equivalents are related party transactions associated with Defence.

DHA provides services on a for-profit basis. Under the Competitive Neutrality arrangements, DHA is required to make State Tax Equivalent payments, including payroll tax, land tax and stamp duty.

DHA includes State Tax Equivalent payments in the expenditure items to which they relate. Payroll tax is included in Employee Expenses and is detailed in Note 7. Land tax and stamp duty on property acquisitions are included in the table above.

Repairs and Maintenance

Includes repairs and maintenance expenses on the DHA property portfolio, which are not recovered from Defence.

Expenses are incurred from external contractors and are expensed in the period in which they are incurred.

Other Property Charges

Includes recoverable rates, municipal charges, repairs and maintenance, insurance and Defence funded capital project expenses. DHA, in accordance with the Services Agreement, is entitled to recover from Defence these expenses. These recoveries form part of Defence Other Charges detailed in Note 3.

Expenses are incurred from external parties and sub-contractors and are expensed in profit or loss in the month they are incurred.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

9 Depreciation and Amortisation

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Depreciation				
Investment Properties	11,437	11,075	11,437	11,075
Plant and Equipment	2,875	2,324	2,875	2,324
Total Depreciation	14,312	13,399	14,312	13,399
Amortisation				
Software	1,452	1,134	1,452	1,134
Total Amortisation	1,452	1,134	1,452	1,134
Total Depreciation and Amortisation	15,764	14,533	15,764	14,533

Depreciable assets are written down to their estimated residual values over their estimated useful lives using, in all cases, the straight-line method of depreciation. Office fit outs are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the straight line method over the following useful lives:

	2016	2015
Investment Properties	50 years	50 years
Plant and Equipment	Term of Lease	Term of Lease
Software	2.5 to 6 years	2.5 to 6 years

Depreciation and amortisation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

10 Finance Costs

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Interest on Loans	26,521	28,610	26,521	28,610

Interest is accrued based on effective interest rates on the outstanding balance of the loan.

Defence Housing Australia
Notes to the Consolidated Financial Statements
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(continued)

11 Write-Down and Impairment of Assets

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Non-Financial Assets				
Write-downs and Impairments				
Investment Properties	407	951	407	951
Inventories	5,722	4,561	5,722	4,561
Crace Developments	11	255	11	255
Total Write-Downs and Impairments	6,140	5,767	6,140	5,767
Reversal of Write-Downs and Impairments				
Investment Properties	(2,080)	(594)	(2,080)	(594)
Inventories	(1,178)	(1,987)	(1,178)	(1,987)
Total Reversals	(3,258)	(2,581)	(3,258)	(2,581)
Net Write-Down and Impairment of Assets	2,882	3,186	2,882	3,186

Inventories

To ensure compliance with *AASB 102 - Inventories*, an independent valuation to assess the net realisable value of inventory properties held by DHA was undertaken by registered valuers as at 31 December 2015. The carrying value of individual properties, where the cost of the property exceeded the net realisable value, have been written down accordingly. At the end of the reporting period DHA reassesses the net realisable value, and recognises a further write down or write back. A write back, where applicable, will not exceed cost. Refer to Note 18.

Investment Properties

Investment properties are initially recognised at cost. The carrying amount includes the cost of replacing parts of existing investment properties, at the time those costs are incurred. The carrying amount excludes costs of day-to-day servicing and maintenance of the investment property.

Investment properties are subsequently recognised at the lower of cost and recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell; and value in use where the property is not identified for future sale.

Investment properties are derecognised either when they have been disposed of or when they are withdrawn from use and no future economic value is expected from its disposal.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

11 Write-Down and Impairment of Assets (continued)

The fair value of investment properties is assessed annually by an independent valuer and a value in use calculation is prepared internally for assets not identified for future sale. Where the fair value less costs to sell and the value in use calculation for an individual property is less than its cost, the carrying value of the property is written down to the higher of the two valuation methods, and the loss is recognised as an impairment loss in the income statement. Refer to Note 19.

DHA uses a discounted cash flow to determine the value in use of investment properties. In determining the value in use, DHA applies the following assumptions:

- Rental and capital growth for the next 20 years by individual post codes from major industry publications.
- Consumer Price Index (CPI) rates in line with the mid-point of the Reserve Bank of Australia's (RBA) target inflation rate, being between 2-3%.
- Weighted Average Cost of Capital (WACC), a discount rate calculated internally by management on an annual basis.
- Cash inflow estimates including rental income and other Defence fees and charges paid to DHA in accordance with the Services Agreement.
- Cash outflow estimates including annual repairs and maintenance based on historical data and judgements made by management.
- Major capital work expenditure estimates including internal and external repainting and replacement of carpets based on the age of the property.

12 Income Tax Expense

(a) Income tax expense

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Current Tax	39,734	34,615	39,780	34,642
Deferred Tax	4,483	(8,566)	4,481	(8,564)
Adjustments for Current Tax of Prior Periods	(8,676)	3,319	(8,676)	3,319
	<u>35,541</u>	<u>29,368</u>	<u>35,585</u>	<u>29,397</u>
Income Tax Expense is Attributable to:				
Profit from Continuing Operations	35,541	29,368	35,585	29,397
Aggregate Income Tax Expense	<u>35,541</u>	<u>29,368</u>	<u>35,585</u>	<u>29,397</u>

(b) Reconciliation of Income Tax Expense to Prima Facie Tax Payable

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

12 Income Tax Expense (continued)

(b) Reconciliation of Income Tax Expense to Prima Facie Tax Payable (continued)

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Profit from Continuing Operations before income Tax Expense				
Tax at the Australian Tax Rate of 30.0%	140,073	120,429	140,220	120,526
Tax Effect of Amounts which are not Deductible (Taxable) in Calculating Taxable Income:				
Tax Cost Base Valuations	(3,523)	(9,410)	(3,523)	(9,410)
Adjustments for Current Tax of Prior Periods	(8,676)	3,319	(8,676)	3,319
Adjustments for Deferred Tax of Prior Periods	6,028	-	6,028	-
Other	(311)	(670)	(311)	(670)
Income Tax Expense	35,541	29,368	35,585	29,397

DHA, following amendment of the *Defence Housing Australia Act 1987*, became a Commonwealth income tax payer on 1 July 2007.

As a result of DHA becoming a taxable entity, an unrecognised temporary difference (Deferred Tax Asset) was created between the accounting carrying value and the tax values for property held as Investment Property. The unrecognised value of the temporary difference at 30 June 2016 is \$469,558,803 (2015: \$481,301,140). The tax effect of this temporary difference is \$140,867,641 (2015: \$144,390,342).

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities, and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

DHA and DHA IML have elected to form a tax-consolidated group. The head entity within the tax-consolidated group is DHA.

Defence Housing Australia
Notes to the Consolidated Financial Statements
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(continued)

12 Income Tax Expense (continued)

Tax Consolidation (continued)

DHA and DHA IML entered into a tax funding agreement in June 2013. The agreement outlines the terms on which DHA IML is required to contribute to the payment of the group's income tax liability. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable at the end of the financial year. The head entity may also request payment of interim funding amounts to assist with its obligations to pay income tax instalments. The funding amounts are recognised as current inter-company receivables or payables.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except:

- Where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO), it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- Receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from or payable to the ATO, is included as part of receivables or payables.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from or payable to the ATO, are classified as operating cash flows.

13 Current Assets - Cash and Cash Equivalents

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Cash at Bank	25,721	8,781	25,441	8,504
Cash on Hand	12	13	12	13
Short Term Investments	295,500	255,615	295,000	255,000
Total Cash and Cash Equivalents	321,233	264,409	320,453	263,517

Cash and Cash Equivalents means notes and coins held and any deposits held at call or readily convertible to cash with a bank or financial institution, including term deposits with terms up to 12 months. Cash is recognised at its nominal amount.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

14 Current Assets - Trade and Other Receivables

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Current				
Receivables	36,963	8,372	36,963	8,372
Provision for Impairment of Receivables	(30)	-	(30)	-
	<u>36,933</u>	<u>8,372</u>	<u>36,933</u>	<u>8,372</u>
Accrued Income	7,869	5,593	7,868	5,634
Other Receivables	1,487	2,218	1,475	2,203
Total Receivables for Goods and Services	<u>46,289</u>	<u>16,183</u>	<u>46,276</u>	<u>16,209</u>
Good and Services				
Goods and Services - Related Entities	40,090	13,094	40,082	13,120
Goods and Services - External Parties	6,199	3,089	6,194	3,089
Total Trade and Other Receivables (Net)	<u>46,289</u>	<u>16,183</u>	<u>46,276</u>	<u>16,209</u>

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

14 Current Assets - Trade and Other Receivables (continued)

(a) Receivables are expected to be recovered in:

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Less than 12 Months	46,289	16,183	46,276	16,209

Credit Terms are between 7 and 30 days.

(b) Receivables are aged as follows:

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Less than 90 Days	45,957	15,712	45,944	16,209
More than 90 Days	332	471	332	-
	<u>46,289</u>	<u>16,183</u>	<u>46,276</u>	<u>16,209</u>

Receivables for goods and services are recognised at the nominal amounts due, less any provision for bad and doubtful debts. Collectability of debts is reviewed at 30 June each year. Allowances are made when the debts recovery is judged to be no longer probable.

15 Investment Properties Held for Sale

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Investment Properties - at Cost	14,918	11,813	14,918	11,813
Investment Properties - at Cost (Less Impairment)	1,846	1,505	1,846	1,505
Total Investment Properties Held for Sale	<u>16,764</u>	<u>13,318</u>	<u>16,764</u>	<u>13,318</u>

DHA applies AASB 5 - *Non-Current Assets Held for Sale and Discounted Operations* to its investment properties held for sale. These properties are carried at the lower of cost and fair value less costs to sell and are not depreciated.

DHA's policy is to dispose of investment properties when the property is no longer required for Defence provisioning purposes.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

16 Other Current Assets

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Other Current Assets				
Other Prepayments	1,776	3,106	1,776	3,106
Prepaid Property Rentals	31,975	29,240	31,975	29,240
Total Other Current Assets	33,751	32,346	33,751	32,346

Includes commercial office rents, insurance premiums and rents to lessors all paid in advance.

17 Non-Current Assets - Deferred Tax Assets

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
The balance comprises temporary differences attributable to:				
Employee Benefits	5,772	5,616	5,772	5,616
Make Good Provisions	32,015	30,157	32,015	30,157
Provisions	598	1,198	591	1,189
Lease Incentive	508	312	508	312
Other	171	43	171	43
	39,064	37,326	39,057	37,317
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 21)	(18,135)	(11,914)	(18,134)	(11,914)
Net deferred tax assets	20,929	25,412	20,923	25,403

Movements - Consolidated entity	Make Good Provision \$'000	Employee Benefits \$'000	Provisions \$'000	Other \$'000	Total \$'000
At 30 June 2015	30,157	5,616	1,198	355	37,326
(Charged)/(credited)					
- Charged to the income statement	1,858	156	(600)	324	1,738
At 30 June 2016	32,015	5,772	598	679	39,064

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

17 Non-Current Assets - Deferred Tax Assets (continued)

	Make Good Provision \$'000	Employee Benefits \$'000	Provisions \$'000	Other \$'000	Total \$'000
Movements - Consolidated entity					
At 1 July 2014	29,185	6,408	1,107	325	37,025
(Charged)/credited					
- Charged to the income statement	972	(792)	91	30	301
At 30 June 2015	<u>30,157</u>	<u>5,616</u>	<u>1,198</u>	<u>355</u>	<u>37,326</u>
Movements Parent entity					
At 30 June 2015	30,157	5,616	1,189	355	37,317
(Charged)/credited					
- Charged to the income statement	1,858	156	(598)	324	1,740
At 30 June 2016	<u>32,015</u>	<u>5,772</u>	<u>591</u>	<u>679</u>	<u>39,057</u>
Movements - Parent entity					
At 1 July 2014	29,185	6,408	1,099	325	37,017
(Charged)/credited					
- Charged to the income statement	972	(792)	90	30	300
At 30 June 2015	<u>30,157</u>	<u>5,616</u>	<u>1,189</u>	<u>355</u>	<u>37,317</u>

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

18 Inventories

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Completed Properties - at Cost	441,689	494,981	441,689	494,981
Completed Properties - at Net Realisable Value	170,672	147,184	170,672	147,184
Land Held for Sale - at Cost	43,479	70,311	43,479	70,311
Land Held for Sale - at Net Realisable Value	1,749	3,052	1,749	3,052
Work in Progress - at Cost	416,452	394,382	416,452	394,382
Work in Progress - at Net Realisable Value	11,186	16,927	11,186	16,927
Total Inventories	1,085,227	1,126,837	1,085,227	1,126,837
Current Inventories	563,401	655,947	563,401	655,947
Non-Current Inventories	521,826	470,890	521,826	470,890
	1,085,227	1,126,837	1,085,227	1,126,837

The total fair value of inventory as at 30 June 2016 is \$1,201,172,364 (2015: \$1,282,991,540).

During 2015-16 DHA disposed of 109 inventory properties at a loss of \$1,563,045 (2015: 13 properties; \$353,312).

Inventories are separated into the following categories:

- Completed properties - completed properties held for resale on normal trading cycle;
- Land held for sale; or
- Work in progress - incomplete construction projects.

DHA accounts for inventory properties under AASB 102 - *Inventories*. Inventories are properties which are held to meet Defence provisioning requirements and are available for sale in the short to medium term in order to free capital for reinvestment.

Inventories are initially recognised at cost and are subsequently recognised at lower of cost or net realisable value. Net realisable value is estimated based on the finished product's gross expected realisation less costs to complete and selling costs.

Work in Progress

Development projects are classified as inventory properties whilst in progress where a significant majority of the property on completion of the development is expected to be sold as inventory stock.

Development project costs include variable and fixed costs as they relate directly to specific contracts, and those costs relating to general contract activity which can be allocated to the project on a reasonable basis.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

19 Non-Current Assets - Investment Properties

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Investment Properties				
Investment Properties - at Cost	874,078	850,860	874,078	850,860
Less: Accumulated Depreciation	(97,054)	(93,673)	(97,054)	(93,673)
	<u>777,024</u>	<u>757,187</u>	<u>777,024</u>	<u>757,187</u>
Investment Properties - Impaired				
Investment Properties - at Cost	34,221	45,277	34,221	45,277
Less: Accumulation Depreciation	(1,983)	(1,820)	(1,983)	(1,820)
Less: Impairments	(1,898)	(3,008)	(1,898)	(3,008)
	<u>30,340</u>	<u>40,449</u>	<u>30,340</u>	<u>40,449</u>
Total Investment Properties	<u>807,364</u>	<u>797,636</u>	<u>807,364</u>	<u>797,636</u>

The total fair value of Investment Properties (including Investment Properties - Held for Sale in Note 15) as at 30 June 2016 is \$1,675,084,799 (2015: \$1,593,217,348).

The fair value of DHA's investment properties as at 30 June 2016 and 30 June 2015 has been arrived at on the basis of a valuation carried out on the respective date by external independent valuers. The valuers are members of the Institute of Valuers of Australia, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The fair value level in accordance with AASB 13 - Fair Value Measurement is level 2.

Consolidated and Parent Entity	Investment Properties \$'000
At 1 July 2015	
Cost or Fair Value	896,137
Accumulated depreciation & impairment	(98,501)
Net Book Amount	<u>797,636</u>
Year ended 30 June 2016	
Transfer from Inventory to Investment Property	52,635
Additions	31,138
Transfer to Assets Held for Sale	(67,144)
Depreciation charge	(11,437)
Impairment loss	1,673
Other Disposals	(4,467)
Depreciation/ Impairment Written Back on Disposal or Transfer	7,330
Closing Net Book Value as at 30 June	<u>807,364</u>

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

19 Non-Current Assets - Investment Properties (continued)

Consolidated and Parent Entity	Investment Properties \$'000
At 30 June 2016	
Cost or Fair Value	808,299
Accumulated Depreciation and Impairment	<u>(100,935)</u>
Net Book Amount	<u>807,364</u>
	Investment Properties \$'000
At 1 July 2014	
Cost or Fair Value	854,929
Accumulated depreciation & impairment	<u>(94,406)</u>
Net Book Amount	<u>760,523</u>
Year ended 30 June 2015	
Transfer from Inventory to Investment Property	89,229
Additions	6,323
Transfer to Assets Held for Sale	<u>(47,877)</u>
Depreciation charge	(11,075)
Impairment loss	(357)
Other Disposals	(6,467)
Depreciation/ Impairment Written Back on Disposal or Transfer	<u>7,337</u>
Closing Net Book Value 30 June	<u>797,636</u>
At 30 June 2015	
Cost or Fair Value	896,137
Accumulated depreciation & impairment	<u>(98,501)</u>
Net Book Amount	<u>797,636</u>

Investment Properties

DHA accounts for investment properties under *AASB 140 - Investment Property* and applies the Cost model. Investment properties are properties held for long-term provisioning requirements or for capital appreciation.

Investment properties are separated into the following categories:

- Completed properties;
- Land held for future development; or
- Work in progress - incomplete construction projects.

Transfers from inventory to investment property are made when there is a change in the circumstances of a property and it is deemed that the property is now held for capital growth or strategic provisioning.

Defence Housing Australia
Notes to the Consolidated Financial Statements
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21 Non-Current Liabilities - Deferred Tax Liabilities

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
The balance comprises temporary differences attributable to:				
Property, plant and equipment	(224)	118	(224)	118
Investment properties	4,019	8,703	4,019	8,703
R&D Expense	3,435	2,759	3,435	2,759
Accrued Income	1	-	-	-
Inventory	10,904	326	10,904	326
Other	-	8	-	8
	18,135	11,914	18,134	11,914
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 17)				
	(18,135)	(11,914)	(18,134)	(11,914)
Net deferred tax liabilities	-	-	-	-

Movements - Consolidated entity	Property, Plant & Equipment \$'000	Investment Properties \$'000	Accrued Income \$'000	R&D Expenses \$'000	Inventory \$'000	Other \$'000	Total \$'000
At 1 July 2015	118	8,703	-	2,759	327	8	11,915
Charged/(Credited) - Charged to the income statement	(342)	(4,684)	1	676	10,577	(8)	6,220
At 30 June 2016	(224)	4,019	1	3,435	10,904	-	18,135

Movements - Parent entity	Property, Plant & Equipment \$'000	Investment Properties \$'000	R&D Expenses \$'000	Inventory \$'000	Other \$'000	Total \$'000
At 1 July 2015	118	8,703	2,759	326	8	11,914
Charged/(credited) - Charged to the income statement	(342)	(4,684)	676	10,578	(8)	6,220
At 30 June 2016	(224)	4,019	3,435	10,904	-	18,134

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

21 Non-Current Liabilities - Deferred Tax Liabilities (continued)

Movements Consolidated and parent entity	Property, Plant & Equipment \$'000	Investment Properties \$'000	R&D Expenses \$'000	Inventory \$'000	Other \$'000	Total \$'000
At 1 July 2014	1,178	5,841	9,268	15,554	922	32,763
Charged/(credited)						
- Charged to the income statement	(1,060)	2,862	(6,509)	(15,227)	(914)	(20,848)
At 30 June 2015	118	8,703	2,759	326	8	11,914

Non Refundable Research & Development Tax Incentive

DHA makes research and development tax incentive claims through AusIndustry and the ATO in relation to qualifying expenditure on major property developments and Information Technology development.

The permanent benefit arising from the non refundable research and development tax incentive is accounted for in accordance with AASB 120 - *Accounting for Government Grants and Disclosure of Government Grants*, and is capitalised to the extent that it relates to assets in accordance with Part 3 of the FRR. The capitalised amounts are recognised as income based on the underlying assets useful life, or when disposed.

The temporary timing benefit arising from the non refundable research and development tax incentive is accounted for in accordance with AASB 112 - *Income Taxes*.

22 Borrowings

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Loans from Department of Defence (Current)		65,480		65,480
Loans from Department of Defence (Non-Current)	509,580	444,100	509,580	444,100
Total Borrowings	509,580	509,580	509,580	509,580

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Maturity Schedule for Borrowings Payable:				
Within one year		65,480		65,480
In two to five years	180,000	180,000	180,000	180,000
In more than five years	329,580	264,100	329,580	264,100
Total Borrowings	509,580	509,580	509,580	509,580

DHA has an unsecured borrowing facility with the Department of Finance, incorporating all borrowings, underpinned by a Loan Agreement dated 31 August 2006. The Loan Agreement affords DHA the flexibility to borrow at either fixed or floating interest rates at market rates which includes a competitive neutrality charge. Government policy requires all loan arrangements to be appropriated through and borrowed from the Department of Defence.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

22 Borrowings (continued)

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. Subsequent recognition of loans and borrowings is at amortised cost, and interest is charged as an expense as it accrues.

Borrowings are classified as current liabilities unless DHA has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

23 Other Financial Liabilities

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Current				
Revenue in Advance	52,394	41,532	52,394	41,532
Lease Incentive	414	220	414	220
Total Current	<u>52,808</u>	<u>41,752</u>	<u>52,808</u>	<u>41,752</u>
Non-Current				
Lease Incentive	<u>1,278</u>	819	<u>1,278</u>	819
Total Non-Current	<u>1,278</u>	819	<u>1,278</u>	819
Total Other Financial Liabilities	<u>54,086</u>	<u>42,571</u>	<u>54,086</u>	<u>42,571</u>

Rental and property management fee revenues are billed to Defence one month in advance, in line with the Services Agreement. For the year ended 30 June 2016 100% of revenue in advance was in relation to payments received from Defence (2015: 100%).

Financial Liabilities

DHA classifies its financial liabilities as Other Financial Liabilities. The financial liabilities are recognised and derecognised upon trade date.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

24 Provisions

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Current Provisions				
Employee Benefits				
Annual Leave	5,109	5,072	5,109	5,072
Long Service Leave	6,009	4,959	6,009	4,959
Provision for Redundancy	37	533	37	533
	<u>11,155</u>	<u>10,564</u>	<u>11,155</u>	<u>10,564</u>
Other				
Make Good Provision	9,131	7,978	9,131	7,978
Other General Provisions	20,543	26,429	20,519	26,398
	<u>29,674</u>	<u>34,407</u>	<u>29,650</u>	<u>34,376</u>
Total Current Provisions	<u>40,829</u>	<u>44,971</u>	<u>40,805</u>	<u>44,940</u>
Non-Current Provisions				
Other				
Make Good Provision	97,586	92,545	97,586	92,545
Other General Provisions	1,342	1,423	1,342	1,423
	<u>98,928</u>	<u>93,968</u>	<u>98,928</u>	<u>93,968</u>
Employee Benefits				
Long Service Leave	2,964	2,874	2,964	2,874
	<u>2,964</u>	<u>2,874</u>	<u>2,964</u>	<u>2,874</u>
Total Non-Current Provisions	<u>101,892</u>	<u>96,842</u>	<u>101,892</u>	<u>96,842</u>
Total Provisions	<u>142,721</u>	<u>141,813</u>	<u>142,697</u>	<u>141,782</u>

Movements in Provisions

Consolidated entity and parent entity 2016	Make Good Provision \$'000	Other General Provisions \$'000	Total \$'000
Carrying amount at start of year	100,523	27,852	128,375
Additional provisions recognised	19,423	15,422	34,845
Amount used	(13,229)	(21,389)	(34,618)
Carrying amount at end of period	<u>106,717</u>	<u>21,885</u>	<u>128,602</u>

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

24 Provisions (continued)

Movements in Provisions (continued)

Consolidated entity and parent entity 2015	Make Good Provision \$'000	Other General Provisions \$'000	Total \$'000
Carrying amount at start of year	97,284	18,180	115,464
Additional provisions recognised	13,328	17,772	31,100
Amount used	(10,089)	(8,100)	(18,189)
Carrying amount at end of period	100,523	27,852	128,375

Other general provisions include amounts set aside for:

- Fringe Benefits Tax and Goods and Service Tax;
- Audit fees
- Employee performance bonuses

Employee Provisions

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

Liabilities for 'short-term employee benefits' (as defined in AASB 119 - *Employee Benefits*) and termination benefits expected to be settled within twelve months of the end of the reporting period are measured at their nominal amounts.

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

Leave Liability

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by DHA in respect of services provided by employees up to reporting date.

Make Good

DHA is required under the sale and leaseback agreement to undertake prescribed maintenance (make good) at the end of the lease period, where the lease term is six years or more. The make good provision provides for the cost of refurbishing the leased property as set out in the lease agreement.

Provisions

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

25 Commitments

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
By Type				
Commitments Receivable				
Operating Lease Income	3,433,430	3,319,662	3,433,430	3,319,662
Total Commitments Receivable	3,433,430	3,319,662	3,433,430	3,319,662
Commitments Payable				
Capital Commitments				
Construction Commitments	316,650	330,028	316,650	330,028
Total Capital Commitments	316,650	330,028	316,650	330,028
Other Commitments				
House Operating Lease Rentals	2,638,701	2,530,703	2,638,701	2,530,703
Other Operating Leases	20,744	25,635	20,744	25,635
Total Other Commitments	2,659,445	2,556,338	2,659,445	2,556,338
Total Commitments Payable	2,976,095	2,886,366	2,976,095	2,886,366
Net Commitments By Type	457,335	433,296	457,335	433,296
By Maturity				
Commitments Receivable				
Operating Lease Income				
One Year or Less	395,466	396,382	395,466	396,382
From One to Five Years	1,333,861	1,295,256	1,333,861	1,295,256
Over Five Years	1,704,103	1,628,024	1,704,103	1,628,024
Total Operating Lease Income	3,433,430	3,319,662	3,433,430	3,319,662
Total Commitments Receivable	3,433,430	3,319,662	3,433,430	3,319,662

NB: Commitments are GST inclusive where relevant

By Maturity				
Commitments Payable				
Capital Commitments				
One Year or Less	279,310	289,316	279,310	289,316
From One to Five Years	37,340	40,712	37,340	40,712
Total Capital Commitments	316,650	330,028	316,650	330,028
Operating Lease Commitments				
One Year or Less	350,087	344,926	350,087	344,926
From One to Five Years	1,208,529	1,154,794	1,208,529	1,154,794
Over Five Years	1,100,829	1,056,618	1,100,829	1,056,618
Total Operating Lease Commitments	2,659,445	2,556,338	2,659,445	2,556,338
Total Commitments Payable	2,976,095	2,886,366	2,976,095	2,886,366

NB: Commitments are GST inclusive where relevant

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

25 Commitments (continued)

Capital Commitments refer to construction project commitments and the figures above represent outstanding contractual payments for buildings under construction.

Operating Lease Commitments include both House Operating Lease Rentals and Other Operating Leases. For House Operating Lease Rentals, the commitment payable is the rent payable to the lessor by DHA over the life of the lease. Other Operating Lease Rentals are non-cancellable leases for commercial office accommodation and staff motor vehicles.

Operating Leases

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

DHA has three categories of operating leases:

- Residential properties (mostly acquired through the sale and leaseback program), for the housing of ADF members, under the Services Agreement between DHA and Defence;
- Commercial property for the administration of DHA; and
- Motor vehicles used in the operations of DHA.

26 Cash Flow Reconciliation

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Reconciliation of operating results to net cash from operating activities:				
Profit for the Period	104,532	91,061	104,635	91,129
Depreciation - Plant and Equipment	4,327	3,458	4,327	3,458
Depreciation - Investment Properties	11,437	11,075	11,437	11,075
Impairment Expense	(1,523)	612	(1,523)	612
Gain on Disposal of Assets	(36,333)	(41,159)	(36,333)	(41,159)
(Decrease) on other Non Operating Cash Flow Revenue Items	(432)	(57)	(432)	(57)
Increase in other Non Operating Cash Flow Expense Items	7,994	3,318	7,994	3,318
(Increase)/ Decrease in Net Receivables	(30,106)	(11,076)	(30,067)	(11,104)
(Increase)/Decrease in Deferred Tax Assets	4,483	(21,151)	4,480	(21,150)
(Increase)/ Decrease in Inventories	(30,291)	(126,307)	(30,291)	(126,307)
(Increase)/ Decrease in Prepayments	(1,405)	5,319	(1,405)	5,319
Increase/ (Decrease) in Provisions	8,990	10,222	8,997	10,216
Increase/(Decrease) in Supplier Payments	(3,139)	(9,808)	(3,173)	(9,713)
Increase/ (Decrease) in Other Liabilities	11,515	14,505	11,515	14,505
Increase/(Decrease) in Tax Liabilities	(3,993)	15,893	(3,993)	15,895
Net Cash (used) from Operating Activities	46,056	(54,095)	46,168	(53,963)

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

27 Contingent Assets and Liabilities

Consolidated and Parent Entity	Guarantees		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Contingent Liabilities				
Balance from previous period	21,478	19,120	21,478	19,120
New	7,280	8,399	7,280	8,399
Obligations Expired	(12,200)	(6,041)	(12,200)	(6,041)
Total Contingent Liabilities	16,558	21,478	16,558	21,478
Net Contingent Liabilities	16,558	21,478	16,558	21,478

Quantifiable Contingencies

Contingent liabilities take the form of bank guarantees and financial undertakings which arise as a result of DHA's normal business operations. The amount disclosed represents the aggregate amount of such guarantees and financial undertakings. No financial liabilities are expected to arise from provisions of the guarantees or financial undertakings.

Unquantifiable Contingencies

As at 30 June 2016, DHA received an additional cost claim relating the development project at 380 Samford Road, Brisbane. DHA refutes this claim and is unable to quantify the potential liability.

Remote Contingencies

As at 30 June 2016, DHA has no remote contingencies.

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

28 Key Management Personnel Remuneration

The Directors of DHA during the year were:

The Hon. JAL (Sandy) Macdonald	Director and Chairman
Ms Jan Mason	Acting Managing Director (appointed 2 November 2015)
CDRE Vickie McConachie CSC RANR	Director
Ms Janice Williams	Director
Mr Martin Brady AO	Director
The Hon. Alan Ferguson	Director
Mr Robert Fisher AM	Director (appointed 4 February 2016)
Ms Margaret Walker	Director (term expired 15 July 2015)
Ms Carol Holley	Director (term expired 23 November 2015)
Mr Peter Howman	Managing Director (vacated 30 October 2015)

The specified Executives of DHA during the financial year were:

Ms Jan Mason	Acting Managing Director (appointed 2 November 2015)
Mr Jon Brocklehurst	Chief Financial Officer
Ms Madeline Dermatossian	Chief Operating Officer (resigned 21 July 2016)
Mr Elvio Bechelli	General Manager Sales, Marketing & Portfolio Management
Mr John Dietz	General Manager Property Provisioning Group
Mr Ross Jordan	Company Secretary
Mr Brett Jorgensen	General Manager Property & Tenancy Services
Mr Shane Nielsen	Chief Information Officer & General Manager Enabling Division
Mr Vern Gallagher	General Manager Strategy and Innovation
Mrs Jo Abbot	General Manager Finance
Mr Robert Henman	General Manager Investment Management
Mr Steve Collins	General Manager Business Development Unit
Mr Peter Howman	Managing Director (vacated 30 October 2015)

The directors and other key management personnel of DHA IML during or since the end of the financial year were:

Mr Martin Brady AO	Chair, Non-Executive Director (appointed 19 November 2015)
Ms Jan Mason	Acting Executive Director (appointed 19 November 2015)
Mr Jon Brocklehurst	Director, Public Officer & Chief Operating Officer
Mr Ross Jordan	Company Secretary
Mr Robert Henman	Compliance Officer
Mr Peter Howman	Executive Director (resigned 9 November 2015)
Ms Carol Holley	Chair, Non-Executive Director (term expired 23 November 2015)

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

28 Key Management Personnel Remuneration (continued)

Key Management Personnel Compensation

The aggregate compensation made to the Directors of DHA is set out below:

	Consolidated entity		Parent entity	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$	\$	\$	\$
Short-term employee benefits	375,245	445,508	375,245	445,508
Post-employment benefits	30,067	43,878	30,067	43,878
	<u>405,312</u>	<u>489,386</u>	<u>405,312</u>	<u>489,386</u>

The Director's compensation includes wages and salaries, leave accruals, performance and other bonuses, superannuation, motor vehicles, any other allowances and fringe benefits included in remuneration agreements.

The remuneration of the Managing Director is included in the Senior Executive Remuneration disclosure (Note 29).

29 Senior Executive Remuneration

Senior Executive Remuneration Expense for the Reporting Period

Total expense recognised in relation to Senior Executive employment

	Consolidated entity		Parent entity	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$	\$	\$	\$
Short-Term Employee Benefits				
Salary	3,387,544	3,024,206	3,387,544	3,024,206
Performance Bonus	445,213	408,004	445,213	408,004
Retention Bonus	15,000	30,000	15,000	30,000
Total Short-Term Employee Benefits	<u>3,847,757</u>	<u>3,462,210</u>	<u>3,847,757</u>	<u>3,462,210</u>
Post-Employment Benefits				
Superannuation (Post-Employment Benefits)	493,300	410,988	493,300	410,988
Total Post-Employment Benefits	<u>493,300</u>	<u>410,988</u>	<u>493,300</u>	<u>410,988</u>
Other Long-Term Employee Benefits				
Annual Leave Accrued	220,154	233,360	220,154	233,360
Long Service Leave	99,026	105,012	99,026	105,012
Total Other Long-Term Employee Benefits	<u>319,180</u>	<u>338,372</u>	<u>319,180</u>	<u>338,372</u>
Termination Benefits				
Termination Benefits	454,116	-	454,116	-
Termination benefits	<u>454,116</u>	<u>-</u>	<u>454,116</u>	<u>-</u>
Total Employment Benefits	<u>5,114,353</u>	<u>4,211,570</u>	<u>5,114,353</u>	<u>4,211,570</u>

Defence Housing Australia
Notes to the Consolidated Financial Statements
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(continued)

29. Senior Executive Remuneration (continued)

The total number of senior management personnel that are included in the above table are 13 individuals (2015: 13 individuals).

The remuneration of the Managing Director is included in this note disclosure.

30 Remuneration of Auditors

	Consolidated entity		Parent entity	
	30 June 2016 \$	30 June 2015 \$	30 June 2016 \$	30 June 2015 \$
Amount Received or Due and Receivable by Auditors				
Australian National Audit Office (ANAO) for the Audit of the Financial Statements	193,000	193,000	193,000	193,000
	<u>193,000</u>	<u>193,000</u>	<u>193,000</u>	<u>193,000</u>
Audit Fees relating to the audit of DHA IML are paid to the ANAO. DHA IML is liable for 100% of these fees.	18,000	21,455	-	-
	<u>18,000</u>	<u>21,455</u>	<u>-</u>	<u>-</u>
Audit of the Australian Financial Services License (AFSL) for DHA IML	6,000	9,545	-	-
	<u>6,000</u>	<u>9,545</u>	<u>-</u>	<u>-</u>

No other services were provided by the ANAO during the reporting period. Deloitte Touche Tohmatsu has been contracted by the ANAO to provide audit services for 2015-16 on the ANAO's behalf. Fees for these services are included above.

Defence Housing Australia
Notes to the Consolidated Financial Statements
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 (continued)

31 Related Party Disclosures

DHA forms part of the Department of Defence portfolio. DHA reports to two shareholders ministers; the Minister for Defence and the Minister for Finance.

Key management personnel are detailed in Note 28.

DHA and DHA IML entered into the Services Agreement on 23 May 2013 to assist in the running of the business of DHA IML. The service fee for the financial year ended 30 June 2016 was \$205,000 (2015: \$164,650). Under the Services Agreement, DHA paid directors fees to Carol Holley of \$6,467 (2015: \$15,060) and to Martin Brady of \$9,065 (2015: \$0). Jan Mason, Peter Howman and Jon Brocklehurst were not paid any additional amounts in relation to their roles as directors of DHA IML.

DHA IML has not provided remuneration to key management personnel. Key management personnel are provided to DHA IML by DHA under the Services Agreement.

The services to be provided by DHA to DHA IML include:

- The use of DHA employees to assist with compliance with regulatory obligations;
- Accounting, taxation reporting and other secretarial services;
- Allowing DHA IML to occupy DHA's premises as its registered office for the purpose of the Corporations Act;
- Provide material, equipment and services necessary for the administration of the business; and
- Provide maintenance and administration of all equipment and assets used in the administration and provision of services.

The Services Fee for the 2015-16 financial year has been agreed by the two parties. The Service Agreement does not include any additional fees payable to DHA pertaining to the performance of DHA IML.

DHA IML on behalf of DHA Residential Property Fund No1. (Fund) entered into 75 sale and lease back transactions with DHA on 27 September 2013 for \$42.1 million and four sale and lease back transactions with DHA on 25 November 2013 for \$2.32 million. The key terms of the lease agreement are outlined below:

- Lease terms are between 9 to 12 years;
- Rent is set at market value and will be indexed by 4.25% per year. The rent is reviewed on the 5th and 10th year of the lease and will be higher of market rent or the indexed rent value;
- Expenses relating to the property are deducted from the gross rent by DHA;
- DHA organises and covers the cost of repairs and maintenance; and
- DHA charges a property management fee of 14.3% (including GST) per annum on the gross rental income for freestanding houses and 11% (including GST) per annum on the gross rental income for townhouses and apartments.

Centric Capital on behalf of Centric DHA Residential Property Fund, the sole investor in the Fund has advised DHA IML of its intention to realise its units in the Fund. DHA has agreed to repurchase 12 properties from the Fund for \$7.375 million.

32 Economic Dependency

DHA depends on the Department of Defence in accordance with the Services Agreement between the Department of Defence and DHA. DHA received 44.99% of its total revenue from the Department of Defence and from Defence members for the year ended 30 June 2016 (2015: 50.8%).

Defence Housing Australia
Notes to the Consolidated Financial Statements
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(continued)

33 Financial Instruments

The main risks arising from DHA's financial instruments are interest rate risk, credit risk and liquidity risk. DHA uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring the level of exposure to interest rates and assessments of forecasts for interest rates. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of rolling cash flow forecasts.

Carrying Value

The carrying value of the DHA's financial assets and liabilities at the reporting date are as follows:

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Financial Assets				
Cash at Bank	25,721	8,781	25,441	8,504
Cash on Hand	12	13	12	13
Short Term Investments	295,500	255,615	295,000	255,000
Trade and Other Receivables	46,289	16,183	46,276	16,209
Carrying Amount of Financial Assets	367,522	280,592	366,729	279,726
Financial Liabilities				
Borrowings	509,580	509,580	509,580	509,580
Trade and Other Payables	58,305	61,444	58,329	61,502
Other Financial Liabilities (Non-Current)	1,278	819	1,278	819
Dividends	62,719	54,637	62,719	54,637
Other Financial Liabilities (Current)	52,808	41,752	52,808	41,752
	684,690	668,232	684,714	668,290
Net Income from Financial Assets				
Interest	8,582	8,362	8,562	8,334
Annuity Revenue	-	2,174	-	2,174
Net Gain Loans and Receivables	8,582	10,536	8,562	10,508

Defence Housing Australia
Notes to the Consolidated Financial Statements
30 June 2016
(continued)

33 Financial Instruments (continued)

	Consolidated entity		Parent entity	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Net Expenses from Financial Liabilities				
Interest Expense	26,521	28,610	26,521	28,610
Net Loss Financial Liabilities - Amortised Cost	<u>26,521</u>	<u>28,610</u>	<u>26,521</u>	<u>28,610</u>

Fair Value

The fair value of financial assets and liabilities have been derived as follows:

- The fair value of government loans is calculated by the Australian Office of Financial Management. The loans are valued by calculating the net present values of all future contracted payments at the relevant interest rate. The fair value of DHA's loans with Defence was \$563.338 million for 2016 (2015: \$542.221 million).
- The Directors consider that the carrying amounts of all other financial assets and liabilities recorded at amortised cost in the financial statements approximates their fair values.

In accordance with AASB 7 - *Financial Instruments Disclosures*, the fair value of government loans have been determined using level 2 of the fair value hierarchy.

Credit Risk

Credit risk arises from the financial assets of DHA, which comprise cash and cash equivalents and trade and other receivables. Exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

DHA does not hold any credit derivatives to offset its credit exposure.

DHA trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it policy to securitise its trade and other receivables. All customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that DHA's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within DHA and financial instruments are spread amongst a number of financial institutions to minimise the risk of default of counterparties.

The table above illustrates DHA's gross exposure to credit risk. For ageing of Trade Receivables refer to Note 14.

Liquidity Risk

DHA manages liquidity risk by maintaining an appropriate level of marketable securities on hand to meet outgoing commitments in the event of failure to receive any revenue from the normal course of business and ensuring capacity exists to borrow under the Cash Advance Facility based upon annual cash flow forecasts prepared by DHA Finance.

Other than Defence loans all financial liabilities will mature within one year. Refer to Note 22 for ageing of Defence loans.

Derivatives

DHA has no derivative financial liabilities in both the current and prior year.

Defence Housing Australia
Notes to the Consolidated Financial Statements
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(continued)

33 Financial Instruments (continued)

Market Risk

DHA manages interest rate risk by ensuring that both investments and borrowings mature commensurate with cash flow requirements to minimise repricing risk arising from changes in interest rates. DHA also seeks to ensure an appropriate mix of maturities across the yield curve to avoid concentration of maturities on any given date and higher volatility inherent in longer dated investments.

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. DHA has exposure to interest rate risk arising from fluctuations in interest rates applicable to cash and borrowings.

The table below details the interest rate sensitivity analyses of the entity at the reporting date, holding all other variables constant.

Sensitivity analysis of the risk that DHA is exposed to in 2016

Risk Variable	Change in risk variable %	Effect on			
		Average Cash \$'000	Profit and Loss \$'000	Equity \$'000	
Interest Rate Risk	Interest	0.30	226,667	680	0

Sensitivity analysis of the risk that DHA is exposed to in 2015

Risk Variable	Change in risk variable %	Effect on			
		Average Cash \$'000	Profit and Loss \$'000	Equity \$'000	
Interest Rate risk	Interest	0.40	156,500	626	0

Interest rate sensitivity analysis has been calculated on a "reasonable possible" basis. The rate of 30 basis points (2015: 40 basis points) was determined by using the standard parameters issued by the Department of Finance.

Financial Risk Management

DHA's principle financial instruments comprise receivables, payables, government loans, finance leases, cash and short term deposits.

It manages its exposure to key financial risks in accordance with DHA's Treasury and Risk Management policy. The objective of the policy is to support the delivery of DHA's financial targets whilst protecting future financial security.

Primary responsibility for identification and control of financial risks rests with DHA's Risk Manager who regularly reports to the DHA Board.

34 Subsequent Events

There have been no events post 30 June 2016 which would have a material impact on the financial statements or operations of the DHA business.