



**Australian Government**

**Army and Air Force  
Canteen Service**



**Frontline**  
defence services

*Annual Report  
2010-2011*





# **Australian Government**

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## **Army and Air Force Canteen Service**

*Trading as Frontline Defence Services - ABN 69 289 134 420*

**Report for the Year Ended 30 June 2011**

**Army and Air Force Canteen Service**  
trading as Frontline Defence Services

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22 September 2011

The Hon Warren Snowdon MP  
Minister for Defence Science and Personnel  
Suite M1.49  
Parliament House  
CANBERRA ACT 2600

Dear Minister

On behalf of the directors of the Army and Air Force Canteen Service, I have pleasure in submitting our Annual Report for the year ending 30 June 2011.

The directors are responsible under section 9 of the *Commonwealth Authorities and Companies Act 1997* for the preparation and content of the report of operations in accordance with the Finance Minister's Orders made under that Act.

The report of operations was made in accordance with a resolution of the directors on 22 September 2011.

Yours sincerely

A handwritten signature in black ink, appearing to read 'T. Moore', written in a cursive style.

Ted Moore  
Chairman

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## FROM THE CHAIRMAN AND THE MANAGING DIRECTOR

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It is our pleasure to report on a year in which the Army and Air Force Canteen Service trading as Frontline Defence Services continued its move towards a self-sustainable future. For the financial year 2010-11, Frontline recorded a net profit of \$501,224. After removing the net contribution of Defence facility funding of \$279,356, the operational result is \$221,868. Although this was down on expectations, it is the first year without any Defence troop deployment reimbursement. It is significant that a positive trading profit result has been achieved despite the difficult and volatile trading conditions.

Allowing for the transfer of business of the Army Shop outlet and the calendar movement of the Talisman Sabre exercise, sales were marginally up on the prior year. This again is despite the difficult trading environment faced particularly in the early part of calendar year 2011 due to the extreme weather conditions experienced, most specifically in Queensland and the Northern Territory.

Frontline continues to build a strong commercial foundation without reliance on underpinning for troop deployments. The positive trading results being achieved from the bases most affected by these deployments are most encouraging. Our focus on excellent customer service and the ability to achieve or exceed set KPI's in these and other bases contributed to what was a satisfactory result.

Frontline's focus and direction continues in line with that set by the Strategic Plan 2008-12. This year the Board is looking forward to conducting the annual review of the plan and being able to consider and approve amendments to the strategic agenda as recommended by our new Managing Director, Stewart McGrow, which will set the direction for the next five years.

As part of our continuous improvement process, Frontline again committed significant funding to our capital improvement projects. In the last financial year Frontline spent approximately \$169,000 on outlet plant and equipment and minor facility works. In addition to this, Defence delivered approximately \$137,000 in the outlets under the amenities improvement payment. Addressing our staff development program, a Human Resources and Training Manager was appointed to commence work in September 2011 to manage and implement staff training and development.

During the 2011-12 financial year the Board expects that our customers will begin to see tested and proven improvements to our food and beverage offer. The food and beverage product will be more contemporary and relevant to each base and will be rolled out to our businesses within the forthcoming year.

Financially, Frontline has submitted a very challenging budget for net profit in 2011-12 and will be rolling out proven initiatives as quickly as possible and maintaining strong managerial controls on productivity and profitability to attain the forecast.

We continue to strive to fulfill our commitment to provide a high quality canteen and amenities service to the men and women of the Australian Defence Force and their families. The following operational outputs underpin this commitment and progress those strategic level objectives described in the strategic plan:

- ❖ Improving our operational performance - in 2011-12 we expect the environment that we will be operating in will be more challenging than that we experienced this year therefore we will need more than ever to ensure that our productivity and profitability benchmarks are attained in all outlets and that proven initiatives are quickly implemented across all bases.
- ❖ Service level improvements - Frontline is committed to implementing those improvement opportunities identified in the customer and internal staff satisfaction surveys. This is a high priority for our new Managing Director and his team.
- ❖ Improved facilities - The Special Amenity Payment provides the baseline funding for a rolling program of canteen refurbishments. \$601k is expected to be spent on improvements to 6 bases, coffee carts to support exercises and in research and implementation of rebranding initiatives.

## FROM THE CHAIRMAN AND THE MANAGING DIRECTOR

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To conclude we must again thank the Chiefs of Army and Air Force and the members of the Frontline Advisory Committee for their guidance and support throughout 2010-11.

We would like to acknowledge the efforts of our customers and staff who supported the Australia wide Canteen promotion of "Have a Coffee, Help a Mate" in May which resulted in a donation of \$60,200 to the Army & Air Force Trusts to provide much needed funds to further assist those service personnel so affected by the floods.



**Image 1: Cheque presentation, 'Have a Coffee, Help a Mate'**

L - R: Mr Stewart McGrow, Air Vice-Marshal Neil Hart, Major General Paul Symon, Mr Ted Moore

We also thank our managers and staff for their continued hard work and dedication. Without these people, we could not have delivered on our commitments and promises. We look forward to the challenges associated with meeting our 2011-12 targets and posting yet another positive result during the next financial year.

## OVERVIEW

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### Frontline's Mission

Frontline's mission is to:

- ❖ Provide convenience food and everyday essentials through a variety of retail options
- ❖ Deliver value for money across a broad product range
- ❖ Support local base communities
- ❖ Investigate new business opportunities which will ultimately benefit members and their families

### Frontline's Purpose

Frontline is a 'not for profit' statutory organisation administered under the *Army and Air Force Canteen Regulations 1959* and the *Commonwealth Authorities and Corporation Act 1997*.

Frontline's role is to:

- ❖ Provide convenient, inviting and competitive on-base canteen services that contribute to a pleasant, satisfying and safe work environment and which supports the retention of ADF personnel
- ❖ Operate on a commercial and self-supporting basis and generate surplus funds sufficient for business improvements and disbursement to welfare and trust funds for the benefit of ADF members and their families

Services provided by Frontline are designed to enhance the living conditions and social environment of Australian Defence Force members, their dependants and other persons employed in or in connection with Army and Air Force installations and include the following business lines:

- ❖ Canteen services comprising food, beverage and convenience items
- ❖ Wholesale supply of alcohol and other requirements to messes and clubs
- ❖ Vending
- ❖ Dry cleaning services
- ❖ Postal services
- ❖ Fuel and mechanical workshops
- ❖ Army Shop the online supplier of Brand Army merchandise
- ❖ Military and adventure wear stores

### Our Stakeholders

The Army and Air Force Canteen Service (AAFCANS), trading as Frontline Defence Services, is a Commonwealth statutory authority formed to provide goods, facilities and services to or for the entertainment and recreation of designated members of the 'Defence family'.

The Commonwealth Government owns Frontline. Key stakeholders include:

- ❖ Customers (ADF members and their families, reservists, Defence civilians and contractors, former Defence members and their families)
- ❖ The responsible Minister
- ❖ The Chief of the Defence Force, the Chief of Army and the Chief of Air Force
- ❖ Amenity and welfare funds
- ❖ Frontline's employees
- ❖ Suppliers and others

# REPORT OF OPERATIONS

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## Year in Review

The 2010-11 financial year was a challenging year for Frontline Defence Services (Frontline). For the year ended 30 June 2011, Frontline recorded revenues of \$17 million and a net operating profit of \$501k. After removing the net contribution of Defence facility funding of \$279k, the operational result is \$222k.

The business faced some unexpected hurdles during the year, including:

- ❖ the deployment of troops to areas not serviced by Frontline resulting in lower than anticipated levels of personnel on base as a result of Defence higher tempo of operations and deployments.
- ❖ a significant change in retail sales mix.

## Financial Overview

### Financial Accountability and Controls

The financial statements for the financial year 2011 clearly demonstrate Frontline to be a profitable organisation in its own right, with a net operating profit of \$222k before the Defence Amenities Payment and disbursements. Frontline also recorded a significant increase of \$418k in its cash at bank balance (excluding Defence Amenities Payment and disbursements).

The key factors influencing the financial results are:

- ❖ a decrease in sales revenue of \$589k or 3% year on year mainly due to troop movements. This saw a decrease in both food and non-alcoholic drink sales of \$456k and \$176k respectively against 2009-10 achievements.
- ❖ despite the change in sales mix, gross profit percentages were slightly better than the previous year. The 0.16% improvement reflected a continued focus on controlling wastage and stock losses, both of which posted a slight improvement on the 2009-10 result.
- ❖ an increase of \$187k in other income generated by the organisation through the management of term deposit investments, marketing rebates and vending machine commission.
- ❖ the associated internal refurbishments such as shelving, seating and painting, required to make these changes improved the outlets' appearance and atmosphere, thereby attracting more customers into the stores.
- ❖ implementation of a staff retention program required a revised mix between permanent and casual employees. To ensure consistent customer service there was a need to retain key staff at those bases where troops numbers fluctuated significantly while ensuring the casual staff numbers could be controlled in line with the amount of work available. The move of these staff to permanent or permanent - part time status diminished Frontline's flexibility to reduce labour cost when troop's deployment increased and sales decreased.
- ❖ Frontline controlled its expenses at 9% of sales in line with the previous year.

Full details of AAFCANS financial results are included in the Financial Statements section of this report.

### Operational Developments

2010-11 was a year of consolidation with the primary focus on the business operations being able to return a profit without any Commonwealth funding assistance.

This was largely achieved despite the large numbers of troops deployed on exercise or overseas on operations continuing to have a significant effect on sales at our three major Army bases. Additionally, the movement of the 7 RAR battle group from Robertson Barracks to RAAF Edinburgh saw a further sales decrease at that losing base.

Under regulations Frontline is to conduct its operations on a commercial and self-supporting basis, with the aim of providing profits sufficient to permit distribution of surplus funds for the benefit of the members of the Army, the Air Force and their families. A Ministerial directive dating from 2006 relieved Frontline of this obligation. Instead of making cash donations directly to unit trusts or welfare funds, Frontline was instructed to re-invest cash surpluses into remodelling and refurbishing its canteen facilities. The reasons for this were twofold. Firstly it recognizes that due to funding constraints, Defence has not been able to fund the maintenance and upgrade of Frontline facilities to the extent that has been required. The majority of the canteens remain outdated, unattractive and lacking in atmosphere. A significant level of capital investment is needed to bring them up to standard. Secondly, expenditure on facilities refurbishment provides a greater and more tangible benefit to the entire base community than do cash payments to individual units and trust funds. The Frontline Advisory Committee reviews this decision annually.

However Frontline still provides significant levels of financial support to unit trust funds and base welfare through the disbursement of vending machine commissions, direct cash sponsorship and product donations to support unit functions, sporting teams and significant events.

In conjunction with its major business partner Australian Commercial Catering Pty Ltd, Frontline contributed approximately \$342,732 through sponsorship of events and functions, donations to units and trusts and vending commissions. The more significant of these were:

- \$60,200 to the Army Relief Trust Fund and the Royal Australian Air Force Welfare Trust Fund generated by the Have a Coffee, Help a Mate Appeal in support of the south Queensland floods.
- \$20,000 in kind to Defence personnel involved in Operation Queensland Flood Assist the south east Queensland flood recovery effort.
- \$251,032 in vending commission disbursements were paid directly to unit regimental trusts and base welfare funds

Frontline is pleased to report that the total service vending solution with its preferred suppliers for non alcoholic beverages, snack foods and confectionery delivered a 60% increase on the 2009-10 payment made to units and provides testimony that Frontline is able to provide real value to Defence through its controlled vending solution.

Apart from the benefit of increased disbursements, vending is an area where Frontline provides a greater benefit to Defence. A Frontline controlled vending solution assists base security through improved access control, provides consistency in purchase prices and the amount of vending commissions paid, as well as improving the governance of unit non-public moneys accounts through a controlled and auditable commission payment process. During 2010-11, Frontline will continue to work with the base command teams and the Defence Support Group to establish a greater level of ownership and control over on base vending operations.



**Image 2: Frontline's Donna Alvos, Gallipoli Barracks raising funds for the Queensland Premier's Flood Appeal**

As at June 2011, Frontline or its agents operated food services on 26 Army and Air Forces bases and joint ADF facilities throughout Australia. The service was provided from direct operations on nine bases, 15 under a partnership arrangement with Australian Commercial Catering Pty Ltd in New South Wales, Victoria and South Australia and the remaining seven bases under subcontract agreements with independent operators:

The Frontline network (direct operations and ACC partnership) as a 30 June 2011 included:

- 24 main canteens/cafés including convenience items and dry cleaning at most locations
- 6 satellite kiosks
- 1 supermarket/grocery store
- 1 post office
- 3 taverns
- 2 petrol outlets
- 19 mobile food vans
- total service vending on 45 Defence establishments

In addition to the seven subcontracted canteens and cafés at Victoria Barracks - Sydney, RMC Duntroon, LWC Canungra, Puckapunyal, RAAF Darwin, RAAF East Sale and Woodside Army Barracks, additional services are provided at the major bases through Licenced to Trade agreements or concessions. These are:

- 16 financial services (Defcredit and ADCU branches)
- 26 barber shops or hair and beauty salons
- 6 service stations & mechanical workshops
- 1 dry cleaning agent
- 1 newsagent
- 1 post office
- 1 photographer
- 1 magazine publisher
- 3 military and adventure wear stores

## REPORT OF OPERATIONS

### Customer Service Improvements

In September 2010, Frontline Defence Services commenced a 3 month customer satisfaction survey aimed at all Army and Air Force personnel located on bases serviced by Frontline, Australian Commercial Catering or Licensed to Trade operators.

The survey focused on obtaining vital information about what Frontline's customers thought of our businesses within 5 key areas:

- Product ranging and quality
- Customer service
- Store atmosphere
- Mobile Food Van services
- Retail pricing

The results from this survey formed part of the Frontline Defence Services Operational Strategy for 2011.

### Have a Coffee, Help a Mate

In January 2011, the south east Queensland floods impacted many thousands of people. A number of Army and Air Force families in the Ipswich and Amberley areas were in need of additional assistance in their flood recovery. Responding to a request from Chief of Army and Chief of Air Force, Frontline conducted a week long appeal designed to raise funds to provide back to the respective Army and Air Force Trust Funds for assistance to those members in need. The "Have a Coffee, Help a Mate" appeal raised the impressive total of \$60,200, representing 10% of all retail sales made by Frontline and Australian Commercial Catering canteens during the promotional period.

The Frontline Defence Services "Have a Coffee, Help a Mate" appeal was able to highlight the Army and Air Force Canteen Service doing what it is designed to do. That is, to support Army and Air Force personnel and their families through the sale of goods and the provision of services on Army and Air Force establishments.



Image 3: LAC Christopher Hall supporting the 'Have a Coffee, Help a Mate' appeal at RAAF Richmond

## REPORT OF OPERATIONS

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### Facilities Improvement Program

In recognition of the unique environment in which Frontline operates, the Commonwealth has provided a \$400,000 per annum Special Amenity Payment which has been used exclusively to improve the general appearance and atmosphere of Frontline canteens for its Service patrons.

During 2010-2011, \$137k worth of improvements was completed. These improvements were confined to the replacement of key equipment items, canteens' shop fitting work and customer comfort improvements. The most significant projects were completed on the following bases:

- \$39,000 for RAAF Williams
- \$21,000 for Gallipoli Barracks
- \$17,000 for RAAF Wagga
- \$13,000 for Victoria Barracks, Melbourne
- \$12,000 for ARTC Kapooka
- \$11,000 for RAAF Williamstown
- \$ 7,000 for Lavarack Barracks
- \$ 5,000 each for Army Aviation Training Centre, Oakey and RAAF Amberley
- \$ 5,000 for ALTC Latchford Barracks

Planned upgrades to facilities in 2011-12 include:

- Upgrade and reopen RAAF Darwin
- Upgrade the coffee facilities and Cafe Central, Robertson Barracks
- Improve table and seating facilities and improve food preparation and kitchen facilities at RAAF Tindal
- Reopen and upgrade Harry's Cafe bar in the Chauvel precinct at Lavarack Barracks, Townsville
- Redesign and improve canteen facility at Gallipoli Barracks, Brisbane
- Upgraded chilled sandwich cabinet and counter, RAAF Amberley
- Improve table and seating facilities at ARTC Kapooka

### WiFi & Pay TV

In addition to refurbishment and upgrades, Frontline is expanding its Wi-Fi network, currently installed at RAAF Amberley and Townsville, to include WiFi at Robertson, Lavarack and Gallipoli Barracks.

Subject to our ability to access sufficient broadband connectivity, we expected this initiative to be rolled out across the entire Frontline operations to provide our troops with free internet access while visiting the canteens.

As part of the Gallipoli Barracks and RAAF Darwin canteen upgrades, Pay TV will be installed. Should this prove to be a popular and well accepted initiative Pay TV will also be rolled out to all Frontline stores so that troops can view news, sport and other contemporary programming while dining.

### Governance and Compliance

Our processes to ensure compliance with occupational health and safety (OHS) and food safety program requirements are well established. Independent internal audit checks on our OHS and food safety compliance and financial controls continue to be conducted twice yearly in Frontline directly operated stores. The ACC joint venture stores and Licenced Trader businesses continue to be audited for OHS and food safety compliance (where applicable) annually. Any areas of concern that are identified are reported to either the Defence Support Group or Frontline management for resolution.

### Likely Developments and Expected Results

During 2011-12, Frontline's major focus will be on maintaining our store operating standards and continued operational excellence through our 'Brilliant at the Basics' program. This will ensure that our productivity and profitability benchmarks are attained in all outlets.

We will also focus more closely on the customer and ways to provide a quality service across all facets of the business. During the 2011-12 financial year, Frontline will intensify its efforts to better service the on-base personnel through the improvement of the food offer and its presentation.

The forecast for 2011-12 shows that Frontline is expected to achieve a net profit of \$178,483. Total capital expenditure on facilities, plant, equipment, information and technology is forecast to be in the vicinity of \$330,000. Note that this amount does not include expenditure on canteen refurbishments funded by the Special Amenity Payment.

## Corporate Governance

The overriding objective of the directors is to increase stakeholder value within an appropriate framework, protect the rights and interests of stakeholders while ensuring that the Army and Air Force Canteen Service is properly managed.

The directors are committed to the principles underpinning better practice in corporate governance, applied in a manner that is best suited to the business and to best address the directors' accountability to stakeholders. This is supported by an organisation-wide commitment to high standards of legislative compliance, and financial and ethical behaviour.

## Organisational Structure

This chart is a diagrammatic presentation of 'lines of authority' that operated throughout the year. This is not an indication of 'seniority' within the corporation.

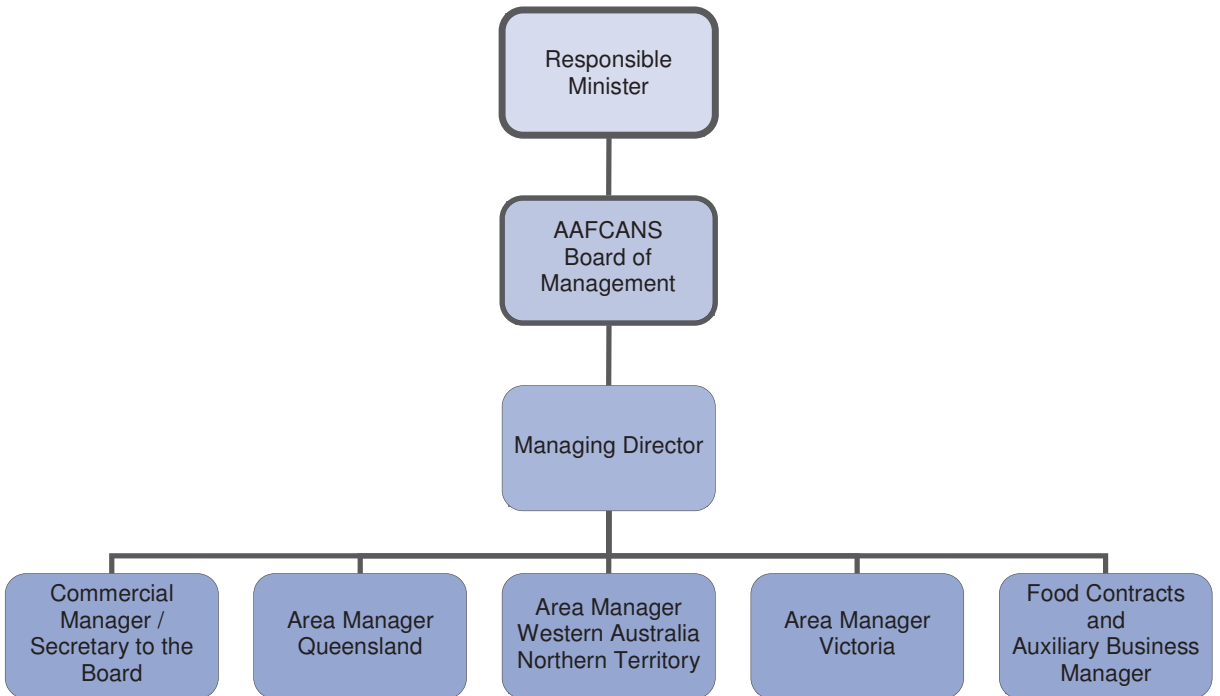


Chart 1: Organisational Structure

**The Board of Management**



**Mr Edward (Ted) Moore GAICD**

**Air Commodore Ian Pearson (RAAFAR) MAICD**

**Brigadier Andrew Bottrell CSC & Bar**

Chairman and non-executive director

Non-executive director

Non-executive director

Ministerial re-appointment  
- 1 October 2010

Chief of Air Force appointment  
- 1 July 2010

Chief of Army appointment  
- 16 March 2011

**Experience:**

Ted has more than 40 years experience in management and governance in the retail industry. Ted worked for Coles Myer Ltd for most of this time in store operations, state management, and national and state office merchandise management. Prior to retirement Ted set up the regulatory affairs centre of excellence for Coles Myer.

Since retirement Ted has undertaken retail consultancy work and is a director of Outback Stores Pty Ltd - an Australian Government initiative to introduce modern retail management practices and technology into indigenous community stores.

**Experience:**

Ian, as a military representative, advises AAFCANS and represents the interests of Air Force personnel.

Ian had an extensive Air Force career in flying, training and staff duties before transferring to the RAAF Active Reserve in March 2010. In addition to his Frontline responsibilities, his Reserve duties have included conducting a number of reviews for Air Force.

**Experience:**

Andrew, as a military representative, advises AAFCANS and represents the interests of the Army.

Andrew is appointed currently as Chief of Staff Army Headquarters. In this position he is responsible to Chief of Army for the effective operation of Army Headquarters, ministerial and parliamentary liaison, and the strategic management of Army's reputation and corporate governance. He has extensive experience in command and logistics appointments.

**Other current appointments:**

- Director, Outback Stores Pty Ltd
- Director/Secretary, Ligon 250 Pty Ltd

**Other current appointments:**

- President, Australian Defence Colleges Association
- Director, Williams Foundation

**Other current appointments:**

Nil

**Special duties (AAFCANS):**

- Chairman of the corporate governance committee
- Member of the remuneration committee
- Member of the audit committee

## REPORT OF OPERATIONS



**Mr Christopher E Hamilton ADC MBA  
BAppSc GAICD**

**Ms Catherine J Sinclair BSc MA FAICD  
FAIM**

**Mr Alan Williams**

Managing Director (executive director)

Non-executive director

Non-executive director

Board appointment  
- 28 August 2006  
Resigned  
- 30 June 2011

Ministerial appointment  
- 1 October 2009

Ministerial re-appointment  
- 1 October 2010

**Experience:**

Chris comes from a mixed commercial and military background. Chris acquired extensive commercial experience during the 15 years he managed and operated large regional agribusiness branches for Primac Association Ltd and Primac Elders Ltd.

He has served in a number of military leadership roles in a full time and part time capacity within Australia and on operations overseas. Chris currently holds the rank of Brigadier in the Army Reserve and is posted to the Standby Staff Group as the Project Officer - Queensland Region.

**Other current appointments:**

- Brigadier in Army Reserve
- Project Officer Queensland, Standby Staff Group

**Special duties (AAFCANS):**

- Member of the corporate governance committee

**Incoming Managing Director:**

**Mr Stewart McGrow**

Board appointment  
- 1 July 2011

**Experience:**

Catherine has served as a Board director since 1999. She completed her appointment to the Brisbane Airport Corporation in 2007. She was a Director of the Port of Brisbane in 2001 and became the Deputy Chair in 2005 completing her appointment in 2011. She also served as a member of the Audit Committee and Chair of the Environment Committee.

Catherine, an organization consultant, brings with her extensive professional experience in corporate strategic planning, organization development, systems development and human resource management.

**Other current appointments:**

- Director, Linkwater
- Director, Linkwater Projects
- Councillor, RNA (The Royal National Agricultural and Industrial Association of Queensland)
- State Councillor, CEDA
- Director, The Consultancy Bureau Pty Ltd

**Special duties (AAFCANS):**

- Chairman of the audit committee
- Member of the corporate governance committee
- Member of the remuneration committee

**Experience:**

Alan has more than 40 years experience in the management and governance of the retail industry. Alan worked for Coles Myer Ltd for all of this time. During his career, he worked in store operations, merchandising, buying, marketing, State management and strategic planning, finishing his career as Chief Operating Officer of the Food Liquor and Fuel Group (Supermarkets Liquor Stores and Fuel Stations).

Alan now consults to several organisations.

**Other current appointments:**

- Director, Costa Exchange Pty Ltd

**Not for Profit Organisations:**

- Director, Vic Relief and Foodbank
- Director, Foodbank Australia
- Director, The Alfred Hospital Fundraising Foundation
- Director, Remote Retail Stores

**Special duties (AAFCANS):**

- Chairman of the remuneration committee
- Member of the audit committee
- Member of the corporate governance committee

## REPORT OF OPERATIONS

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### New and Former Directors

Other directors of the corporation during and after the period covered by this report were:

---

**Mr Stewart McGrow**

Managing Director (executive director)

Board appointment  
- 1 July 2011

**Brigadier David Mulhall AM GAICD**

Non-executive director

Chief of Army appointment  
- 5 December 2008  
Resigned  
- 16 March 2011

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Experience:

Stewart's management practice encompasses a wealth of commercial experience in sectors including retail, quick service restaurants/bars, restaurants and leisure clubs in both Australia and the UK. Within Australia, Stewart has held positions as General Manager, Corporate Business with the Compass Group, and National General Manager & General Manager Sydney Opera House.

Having previously worked with Defence in the UK, Stewart has a clear understanding of the nature of the Frontline business and the operational requirements that must be achieved to satisfy not only customers, but also key defence and government stakeholders.

Stewart brings to Frontline a renewed energy for the business and strong customer orientated focus. Stewart's experience provides him with an understanding of the way an organisation should look after its customers.

Special duties (AAFCANS):

- Member of the corporate governance committee
- 

Experience:

David, as a military representative, advises AAFCANS and represents the interests of the Army.

David is appointed currently as Chief of Staff Army Headquarters. In this position he is responsible to Chief of Army for the effective operation of Army Headquarters, ministerial and parliamentary liaison, and the strategic management of Army's reputation and corporate governance. He has extensive experience in command, logistics and personnel appointments.

Other current appointments:

Nil

The Board's charter is set forth in the Regulations and includes that the:

- Minister appoints three members, at least two of whom have had extensive business or commercial experience, one of whom is appointed non-executive Chairman
- Board includes two nominee directors, one each from Army and Air Force
- Managing Director is appointed by the Board as the sole executive director

Civilian directors are appointed by the Minister, based on industry expertise, business acumen and other characteristics that are considered to be valuable skills for the management of the business. Military Board members are selected from senior officers who have experience in management, personnel and other military aspects.

The Managing Director is appointed by the Board. The performance and remuneration of the sole executive director is reviewed on an annual basis by the Chairman acting in accordance with the determination of the Remuneration Tribunal. The Chairman then makes a recommendation to the Human Resources and Remuneration Committee.

## Board Committees and Attendance

### Meetings of directors

The number of meetings of the directors held during the reporting period and the number of meetings attended by each director:

The Board of Management	Period (if not a member for the full year)	Meetings eligible to attend (No.)	Meetings attended (No.)
E Moore (Chairman)		9	9
C Hamilton (Managing Director)	Resigned 30 June 2011	9	9
I Pearson	Appointed 1 July 2010	9	9
D Mulhall	Resigned 16 March 2011	6	6
A Bottrell	Appointed 16 March 2011	3	3
C Sinclair		9	9
A Williams		9	8

**Table 1: Director Meeting Attendance**

### Audit and Risk Management Committee

The members of the Audit and Risk Management Committee, all being non-executive directors, at balance date were C Sinclair (Chair of the committee), E Moore and A Williams. The committee has issued a standing invitation to the military directors to attend the committee meetings.

The number of meetings of the Audit and Risk Management Committee held during the reporting period and the number of meetings attended by each member:

Audit and Risk Management Committee	Period (if not a member for the full year)	Meetings eligible to attend (No.)	Meetings attended (No.)
C Sinclair (Chair)		4	4
E Moore		4	4
A Williams		4	3

**Table 2: Audit and Risk Management Meeting Attendance**

The Audit and Risk Management Committee is a standing committee. The members are appointed to the Committee for the term of their Ministerial Board appointment.

The Committee operates under the charter approved by the Board, with reports of the business of the Committee made and minutes of meetings provided to the subsequent meeting of the Board. The charter was reviewed, updated and re-issued during the financial year.

## REPORT OF OPERATIONS

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The Committee assists the Board in determining and ensuring:

- compliance with the *Commonwealth Authorities and Companies Act 1997* and other relevant acts
- accounting records are appropriately maintained
- adequate internal controls to safeguard assets
- the correct identification and control of risk factors
- the internal audit function operates according to the Board's internal audit charter including ensuring appropriate action is taken on audit recommendations
- financial statements and management reports give a true and fair view
- a standard of corporate conduct and actively consider any ethical issues regarding policies and procedures

In fulfilling its responsibilities the Committee receives regular reports from internal and external auditors and management and maintains open lines of communication between committee members and internal and external auditors.

The external auditor is the Auditor General as prescribed by the *Commonwealth Authorities and Companies Act 1997*.

### ***Risk Management***

The Board's risk control matrix is tabled for review at each Audit and Risk Management Committee meeting. All updates to this matrix are reviewed by the Board. The risk matrix is a key reference document when setting the annual business plan. During the past financial year, the Board and the Audit and Risk Management Committee have reviewed and updated as appropriate the risk management policy and associated documents.

Food safety (HACCP) and occupational health and safety (OH&S) are integral parts of the Frontline service. The internal auditor conducts random audits for compliance under these two programs. The outlets are also audited for OH&S and food safety by the respective Army and Air Force accredited officials.

The Board insures for a wide range of commercial risks including general liability, business interruption, directors' and officers' liability, travel and property loss, destruction or damage.

## **Corporate Governance Committee**

The members of the Corporate Governance Committee, all being directors, at balance date were E Moore (Chair of the committee), C Sinclair, A Williams and C Hamilton.

The number of meetings of the Corporate Governance Committee held during the reporting period and the number of meetings attended by each member:

<b>Corporate Governance Committee</b>	<b>Period (if not a member for the full year)</b>	<b>Meetings eligible to attend (No.)</b>	<b>Meetings attended (No.)</b>
E Moore (Chair)		3	3
A Williams		3	3
C Sinclair		3	3
C Hamilton	Resigned 30 June 2011	3	3

**Table 3: Corporate Governance Meeting Attendance**

## REPORT OF OPERATIONS

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The Committee has issued a standing invitation to the military directors to attend the Committee meetings.

The Committee operates under a charter approved by the Board, with reports of the business of the Committee made and minutes of meetings provided to each subsequent meeting of the Board. The charter was reviewed and updated during the financial year and is in the process of being re-issued.

The main responsibility of the Committee is to assist the Board in fulfilling its responsibilities for maintaining sound corporate governance over all activities within the organisation.

The charter and the employee code of conduct require all directors and employees to act with the utmost integrity and objectivity at all times in their dealings with each other, competitors, customers, suppliers, the organisation and the community. Expectations on issues such as avoiding any conflict of interest, compliance with all laws, compliance with all policies and procedures, stewardship of assets and confidentiality of information are detailed therein.

### Human Resources and Remuneration Committee

The members of the Human Resources and Remuneration Committee, all being non-executive directors, at balance date were A Williams (Chair of the committee), E Moore and C Sinclair.

The number of meetings of the Human Resources and Remuneration Committee held during the reporting period and the number of meetings attended by each member:

<b>Human Resources and Remuneration Committee</b>	<b>Period (if not a member for the full year)</b>	<b>Meetings eligible to attend (No.)</b>	<b>Meetings attended (No.)</b>
A Williams (Chair)		3	3
E Moore		3	3
C Sinclair		3	3

**Table 4: Human Resources and Remuneration Meeting Attendance**

The Committee has issued a standing invitation to the military directors to attend the Committee meetings.

The Committee operates under a charter approved by the Board, with reports of the business of the Committee made and minutes of meetings provided to each subsequent meeting of the Board. The charter was reviewed, updated and re-issued during the financial year.

The main responsibility of the Committee is to assist the Board in fulfilling its responsibilities for maintaining sound managerial control over all human resource, industrial and superannuation activities within the organisation, reviewing all significant human resource practices and reporting of the organisation.

The Committee, after consultation with the Chairman, also reviews and makes recommendations on the performance and remuneration of the Managing Director.

### Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the Board's expense. Prior written approval of the Chairman is required but will not be unreasonably withheld. This right was not exercised during the year ended 30 June 2011 (2010: not exercised).

### Insurance of Officers

Frontline paid premiums of \$2,734 for the year ended 30 June 2011 (2010: \$2,758) in respect of directors' and officers' liability and company reimbursement policies.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of Frontline.

### ASX Corporate Governance Principles

Whilst Frontline is not obliged to comply with these guidelines, the Board believes that voluntary compliance ensures that Frontline is pursuing appropriate best practice corporate governance policies. These eight core principles have been incorporated into our Corporate Governance charter and are set out below, along with a brief on Frontline's level of compliance:

#### *1. Lay solid foundations for management and oversight*

The roles and responsibilities of directors are documented in a Board charter. This charter is reviewed by members of the Corporate Governance Committee on an ongoing basis.

The delegation of powers and functions to the Managing Director is documented in the Board delegation policy. Certain matters are reserved for the full Board. The Managing Director is responsible for ensuring the responsibilities as delegated are properly discharged by management and for keeping the Board informed on these matters.

The Board has in place proper procedures to assess the performance of senior executives, including the Managing Director.

#### *2. Structure the board to add value*

The size and composition of the Board are set by the AAFCA Regulations, comprising 3 independent civilian directors appointed by the responsible Minister, 2 military appointed directors and a Managing Director.

The Chair is an independent director.

The Board has established committees to assist it in carrying out its responsibilities and to consider certain issues and functions in detail. Each committee has its own written charter setting out its role, responsibilities and composition. Each charter is reviewed annually.

#### *3. Promote ethical and responsible decision-making*

The directors comply with a code of conduct documented in the Board charter.

An employee code of conduct is signed by each employee as a condition of employment.

## REPORT OF OPERATIONS

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The fraud control policy and whistleblowers policy give guidance on the reporting and investigation of unethical practices.

### *4. Safeguard integrity in financial reporting*

The Board has established the Audit and Risk Management Committee to oversee the integrity of the financial processes and reporting. The Committee consists only of independent directors. The Chair of the Committee is an independent director who is not the Chair of the Board.

The Managing Director and the Commercial Manager, in conjunction with the Board, sign the formal statement to the external auditor confirming that AAFCONS financial reports present a true and fair view, in all material aspects, of the corporation's financial position and performance and are in accordance with all relevant accounting standards.

The Internal Auditor regularly performs financial audits at all locations to ensure that the financial safeguards are operating effectively.

The organisation is audited annually by an independent firm of auditors appointed by ANAO. The firm appointed to perform the audit is not engaged by Frontline to provide any other advice or services.

### *5. Make timely and balanced disclosure*

Frontline reports on a quarterly basis to the responsible Minister, the Minister for Defence and other key stakeholders. Material matters that arise between reporting dates are advised to the responsible Minister and key stakeholders.

The AAFCONS annual report is given to the responsible Minister and tabled in Parliament in accordance with the provisions of the CAC Act 1997.

### *6. Respect the rights of shareholders*

The Board of Frontline is committed to the rights of its stakeholders, particularly as the organisation's regulatory framework does not provide some stakeholders (e.g. service members) direct access to decision makers. Management employs various tools to keep stakeholders informed of changes and to allow opportunities to provide feedback (e.g. customer surveys, military news, correspondence with Chief of Army, Chief of Air Force and sponsoring local functions/events).

### *7. Recognise and manage risk*

The Board has assigned the detailed review of the risk function to the Audit and Risk Management Committee. AAFCONS has documented a risk management policy. Identified risks are set in a risk matrix which is regularly reviewed. Policies and procedures have been established to mitigate and manage the identified risks.

The Board, Managing Director and Commercial Manager sign off an annual written certification to the external auditor that the financial reports are founded on a sound system of risk management and internal compliance and that the system is operating effectively in all material aspects.

### *8. Remunerate fairly and responsibly*

The Remuneration Tribunal sets the remuneration for all relevant directors. The Board has established a Human Resource and Remuneration Committee to oversee the salaries of senior executives.

Remuneration packages for employees are reviewed annually and are determined having regard to appropriate packages in the public and private sectors, and to attract and retain high quality staff.

### Reporting Requirements

#### Legislation

The Army and Air Force Canteen Service was established by Regulations under the *Defence Act, 1903*, by Statutory Rules as amended No. 40 of 1959.

The purpose of the canteen service is to supply goods, facilities and services to, or for the entertainment and recreation of

- members of the Army or the Air Force
- persons employed in, or in connection with, Army or the Air Force installations
- dependents of those members or persons
- visitors to Army and Air Force installations
- members of the Australian Army Cadets or the Australian Air Force Cadets

The Board shall conduct the canteen service in accordance with the following policy guidelines

- to enhance the living conditions and social environment of the intended recipients
- the operations shall be conducted on a commercial and self-sustaining basis with the aim of providing profits sufficient to permit distribution of surplus funds for the benefit of members of the Army or Air Force

#### Responsible Minister

The Army and Air Force Canteen Service is accountable to the Minister for Defence Science and Personnel, and through the Minister to Parliament. The Minister at reporting date is the Hon Warren Snowdon MP.

#### Ministerial Directions

##### **Dividend & Royalty Distributions**

The responsible Minister directed on 19 June 2006 that distributions to stakeholders be discontinued until further notice. Accordingly no distributions were paid during the 2011 financial year.

##### **Borrowings**

The Minister on 31 August 1995 approved borrowings by way of overdraft for working capital purposes. This option is not currently utilised.

##### **Reporting**

The Minister for Defence issued a Statement of Expectations to the Army and Air Force Canteen Service on 26 September 2008. AAFCANS responded with a Statement of Intent on 21 October 2008. These statements are detailed in Appendix 3.

As part of the Statement of Expectations, AAFCANS is required to submit quarterly financial reports to various key stakeholders (refer Appendix 3).

## REPORT OF OPERATIONS

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In December 2006, the Minister for Finance and Administration issued a directive in accordance with section 16(1)(c) of the CAC Act requiring the corporation to provide annual compliance reports on legislative compliance and financial sustainability.

The agreement for services between Defence and AAFCANS that was applicable during the 2011 financial year required that the corporation submit to the Frontline Advisory Committee the following reports:

- an annual operating plan
- an annual performance report
- a quarterly operational and financial report

All ministerial and legislative reporting requirements for the past financial year have been met.

### **Other**

The Commonwealth has notified AAFCANS under section 28 of the CAC Act that the following policies apply to the corporation:

- *Australian Government Property Ownership Framework*
- *Protective Security Manual 2005 (PSM)*

### Monitoring of the Equal Employment Opportunity Management Plan

The report made in accordance with s9 (1) *Equal Employment Opportunity (Commonwealth Authorities) Act 1987* appears as Appendix 1.

### Freedom of Information

There were no applications for information received in the reporting period and consequently nil handling costs for freedom of information (FOI) requests were incurred.

The following information on AAFCANS is provided as required by the FOI Act:

- the corporation's organisational structure and functions are detailed elsewhere in this report
- the organisation consults directly and widely to help meet the needs of key stakeholders
- a list of documents available for inspection has been lodged with the FOI unit of the Department of Defence; these documents include employment and retail related policies, establishment documents, the EEO plan and annual reports. The annual reports are also available on the corporation's website.

### **Access to Documents**

Access to documents under Freedom of Information legislation can be obtained by making a request in writing to the Managing Director, PO Box 1461, Milton, Queensland, 4064.

### Judicial Decisions and Reviews by Outside Bodies

The Army and Air Force Canteen Service was not subject to any judicial or administrative tribunal decisions or to reports on the operations of the authority by the Auditor-General (other than the report on the financial statements), a Parliamentary committee or the Commonwealth Ombudsman.

### Legal Services Expenditure

The Army and Air Force Canteen Service is required to report legal services expenditure as contained in the *Legal Services Direction 2005* issued by the Attorney-General. Accordingly, during the financial year, the Army and Air Force Canteen Service paid professional fees and related reimbursements of \$5,882 excluding GST to legal entities (2010: \$5,961).

### Occupational Health & Safety (OH&S) s74

The Army and Air Force Canteen Service is subject to the requirements of the *Occupational Health & Safety (Commonwealth Employees) Act 1991*. The report made in accordance with s74 of the Act appears at Appendix 2.

### Fraud Control Plan

Although AAFCANS is not technically required to comply with the Commonwealth Fraud Control Guidelines, the corporation has in place appropriate fraud prevention, detection, investigation, reporting and data collection procedures that meet the required standard.

### Ecological Sustainable Development

The report is made in accordance with s516A(6)(a) of the *Environment Protection and Biodiversity Conservation Act 1999*. The activities of the Army and Air Force Canteen Service are not relevant to ecological sustainable development in terms of the principles identified in the *Environment Protection and Biodiversity Conservation Act*.

### Disability Discrimination Strategy

The corporation's policies, programs and services are accessible to people with disabilities and meet its obligations under the *Disability Discrimination Act 1992*. The corporation is not aware of any instance where a person with a disability has experienced difficulty in accessing any policy, program or service it offered.

# AAFCANS - FINANCIAL STATEMENTS

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## Independent Audit Report



### INDEPENDENT AUDITOR'S REPORT

#### To the Minister for Defence Science and Personnel

I have audited the accompanying financial statements of the Army and Air Force Canteen Service for the year ended 30 June 2011, which comprise: a Statement by the Directors, Managing Director and Commercial Manager; the Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Schedule of Asset Additions; and Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

#### *Directors' Responsibility for the Financial Statements*

The directors of the Army and Air Force Canteen Service are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of the 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.

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 Army and Air Force Canteen Service's preparation of the financial statements that give a true and fair view 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 Army and Air Force Canteen Service's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, 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.

***Opinion***

In my opinion, the financial statements of the Army and Air Force Canteen Service:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Army and Air Force Canteen Service's financial position as at 30 June 2011 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office



Colin Bienke  
Senior Director

Delegate of the Auditor-General

Canberra  
31 August 2011

## STATEMENT BY THE DIRECTORS, MANAGING DIRECTOR AND COMMERCIAL MANAGER

In our opinion, the attached financial statements for the year ended 30 June 2011 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, as amended.

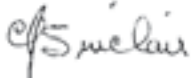
In our opinion, at the date of this statement, there are reasonable grounds to believe that the Army and Air Force Canteen Service will be able to pay its debts as and when they become due and payable.

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



E A Moore  
Chairperson

31 August 2011



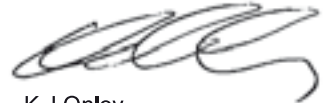
C J Sinclair  
Director

31 August 2011



S I McGrow  
Managing Director

31 August 2011



K J Onley  
Commercial Manager

31 August 2011

## STATEMENT OF COMPREHENSIVE INCOME

*for the period ended 30 June 2011*

	Notes	2011 \$	2010 \$
<b>EXPENSES</b>			
Employee benefits	3A	<b>4,437,104</b>	4,206,839
Suppliers	3B	<b>12,272,006</b>	12,773,376
Depreciation/amortisation	3C	<b>236,574</b>	246,790
Sale of assets	3D	<b>6,437</b>	5,428
Other	3E	<b>1,622,942</b>	1,568,060
<b>Total expenses</b>		<b>18,575,063</b>	18,800,493
<b>LESS:</b>			
<b>OWN-SOURCE INCOME</b>			
<b>Own-source revenue</b>			
Sale of goods and rendering of services	4A	<b>17,978,444</b>	18,627,908
Interest	4B	<b>205,318</b>	107,795
Other	4C	<b>492,525</b>	463,500
<b>Total own-source revenue</b>		<b>18,676,287</b>	19,199,203
<b>Net contribution by services</b>		<b>101,224</b>	398,710
Revenue from Government	4D	<b>400,000</b>	321,584
<b>Surplus attributable to the Australian Government</b>		<b>501,224</b>	720,294
<b>Total comprehensive income attributable to the Australian Government</b>		<b>501,224</b>	720,294

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

## BALANCE SHEET

*as at 30 June 2011*

	Notes	2011 \$	2010 \$
<b>ASSETS</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	5A	4,098,704	3,401,545
Trade and other receivables	5B	538,326	536,464
<b>Total financial assets</b>		<b>4,637,030</b>	<b>3,938,009</b>
<b>Non-Financial Assets</b>			
Leasehold improvements	6A, D	120,956	129,965
Plant and equipment	6B, D	763,284	804,412
Computer software	6C, D	15,020	23,252
Inventories	6E	1,182,283	1,256,874
Other	6F	103,167	135,252
<b>Total non-financial assets</b>		<b>2,184,710</b>	<b>2,349,755</b>
<b>Total assets</b>		<b>6,821,740</b>	<b>6,287,764</b>
<b>LIABILITIES</b>			
<b>Payables</b>			
Suppliers	7A	1,051,202	1,118,931
Other	7B	441,504	379,158
<b>Total payables</b>		<b>1,492,706</b>	<b>1,498,089</b>
<b>Provisions</b>			
Employee provisions	8	513,082	474,947
<b>Total provisions</b>		<b>513,082</b>	<b>474,947</b>
<b>Total liabilities</b>		<b>2,005,788</b>	<b>1,973,036</b>
<b>Net assets</b>		<b>4,815,952</b>	<b>4,314,728</b>
<b>EQUITY</b>			
Contributed equity		1,328,804	1,328,804
Reserves		405,407	405,407
Retained surplus		3,081,741	2,580,517
<b>Total equity</b>		<b>4,815,952</b>	<b>4,314,728</b>

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

## STATEMENT OF CHANGES IN EQUITY

for the period ended 30 June 2011

	Retained surplus		Asset revaluation reserve		Contributed equity		Total equity	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Opening balance</b>								
Balance carried forward from previous period	2,580,517	1,860,223	405,407	405,407	1,328,804	1,328,804	4,314,728	3,594,434
<b>Adjusted opening balance</b>	<b>2,580,517</b>	<b>1,860,223</b>	<b>405,407</b>	<b>405,407</b>	<b>1,328,804</b>	<b>1,328,804</b>	<b>4,314,728</b>	<b>3,594,434</b>
<b>Comprehensive income</b>								
Surplus for the period	501,224	720,294	-	-	-	-	501,224	720,294
<b>Total comprehensive income</b>	<b>501,224</b>	<b>720,294</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>501,224</b>	<b>720,294</b>
<b>Closing balance as at 30 June</b>	<b>3,081,741</b>	<b>2,580,517</b>	<b>405,407</b>	<b>405,407</b>	<b>1,328,804</b>	<b>1,328,804</b>	<b>4,815,952</b>	<b>4,314,728</b>

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

## CASH FLOW STATEMENT

for the period ended 30 June 2011

	Notes	2011 \$	2010 \$
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Receipts from Government		400,000	404,908
Sales of goods and rendering of services		18,857,068	19,204,748
Interest		205,318	107,795
<b>Total cash received</b>		<b>19,462,386</b>	<b>19,717,451</b>
<b>Cash used</b>			
Employees		(4,437,104)	(4,215,418)
Suppliers		(13,430,845)	(14,139,981)
Net GST paid		(712,636)	(599,776)
<b>Total cash used</b>		<b>(18,580,585)</b>	<b>(18,955,175)</b>
<b>Net cash from operating activities</b>	9	<b>881,801</b>	<b>762,276</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sales of plant and equipment		-	4,716
<b>Total cash received</b>		<b>-</b>	<b>4,716</b>
<b>Cash used</b>			
Purchase of plant and equipment		(184,642)	(311,635)
<b>Total cash used</b>		<b>(184,642)</b>	<b>(311,635)</b>
<b>Net cash used by investing activities</b>		<b>(184,642)</b>	<b>(306,919)</b>
<b>Net increase in cash and cash equivalents</b>		<b>697,159</b>	<b>455,357</b>
Cash and cash equivalents at the beginning of the reporting period		<b>3,401,545</b>	2,946,188
<b>Cash and cash equivalents at the end of the reporting period</b>	5A	<b>4,098,704</b>	<b>3,401,545</b>

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

## SCHEDULE OF COMMITMENTS

*as at 30 June 2011*

	2011	2010
	\$	\$
<b>BY TYPE</b>		
<b>Commitments receivable</b>		
Net GST recoverable on commitments <sup>1</sup>	(71,670)	(37,231)
<b>Total commitments receivable</b>	<b>(71,670)</b>	<b>(37,231)</b>
<b>Other commitments</b>		
Operating leases <sup>2</sup>	788,376	409,546
<b>Total other commitments</b>	<b>788,376</b>	<b>409,546</b>
<b>Net commitments by type</b>	<b>716,706</b>	<b>372,315</b>
<b>BY MATURITY</b>		
<b>Commitments receivable</b>		
<b>Net GST recoverable on commitments</b>		
One year or less	(26,222)	(20,210)
From one to five years	(45,448)	(17,021)
<b>Total net GST recoverable on commitments</b>	<b>(71,670)</b>	<b>(37,231)</b>
<b>Commitments payable</b>		
<b>Operating lease commitments</b>		
One year or less	288,445	222,313
From one to five years	499,931	187,233
<b>Total operating lease commitments</b>	<b>788,376</b>	<b>409,546</b>
<b>Net commitments by maturity</b>	<b>716,706</b>	<b>372,315</b>

This schedule should be read in conjunction with the accompanying notes.

Note:

1. Commitments were GST inclusive where relevant
2. Operating leases included were effectively non-cancellable

**General description of all leasing arrangements**

Lease for office accommodation: lease payments were subject to annual increase in accordance with upwards movements in the Consumer Price Index, with the minimum increase being 4% p.a. The lease terminates on 5 November 2011. Another lease has been signed with the same landlord commencing 1 November 2011 for a three year term with three one-year options renewable at the discretion of the Army and Air Force Canteen Service.

Agreements for the provision of motor vehicles: no contingent rentals exist. There were no renewal or purchase options available to the Army and Air Force Canteen Service. All leases were classified as operating leases. At the end of each lease term the Army and Air Force Canteen Service has the option to renew the lease.

**SCHEDULE OF ASSET ADDITIONS***for the period ended 30 June 2011***The following non-financial non-current assets were added in 2010-11:**

	Leasehold improvements	Plant & equipment	Computer software	Total
	\$	\$	\$	\$
	10,272	157,972	16,398	184,642
<b>Total funded additions funded in the current year</b>	<b>10,272</b>	<b>157,972</b>	<b>16,398</b>	<b>184,642</b>

**Additions funded in the current year**

By purchase - own-source funding

**Total funded additions funded in the current year****The following non-financial non-current assets were added in 2009-10:**

	Leasehold improvements	Plant & equipment	Computer software	Total
	\$	\$	\$	\$
	74,576	261,560	3,664	339,800
<b>Total funded additions funded in the current year</b>	<b>74,576</b>	<b>261,560</b>	<b>3,664</b>	<b>339,800</b>

**Additions funded in the current year**

By purchase - own-source funding

**Total funded additions funded in the current year**

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

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### **Note 1 Summary of Significant Accounting Policies**

#### **1.1 Objective of the Army and Air Force Canteen Service**

The Army and Air Force Canteen Service is an Australian Government controlled entity. The objective of the Army and Air Force Canteen Service is to provide goods and services to or for the entertainment and recreation of designated members of the 'Defence family'.

The continued existence of the Army and Air Force Canteen Service in its present form and with its present programs is dependent upon the Chiefs of Army and Air Force requiring the provision of canteen services on specified bases.

#### **1.2 Basis of Preparation of the Financial Statements**

The financial statements are general purpose financial statements and are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997*.

The financial statements have been prepared in accordance with:

- a) Finance Minister's Orders (or FMO) for reporting periods ending on or after 1 July 2010; and
- b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with historical cost convention, except for certain assets 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.

Unless an alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the balance sheet when and only when it is probable that future economic benefits will flow to the Army and Air Force Canteen Service or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under executor contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the schedule of commitments or the schedule of contingencies.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Statement of Comprehensive Income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

#### **1.3 Significant Accounting Judgements and Estimates**

In the process of applying the accounting policies listed in this note, the Army and Air Force Canteen Service has made a judgement that have the most significant impact on the amounts recorded in the financial statements:

- a) the fair value of the plant and equipment has been taken at the depreciated replacement cost or market value as determined by the Army and Air Force Canteen Service with procedural oversight by an independent valuer.

No 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.

### 1.4 New Australian Accounting Standards

#### Adoption of New Australian Accounting Standard Requirements

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

The following new standards, revised standards, interpretations and amending standard were issued prior to the sign-off date, were applicable to the current reporting period and had a financial impact on the Army and Air Force Canteen Service:

#### *AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

The Standard amends eight standards resulting from the IASB Annual Improvements Project. The only amendment that would impact the Army and Air Force Canteen Service is that cash flow under AASB 107 are only classified as investing cash flows if the underlying asset was recognised in the balance sheet.

#### Disclosure impact

Statement of Cash Flow - the amendment dictates that only expenditures that result in a recognised asset in the balance sheet are eligible for classification as cash flows from investing activities.

Other new standards, revised standards, interpretations and amending standards that were issued prior to the sign-off date and are applicable to the current reporting period did not have a financial impact, and are not expected to have a future financial impact on the Army and Air Force Canteen Service.

#### Future Australian Accounting Standard Requirements

The following new standards, revised standards, interpretations and amending standards were issued by the Australian Accounting Standards Board prior to the sign-off date, which are expected to have a financial impact on the Army and Air Force Canteen Service for future financial periods:

#### *AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011)*

This standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a 'related party' to remove inconsistencies and simplify the structure of the Standard. These changes are not expected to materially affect the Army and Air Force Canteen Service. The standard will apply for the year ended 30 June 2012.

#### *AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project*

This amending standard impacts on the Financial Statement disclosures. It allows the reconciliation of other comprehensive income to be presented either in the Statement of Changes in Equity or in the notes. The standard will apply for the year ended 30 June 2012.

#### *AASB 9: Financial Instruments*

The International Accounting Standards Board is reviewing *IAS 39 Financial Instruments: Recognition and Measurement* (AASB 139). AASB 9 is part of the first phase of review. This standard will impact on Financial Statement disclosures of the Army and Air Force Canteen Service through the simplification of current categories of financial assets. The categories for financial liabilities remain under consideration. This standard will apply in the year ended 30 June 2014.

*AASB 1053: Application of Tiers of Australian Accounting Standards.*

This standard implements a two-tiered reporting framework for general purpose financial reporting by Australian reporting entities. The Army and Air Force Canteen Service will continue to apply the Australian Accounting Standards as will be required under Tier 1. No changes are expected to materially affect the Army and Air Force Canteen Service. This standard will apply in the year ended 30 June 2014.

Other new standards, revised standards, interpretations and amending standards that were issued prior to the sign-off date and are applicable to the future financial reporting period are not expected to have a future financial impact on the Army and Air Force Canteen Service.

### 1.5 Revenue

Revenue from the sale of goods is recognised when:

- a) the risks and rewards of ownership have been transferred to the buyer;
- b) the Army and Air Force Canteen Service retains no managerial involvement or effective control over the goods;
- c) the revenue and transaction costs incurred can be reliably measured; and
- d) it is probable that the economic benefits associated with the transaction will flow to the Army and Air Force Canteen Service.

Revenue from rendering of services is recognised by reference to licence agreements held with third party service contractors at the reporting date. The revenue is recognised when:

- a) the amount of revenue and transaction costs incurred can be reliably measured; and
- b) the probable economic benefits associated with the transaction will flow to the Army and Air Force Canteen Service.

Receivables for goods, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at end of reporting period. Allowances are made when collectability of the debt is no longer probable.

Interest revenue is recognised using the effective interest method as set out in *AASB 139 Financial Instruments: Recognition and Measurement*.

#### Revenues from Government

Funding received or receivable from the Department of Defence is recognised as Revenue from Government.

### 1.6 Gains

#### Sale of Assets

Gains from disposal of assets are recognised when control of the asset has passed to the buyer.

### 1.7 Employee Benefits

Liabilities for 'short-term employee benefits' (as defined in *AASB 119 Employee Benefits*) and termination benefits due within twelve months of the end of 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.

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Other long-term employee benefits are measured as net total of the present value of the defined benefit obligation at the end of the reporting period.

### Leave

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

The leave liabilities are calculated on the basis of the employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the Army and Air Force Canteen Service's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2011. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

### Superannuation

Staff of the Army and Air Force Canteen Service are members of self-selected superannuation funds.

The Army and Air Force Canteen Service makes employer contributions to the employees' superannuation schemes at rates determined by legislation. The Army and Air Force Canteen Service accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final month of the year.

## **1.8 Leases**

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

The Army and Air Force Canteen Service only had operating leases in the 2011 financial year and its comparative year.

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

## **1.9 Cash**

Cash is recognised at its nominal amount. Cash and cash equivalents includes:

- a) cash on hand; and
- b) demand deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

### 1.10 Financial Assets

The Army and Air Force Canteen Service classifies its financial assets in the following categories:

- a) available-for-sale financial assets; and
- b) loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon trade date.

#### Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets that are recognised at fair value through profit or loss.

#### Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are recorded at fair value. Gains and losses arising from changes in fair value are recognised directly in reserves (equity) with the exception of impairment losses. Interest is calculated using the effective interest method and foreign exchange gains and losses on monetary assets are recognised directly in profit or loss. Where the asset is disposed of or is determined to be impaired, part (or all) of the cumulative gain or loss previously recognised in the reserve is included in surplus and deficit for the period.

Where a reliable fair value cannot be established for unlisted investments in equity instruments, these instruments are valued at cost.

#### Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

#### Impairment of Financial Assets

Financial assets are assessed for impairment at end of each reporting period.

*Financial assets held at amortised cost* - if there is objective evidence that an impairment loss has been incurred for loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement of Comprehensive Income.

*Available for sale financial assets* - if there is objective evidence that an impairment loss on an available-for-sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in expenses, is transferred from equity to the Statement of Comprehensive Income.

*Financial assets held at cost* - if there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

### 1.11 Financial Liabilities

Financial liabilities are classified as other financial liabilities. Financial liabilities are recognised and derecognised upon 'trade date'.

#### Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Suppliers and other payables are recognised at cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

### 1.12 Contingent Liabilities and Contingent Assets

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

### 1.13 Acquisition of Assets

Assets are recorded at cost on acquisition. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Assets are initially measured at their fair value plus transaction costs where appropriate.

### 1.14 Plant and Equipment

#### Asset Recognition Threshold

Purchases of plant and equipment are recognised initially at cost in the balance sheet, except for purchases costing less than \$1,000 which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

#### Revaluations

Fair values for each class of asset are determined as shown below:

<b>Asset Class</b>	<b>Fair value measured at</b>
Leasehold improvements	Depreciated replacement cost
Plant and equipment	Motor vehicles - Market selling price Other plant and equipment - depreciated replacement cost

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Following initial recognition at cost, leasehold improvements and plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations were conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair value as at the reporting date. The regularity of valuations depended upon the volatility of movements in market values for the relevant assets.

Valuations were managed internally with external expertise approving the methodology undertaken. FMO 33.73G allows this form of valuation where controls are in place to ensure integrity and correctness of the valuations and the probability of over or under valuation is low. The Army and Air Force Canteen Service utilised the option to value in-house with external expertise due to the simplistic assets held in each class and the high cost of a revaluation relative to the asset base.

Revaluation adjustments were made on a class basis. Any revaluation increment was credited to equity under the heading of asset revaluation reserve except to the extent that it reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets were recognised directly in the surplus/deficit except to the extent that they reversed a previous revaluation increment for that class.

Any accumulated depreciations as at the revaluation date were eliminated against the gross carrying amount of the asset and the asset was restated to the revalued amount.

### Depreciation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Army and Air Force Canteen Service using, in all cases, the straight-line method of depreciation.

Depreciation 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.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2011	2010
Leasehold improvements	<b>10 years</b>	10 years
Plant and equipment	<b>5 to 10 years</b>	5 to 10 years

### Impairment

All assets were assessed for impairment at 30 June 2011. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the Army and Air Force Canteen Service were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

### Derecognition

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

### 1.15 Intangibles

The Army and Air Force Canteen Service's intangibles comprise software purchased for internal use. These assets are carried at cost less accumulated amortisation.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the Army and Air Force Canteen Service's software are 2 to 3 years (2010: 2 to 3 years).

### 1.16 Inventories

Inventories held for resale are valued at the lower of cost and net realisable value.

Costs of inventories (finished goods held for sale) have been assigned an average purchase cost on a first-in-first-out basis.

### 1.17 Taxation

The Army and Air Force Canteen Service is exempt from all forms of taxation except Fringe Benefits Tax (FBT), state based payroll tax, Wine Equalisation Tax (WET) and the Goods and Services Tax (GST).

Revenues, expenses, liabilities and assets are recognised net of GST except:

- a) where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- b) for receivables and payables.

### 1.18 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required by the Finance Ministers Orders and Australian Accounting Standards. In particular, the Directors Remuneration and Senior Executive Remuneration notes have been adjusted.

**Note 2 Events After the Reporting Period**

There are no events after the end of the reporting period that require disclosure.

**Note 3 Expenses**

<b>Note 3A: Employee Benefits</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Wages and salaries	3,746,415	3,570,543
Superannuation - defined contribution plans	362,079	341,942
Leave and other entitlements	326,810	292,635
Other employee benefits	1,800	1,719
<b><i>Total employee benefits</i></b>	<b>4,437,104</b>	<b>4,206,839</b>

<b>Note 3B: Suppliers</b>		
Provision of goods - external parties	11,992,694	12,451,248
Operating lease rentals:		
Minimum lease payments	171,148	211,908
Workers compensation expenses	108,164	110,220
<b><i>Total supplier</i></b>	<b>12,272,006</b>	<b>12,773,376</b>

<b>Note 3C: Depreciation and Amortisation</b>		
Leasehold improvements - depreciation	17,667	16,270
Plant and equipment - depreciation	194,277	193,224
Computer software - amortisation	24,630	37,296
<b><i>Total depreciation and amortisation</i></b>	<b>236,574</b>	<b>246,790</b>

<b>Note 3D: Sale of Assets</b>		
<b>Plant and equipment:</b>		
Proceeds from sale	-	(4,716)
Carrying value of assets sold	6,437	10,144
<b><i>Net loss from sale of assets</i></b>	<b>6,437</b>	<b>5,428</b>

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Note 3E: Other Expenses	2011 \$	2010 \$
Audit	49,700	49,700
Fringe benefits tax	40,430	24,819
Payroll tax	205,713	182,506
Selling and stationery	176,637	268,761
Travel	154,805	163,382
Insurance	45,632	51,686
Vehicle running costs	119,244	117,693
Bank fees	66,917	66,117
Marketing expense (including advertising and sponsorship)	56,819	47,191
Telephone and internet communications	138,198	129,365
Professional services	96,892	137,564
Defence amenities expenses	120,644	-
Sundry expense	351,311	329,276
<b>Total other expenses</b>	<b>1,622,942</b>	<b>1,568,060</b>

### Note 4 Income

OWN-SOURCE REVENUE	2011 \$	2010 \$
Note 4A: Sale of Goods and Rendering of Services		
Provision of goods - external parties	16,910,143	17,499,420
Rendering of services - external parties	1,068,301	1,128,488
<b>Total sale of goods and rendering of services</b>	<b>17,978,444</b>	<b>18,627,908</b>

### Note 4B: Interest

Deposits	205,318	107,795
<b>Total interest</b>	<b>205,318</b>	<b>107,795</b>

### Note 4C: Other Revenue

Marketing revenue and commissions	481,414	412,866
Sundry income	11,111	50,634
<b>Total other revenue</b>	<b>492,525</b>	<b>463,500</b>

### REVENUE FROM GOVERNMENT

#### Note 4D: Revenue from Government

Department of Defence:		
CAC Act body payment item	400,000	321,584
<b>Total revenue from Government</b>	<b>400,000</b>	<b>321,584</b>

**Note 5 Financial Assets**

<b>Note 5A: Cash and Cash Equivalents</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Cash on hand	<b>615,833</b>	233,654
Cash deposits	<b>3,482,871</b>	3,167,891
<b><i>Total cash and cash equivalents</i></b>	<b>4,098,704</b>	<b>3,401,545</b>

**Note 5B: Trade and Other Receivables**

Goods and services - external parties	<b>428,785</b>	420,083
GST receivable from the Australian Taxation Office	<b>114,541</b>	121,381
<b><i>Total trade and other receivables (gross)</i></b>	<b>543,326</b>	<b>541,464</b>

**Less impairment allowance account:**

Goods and services	<b>(5,000)</b>	(5,000)
<b><i>Total trade and other receivables (net)</i></b>	<b>538,326</b>	<b>536,464</b>

**Receivables are expected to be recovered in:**

No more than 12 months	<b>538,326</b>	536,464
<b><i>Total trade and other receivables (net)</i></b>	<b>538,326</b>	<b>536,464</b>

**Receivables are aged as follows:**

Not overdue	<b>404,651</b>	391,212
Overdue by:		
0 to 30 days	<b>114,255</b>	112,122
31 to 60 days	<b>17,619</b>	16,044
61 to 90 days	<b>1,452</b>	6,114
More than 90 days	<b>5,349</b>	15,972
<b><i>Total receivables (gross)</i></b>	<b>543,326</b>	<b>541,464</b>

**The impairment allowance account is aged as follows:**

Overdue by:		
More than 90 days	<b>(5,000)</b>	(5,000)
<b><i>Total impairment allowance account</i></b>	<b>(5,000)</b>	<b>(5,000)</b>

**Reconciliation of the Impairment Allowance Account:  
Movements in relation to 2011**

	<b>Goods and Services 2011</b>	<b>Goods and Services 2010</b>
	<b>\$</b>	<b>\$</b>
<b>Opening balance</b>	<b>(5,000)</b>	(96,829)
Amounts written off	<b>455</b>	41,858
Increase/(decrease) recognised in net surplus	<b>(455)</b>	49,971
<b><i>Closing balance</i></b>	<b>(5,000)</b>	<b>(5,000)</b>

**Note 6 Non-Financial Assets**

<b>Note 6A: Leasehold Improvements</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Leasehold improvements:</b>		
Fair value	<b>198,575</b>	189,917
Accumulated depreciation	<b>(77,619)</b>	(59,952)
<b><i>Total leasehold improvements</i></b>	<b>120,956</b>	129,965

No indicators of impairment were found for leasehold improvements.

No leasehold improvements are expected to be disposed of within the next 12 months.

**Note 6B: Plant and Equipment**

<b>Plant and equipment:</b>		
Fair value	<b>1,351,752</b>	1,216,095
Accumulated depreciation	<b>(588,468)</b>	(411,683)
<b><i>Total plant and equipment</i></b>	<b>763,284</b>	804,412

No indicators of impairment were found for plant and equipment.

No items of plant and equipment are expected to be sold or disposed of within the next 12 months.

**Revaluations of non-financial assets**

Plant and equipment are subject to regular revaluation. The carrying amount is included in the valuation figures above. All revaluations are conducted in accordance with the revaluation policy stated at Note 1.

On 30 June 2011, the potential fair value movement on all asset classes of the Army and Air Force Canteen Service was reviewed in-house. No adjustment was required (2010: nil).

**Note 6C: Computer Software**

<b>Computer software purchased:</b>		
Fair value	<b>314,228</b>	297,830
Accumulated amortisation	<b>(299,208)</b>	(274,578)
<b><i>Total computer software</i></b>	<b>15,020</b>	23,252

No indicators of impairment were found for computer software.

No items of computer software are expected to be sold or disposed of within the next 12 months.

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### Note 6D: Reconciliation of the Opening and Closing Balances of Leasehold Improvements, Plant and Equipment and Computer Software (2010-11)

	Leasehold improvements \$	Plant & equipment \$	Computer software \$	Total \$
<b>As at 1 July 2010</b>				
Gross book value	189,917	1,216,095	297,830	1,703,842
Accumulated depreciation and impairment	(59,952)	(411,683)	(274,578)	(746,213)
<b>Net book value 1 July 2010</b>	<b>129,965</b>	<b>804,412</b>	<b>23,252</b>	<b>957,629</b>
Additions*	10,272	157,972	16,398	184,642
Depreciation/amortisation expense	(17,667)	(194,277)	(24,630)	(236,574)
Disposals:				
Cost/fair value	(1,614)	(22,315)	-	(23,929)
Accumulated depreciation	-	17,492	-	17,492
<b>Net book value 30 June 2011</b>	<b>120,956</b>	<b>763,284</b>	<b>15,020</b>	<b>899,260</b>
<b>Net book value as of 30 June 2011 represented by:</b>				
Gross book value	198,575	1,351,752	314,228	1,864,555
Accumulated depreciation and impairment	(77,619)	(588,468)	(299,208)	(965,295)
	<b>120,956</b>	<b>763,284</b>	<b>15,020</b>	<b>899,260</b>

### Reconciliation of the Opening and Closing Balances of Leasehold Improvements, Plant and Equipment and Computer Software (2009-10)

	Leasehold improvements \$	Plant & equipment \$	Computer software \$	Total \$
<b>As at 1 July 2009</b>				
Gross book value	116,406	1,009,275	294,166	1,419,847
Accumulated depreciation and impairment	(44,747)	(263,055)	(237,282)	(545,084)
<b>Net book value 1 July 2009</b>	<b>71,659</b>	<b>746,220</b>	<b>56,884</b>	<b>874,763</b>
Additions*	74,576	261,560	3,664	339,800
Depreciation/amortisation expense	(16,270)	(193,224)	(37,296)	(246,790)
Disposals:				
Cost/fair value	(1,065)	(54,740)	-	(55,805)
Accumulated depreciation	1,065	44,596	-	45,661
<b>Net book value 30 June 2010</b>	<b>129,965</b>	<b>804,412</b>	<b>23,252</b>	<b>957,629</b>
<b>Net book value as of 30 June 2010 represented by:</b>				
Gross book value	189,917	1,216,095	297,830	1,703,842
Accumulated depreciation and impairment	(59,952)	(411,683)	(274,578)	(746,213)
	<b>129,965</b>	<b>804,412</b>	<b>23,252</b>	<b>957,629</b>

\* Disaggregated additions information are disclosed in the Schedule of Asset Additions.

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Note 6E: Inventories	2011 \$	2010 \$
Trading stock held for sale	1,212,283	1,286,874
<b><i>Total inventories held for sale (gross)</i></b>	<b>1,212,283</b>	<b>1,286,874</b>
<b>Less impairment allowance account:</b>		
Obsolete stock	(30,000)	(30,000)
<b><i>Total inventories (net)</i></b>	<b>1,182,283</b>	<b>1,256,874</b>

During 2010-11, none of the trading stock held for sale was recognised as an expense (2010: nil).

No items of trading stock are recognised at fair value less cost to sell.

All inventories are expected to be sold in the next 12 months.

### Note 6F: Other Non-Financial Assets

Prepayments	13,369	6,577
Accrued income	89,798	128,675
<b><i>Total other non-financial assets</i></b>	<b>103,167</b>	<b>135,252</b>
<b>Total other non-financial assets are expected to be recovered in:</b>		
No more than 12 months	103,167	135,252
<b><i>Total other non-financial assets</i></b>	<b>103,167</b>	<b>135,252</b>

No indicators of impairment were found for other non-financial assets.

## Note 7 Payables

Note 7A: Suppliers	2011 \$	2010 \$
Trade creditors and accruals	1,051,202	1,118,931
<b><i>Total supplier payables</i></b>	<b>1,051,202</b>	<b>1,118,931</b>

All suppliers are non-related entities and are expected to be settled within 12 months.

Settlement is usually made net 30 days.

### Note 7B: Other Payables

Salaries and wages	78,098	75,446
GST payable to ATO	173,729	178,929
Other	189,677	124,783
<b><i>Total other payables</i></b>	<b>441,504</b>	<b>379,158</b>

All other payables are expected to be settled within 12 months.

**Note 8 Employee Provisions**

	2011 \$	2010 \$
Annual leave	200,618	197,441
Long service leave	312,464	277,506
<b>Total employee provisions</b>	<b>513,082</b>	<b>474,947</b>
<b>Employee provisions are expected to be settled in:</b>		
No more than 12 months	337,287	299,027
More than 12 months	175,795	175,920
<b>Total employee provisions</b>	<b>513,082</b>	<b>474,947</b>

**Note 9 Cash Flow Reconciliation**

	2011 \$	2010 \$
<b>Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement</b>		
<b>Cash and cash equivalents as per:</b>		
Cash flow statement	4,098,704	3,401,545
Balance sheet	4,098,704	3,401,545
<b>Difference</b>	<b>-</b>	<b>-</b>
<b>Reconciliation of net cost of services to net cash from operating activities:</b>		
Net contribution by services	101,224	398,710
Add revenue from Government	400,000	321,584
<b>Adjustments for non-cash items</b>		
Depreciation/amortisation	236,574	246,790
Loss on disposal of assets	6,437	5,428
<b>Changes in assets / liabilities</b>		
(Increase) / decrease in net receivables	(1,862)	166,764
(Increase) / decrease in inventories	74,591	(81,980)
(Increase) / decrease in prepayments (other financial assets)	32,085	(100,457)
Increase / (decrease) in employee provisions	38,135	58,067
Increase / (decrease) in supplier payables	(67,729)	(276,567)
Increase / (decrease) in other payables	62,346	23,937
<b>Net cash from operating activities</b>	<b>881,801</b>	<b>762,276</b>

**Note 10 Contingent Liabilities and Assets**

There are no quantifiable contingent assets or liabilities as at 30 June 2011 (2010: Nil).

There are no unquantifiable or remote contingent assets or liabilities (2010: Nil).

**Note 11 Directors Remuneration**

	2011	2010
<b>The number of non-executive directors of the Army and Air Force Canteen Service included in these figures are shown below in the relevant remuneration bands:</b>		
Less than \$150,000	5	6
<b>Total</b>	<b>5</b>	<b>6</b>
Total remuneration received or due and receivable by directors of the Army and Air Force Canteen Service	<b>\$118,283</b>	\$108,977

Remuneration of executive directors is included in Note 13: Senior Executive Remuneration.

**Note 12 Related Party Disclosures**

The Army and Air Force Canteen Service has recognised revenue from Government of \$400,000 as part of funding to upgrade Defence facilities (2010: \$321,584 - reimbursement of costs) under the Agreement for Provision of Canteen Services to Army and Air Force Installations. No monies were outstanding as at 30 June 2011 (2010: \$80,098 including GST).

*Other transactions with Directors or Director-related entities*

There were no other related party transactions during the year (2010: nil).

**Note 13 Senior Executive Remuneration**

<b>Note 13A: Senior Executive Remuneration Expense for the Reporting Period</b>	2011	2010
	\$	\$
<b>Short-term employee benefits:</b>		
Salary	<b>152,901</b>	144,735
Annual leave accrued	<b>(1,949)</b>	4,150
Motor vehicles and other allowances	<b>32,033</b>	24,363
Total short-term employee benefits	<b>182,985</b>	173,248

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<b>Note 13A: Senior Executive Remuneration Expense for the Reporting Period Cont'd</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Post-employment benefits</b>		
Superannuation	22,835	21,280
Total post-employment benefits	<u>22,835</u>	<u>21,280</u>
<b>Other long term benefits:</b>		
Long service leave	5,097	4,774
Total other long term benefits	<u>5,097</u>	<u>4,774</u>
<b>Total</b>	<u><u>210,917</u></u>	<u><u>199,302</u></u>

**Notes:**

- Note 13A was prepared on an accrual basis.
- Note 13A excludes acting arrangements and part-year service where remuneration expensed was less than \$150,000.

There were no employees who received or were due to receive performance bonuses during the year (2010: Nil).

There were no senior executives who received or were due to receive separation and redundancy/termination benefit payments during the year (2010: nil).

**Note 13B: Average Annual Remuneration Packages for Substantive Senior Executives as at the end of the Reporting Period**

	<u>as at 30 June 2011</u>			<u>as at 30 June 2010</u>		
	Senior Executives No.	<u>Fixed elements</u>		Senior Executives No.	<u>Fixed elements</u>	
		Salary \$	Total \$		Salary \$	Total \$
Total remuneration (including part-time arrangements):						
Less than \$150,000	2	91,924	91,924	2	86,427	86,427
\$150,000 to \$179,999	<u>2</u>	<u>173,216</u>	<u>173,216</u>	<u>1</u>	<u>170,447</u>	<u>170,447</u>
<b>Total</b>	<u><u>4</u></u>			<u><u>3</u></u>		

**Notes:**

- This table reports on substantive senior executives who are employed by the Army and Air Force Canteen Service as at the end of the reporting period. Fixed elements are based on the employment agreement of each individual. Each row represents an average annualised figure (based on headcount) for the individuals in that remuneration package band (i.e. the 'Total' column)
- As at 30 June 2011, the Army and Air Force Canteen Service was transitioning a new Managing Director. Therefore included in the above table for 2011 are the Managing Director and the Managing Director designate.

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### Note 13B: Average Annual Remuneration Packages for Substantive Senior Executives as at the end of the Reporting Period Cont'd

#### **Variable Elements:**

Variable elements are not included in the 'Fixed elements' table above. The following variable elements are available as part of senior executives' remuneration package:

- (a) On average senior executives are entitled to the following leave entitlements:
- Annual leave: entitled to 20 days (2010: 20 days) each full year worked (pro-rata for part-time Senior Executives);
  - Personal leave: entitled to 10 days (2010: 10 days) each full year worked (pro-rata for part-time Senior Executives);
  - Long service leave: in accordance with the *Long Service Leave (Commonwealth Employees) Act 1976*.
- (b) Senior executives were members of one of the following superannuation funds:
- All senior executives had their own choice of superannuation arrangements. Employer contributions were set at 9 per cent (2010: 9 per cent).
- (c) Various salary sacrifice arrangements were available to senior executives including super and motor vehicles.

### Note 13C: Other Highly Paid Staff

During the reporting period, there were no employees other than the senior executive noted above (2010: nil employees) with a salary of \$150,000 or more.

## Note 14 Remuneration of Auditors

	2011	2010
	\$	\$
Financial statement audit services were provided to the Army and Air Force Canteen Service by the Auditor-General.		
<b>The cost of the services provided was:</b>		
The Army and Air Force Canteen Service	49,700	49,700
<b>Total</b>	<b>49,700</b>	<b>49,700</b>

No other services were provided by the Auditor-General.

**Note 15 Financial Instruments**

	2011 \$	2010 \$
<b>Note 15A: Categories of Financial Instruments</b>		
<b>Financial Assets</b>		
<b>Loans and receivables:</b>		
Cash on hand or on deposit	4,098,704	3,401,545
Trade and other receivables	428,785	420,083
<b>Total</b>	<b>4,527,489</b>	<b>3,821,628</b>
<i>Carrying amount of financial assets</i>	<i>4,527,489</i>	<i>3,821,628</i>
<b>Financial Liabilities</b>		
<b>Other financial liabilities:</b>		
Trade creditors	1,051,202	1,118,931
<b>Total</b>	<b>1,051,202</b>	<b>1,118,931</b>
<i>Carrying amount of financial liabilities</i>	<i>1,051,202</i>	<i>1,118,931</i>

**Note 15B: Net Income and Expense from Financial Assets**

<b>Loans and receivables</b>		
Interest revenue	205,318	107,795
<b>Net gain from loans and receivables</b>	<b>205,318</b>	<b>107,795</b>
<i>Net gain from financial assets</i>	<i>205,318</i>	<i>107,795</i>

There was no interest income from financial assets not at fair value through the profit and loss in the year ending 2011 (2010: Nil).

**Note 15C: Net Income and Expense from Financial Liabilities**

There is no income or expense from financial liabilities in the year ending 2011 (2010: Nil).

**Note 15D: Fair Value of Financial Instruments**

The carrying value is a reasonable approximation of fair value of the financial assets and liabilities.

## AAFCANS - FINANCIAL STATEMENTS

### Note 15E: Credit Risk

The Army and Air Force Canteen Service was exposed to minimal credit risk as loans and receivables were cash or trade receivables. The maximum exposure to credit risk was the risk that arises from potential default of a debtor. This amount was equal to the total amount of trade receivables (2011: \$428,785 and 2010: \$420,083).

The Army and Air Force Canteen Service had assessed the risk of the default on payment and had allocated \$5,000 in 2011 (2010: \$5,000) to an impairment allowance account. The Army and Air Force Canteen Service managed its credit risk by undertaking background and credit checks prior to allowing a debtor relationship. In addition, the Army and Air Force Canteen Service had policies and procedures that guided employees debt recovery techniques that were to be applied.

The Army and Air Force Canteen Service held no collateral to mitigate against credit risk.

### Credit quality of financial instruments not past due or individually determined as impaired

	Not past due nor impaired 2011 \$	Not past due nor impaired 2010 \$	Past due or impaired 2011 \$	Past due or impaired 2010 \$
Cash and cash equivalents	4,098,704	3,401,545	-	-
Receivables for goods and services	290,111	269,831	138,674	150,252
<b>Total</b>	<b>4,388,814</b>	<b>3,671,376</b>	<b>138,674</b>	<b>150,252</b>

### Ageing of financial assets that are past due but not impaired for 2011

	0 - 30 days \$	31 - 60 days \$	61 - 90 days \$	90+ days \$	Total \$
Receivables for goods and services	114,255	17,619	1,452	349	133,675
<b>Total</b>	<b>114,255</b>	<b>17,619</b>	<b>1,452</b>	<b>349</b>	<b>133,675</b>

### Ageing of financial assets that are past due but not impaired for 2010

	0 - 30 days \$	31 - 60 days \$	61 - 90 days \$	90+ days \$	Total \$
Receivables for goods and services	112,122	16,044	6,114	10,972	145,252
<b>Total</b>	<b>112,122</b>	<b>16,044</b>	<b>6,114</b>	<b>10,972</b>	<b>145,252</b>

## AAFCANS - FINANCIAL STATEMENTS

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### Note 15F: Liquidity Risk

The Army and Air Force Canteen Service's financial liabilities were payables. The exposure to liquidity risk was based on the notion that the Army and Air Force Canteen Service will encounter difficulty in meeting its obligations associated with financial liabilities. This was highly unlikely due to mechanisms available to the Army and Air Force Canteen Service (eg the Defence Agreement) and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The Army and Air Force Canteen Service has only trade creditors as a financial liability. All trade creditors mature within 1 year (2011: \$1,051,202 and 2010: \$1,118,931).

### Note 15G: Market Risk

The Army and Air Force Canteen Service held basic financial instruments that did not expose the Army and Air Force Canteen Service to certain market risks. The Army and Air Force Canteen Service was not exposed to 'Currency risk' or 'Other price risk'.

#### *Interest Rate Risk*

The only interest-bearing items on the balance sheet were the 'Cash deposits'. All bear interest at a floating interest rate and will fluctuate due to changes in the market interest rate.

## Note 16 Reporting of Outcomes

The Army and Air Force Canteen Service has only one outcome being the provision of goods and services to members of the Defence family.

### Note 16A: Net (Cost)/Contribution of Outcome Delivery

	Outcome 1		Total	
	2011	2010	2011	2010
	\$	\$	\$	\$
Expenses	18,575,063	18,800,493	18,575,063	18,800,493
Own-source income	18,676,287	19,199,203	18,676,287	19,199,203
<i>Net contribution by services</i>	101,224	398,710	101,224	398,710

## AAFCANS - FINANCIAL STATEMENTS

### Note 16B: Major Classes of Expenses, Income, Assets and Liabilities by Outcomes

	Outcome 1		Total	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Expenses:</b>				
Employees	4,437,104	4,206,839	4,437,104	4,206,839
Suppliers	12,272,006	12,773,376	12,272,006	12,773,376
Depreciation/amortisation	236,574	246,790	236,574	246,790
Loss on sale of assets	6,437	5,428	6,437	5,428
Other	1,622,942	1,568,060	1,622,942	1,568,060
<b>Total</b>	<b>18,575,063</b>	<b>18,800,493</b>	<b>18,575,063</b>	<b>18,800,493</b>
<b>Income:</b>				
Sale of goods and services	17,978,444	18,627,908	17,978,444	18,627,908
Interest	205,318	107,795	205,318	107,795
Revenue from Government	400,000	321,584	400,000	321,584
Other	492,525	463,500	492,525	463,500
<b>Total</b>	<b>19,076,287</b>	<b>19,520,787</b>	<b>19,076,287</b>	<b>19,520,787</b>
<b>Assets</b>				
Cash and cash equivalents	4,098,704	3,401,545	4,098,704	3,401,545
Trade and other receivables	538,326	536,464	538,326	536,464
Leasehold improvements	120,956	129,965	120,956	129,965
Plant and equipment	763,284	804,412	763,284	804,412
Computer software	15,020	23,252	15,020	23,252
Inventories	1,182,283	1,256,874	1,182,283	1,256,874
Other	103,167	135,252	103,167	135,252
<b>Total</b>	<b>6,821,740</b>	<b>6,287,764</b>	<b>6,821,740</b>	<b>6,287,764</b>
<b>Liabilities</b>				
Suppliers	1,051,202	1,118,931	1,051,202	1,118,931
Other payables	441,504	379,158	441,504	379,158
Employee provisions	513,082	474,947	513,082	474,947
<b>Total</b>	<b>2,005,788</b>	<b>1,973,036</b>	<b>2,005,788</b>	<b>1,973,036</b>

# APPENDIX 1: ANNUAL REPORT ON THE MONITORING OF THE EEO MANAGEMENT PLAN

## Overview

Frontline domestic retail operations include convenience stores, cafes, petrol stations, mobile food vans and the provision of "Class 6" products to major military exercises. A number of licenced traders provide additional retail and non-core services e.g. fast food shops, hairdressers, mechanics, barbers and postal services, utilising their own employees.

Frontline remains small in size and geographically dispersed with small staff numbers at each individual site. Casual and part time employees account for 63% (68% - 2010) of all staff. A profile of staff in terms of target group member classification appears as Table EEO2, highlighting that women constitute:

- a) 79% (2010 78%) of all staff
- b) 25% (2010 33%) of executive level staff
- c) 43% (2010 64%) of manager level staff

Frontline is reliant primarily on Defence-provided facilities and equipment and these facilities are generally of significant vintage and not always in good condition or location (e.g. adjacent to aircraft runways). In the EEO, Occupational Health & Safety (OH&S) and trading context some outlets have a sub-optimal employment environment.

The organisation's employment profile consists of predominantly casual staff and is subject to significant fluctuation on a local basis. During 2010-11 spouses or dependents of Defence personnel filled 26% (31% - 2010) of all positions, in large part due to the on-base location of our stores.

Tables EEO1 and EEO2 provide a profile of staffing by category and classification. Total staff numbers have decreased from 139 to 136. However the Full Time Equivalent (FTE) staff statistic increased to 89 compared to 85 at 30 June 2010. The FTE increase reflects the implementation of a staff retention program through the movement of some key staff from casual to permanent employment status.

The general staffing profile reflects trading patterns that can significantly fluctuate in line with Australian Defence Force training, exercises and operations activity and the narrowly defined customer base to which Frontline has direct access. In particular, outlets at bases where troops are drawn for operational deployment overseas experience significant fluctuations in trade, profitability and casual staff numbers.

## General Management of the EEO Plan

The success of continuing to achieve the objectives of the EEO management plan is dependent upon:

- a) management commitment
- b) the allocation of responsibility and resources for implementation
- c) the awareness, participation and training of staff
- d) effective monitoring and evaluation

Frontline continues to:

- a) ensure all staff are aware of senior management's commitment to the EEO program
- b) allocate adequate resources to the development and management of the EEO plan as evidenced by an EEO Co-ordinator

## APPENDIX 1: ANNUAL REPORT ON THE MONITORING OF THE EEO MANAGEMENT PLAN

- c) encourage the participation of staff (and their representatives) in the implementation of the EEO plan
- d) encourage and promote non-discrimination policies e.g. reissues of the code of conduct to all employees (attached to each contract of employment) and provide all new employees with our code of conduct and access to the EEO management plan
- e) promote skill- and potential-based recruitment and selection processes. This is achieved by providing specific training support to all managers, appropriate policies on recruitment, selection, termination, performance appraisal, secondment and training, and guidelines to assist development of selection and interview criteria

### People engaged in providing Retail Services as at 30 June 2011

Total number of staff employed at 30 June 2011 was 136 (2010 - 139) equating to 89 (2010 - 85) full time equivalent (FTE) staff employed throughout the period.

Category	FTE (average)		Total		Male		Female	
Full time	46	(41)	51	(45)	13	(11)	38	(34)
Part time	5	(5)	11	(6)	0	(0)	11	(6)
Casual	38	(39)	74	(88)	16	(20)	58	(68)
Total	89	(85)	136	(139)	29	(31)	107	(108)

**Table 3: Staff as at 30 June 2011 (2010)**

Target Group Members (TGMs) are well represented in all employment categories, including at the executive/professional levels. There is one nominated TGM on the governing Board.

All Staff No	Employment Classification	Salary \$	All TGM as a % of all Staff	Women as a % of all staff	All Women No
96 (103)	Sales Assistants	10,000 to 37,500	82% (83)	82% (83)	79 (85)
14 (14)	Managers	38,000 to 90,000	43% (64)	43% (64)	6 (9)
9 (9)	Clerical	33,000 to 70,000	89% (89)	89% (89)	8 (8)
4 (3)	Executive	87,000 to 185,000	25% (33)	25% (33)	1 (1)
13 (10)	Other	< 60,000	100% (50)	100% (50)	13 (5)
136 (139)	TOTAL		79% (78)	79% (78)	107 (108)

**Table 4: Target Group Members by Classification as at 30 June 2011 (2010)**

## APPENDIX 1: ANNUAL REPORT ON THE MONITORING OF THE EEO MANAGEMENT PLAN

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### Recruitment and Selection

Frontline ensures that all forms of discrimination in the recruitment and selection policies and practices are eliminated and actively encourages qualified TGMs to apply for appointments and promotions within the organisation.

All vacancy advertisements continue to clearly portray Frontline as an equal opportunity employer. All job vacancies are displayed on the notice boards of our trading outlets. Job vacancies may also be advertised through the Defence Community Organisation and external media.

Operational position descriptions have been updated and re-issued during the year where required.

The formal performance appraisal system introduced in 2002 was replaced in October 2008 with a revised and multi-layered performance planning and review process.

For consistency and regard for EEO and other staff policy, all terminations are only initiated and managed by senior management.

A grievance process is well established and is accessible to all staff. This process has also been incorporated into the Frontline Defence Services awards.

The recruitment and selection policy has been developed within a framework of merit-based fair and equitable staff selection. This policy:

- a) covers ethics in recruitment as they relate to internal use and ensure all external recruitment consultants also maintain our standards
- b) continues to apply EEO principles of assisting and developing existing staff to enhance their ability to compete for available positions
- c) details standard recruitment tools for use by managers
- d) incorporates a formal feedback mechanism for internal applicants, and to external applicants on request
- e) incorporates a detailed induction process

Unsuccessful internal applicants to vacancies are provided with counselling. Unsuccessful external applicants are provided access to counselling only upon request. The external counselling facility was not accessed during the period under review.

In evaluating prospective staff, emphasis is placed on the inherent requirements of the job skills and potential rather than detailed local knowledge and experience. If a person with a disability can perform the inherent requirements of the job with some alteration or adjustments these adjustments are made unless this imposes unjustifiable hardship.

New staff are advised that job vacancy notices and the EEO Plan are displayed on staff notice boards.

TGMs are made aware of their rights, entitlements and conditions of employment by our local managers and base managers as well as through the provision of policy and procedure manuals and delivery of a standard induction program. A plain English summary of the terms and conditions of employment is available.

There have been no requests for EEO material to be prepared in languages other than English or requests for interpreters to be made available for any reason.

## APPENDIX 1: ANNUAL REPORT ON THE MONITORING OF THE EEO MANAGEMENT PLAN

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### Training and Staff Development

Management delivers appropriate staff training and development opportunities via both internal and external training programmes.

Frontline provides formal training covering areas such as OH&S, food safety and customer service for all staff. Training in leadership management for all managers continues to a standard program.

The training and development plan is reviewed each year to ensure the matching of current staff skills against the organisational competency framework and to develop targeted training programs to meet those competency shortfalls. This system has been in place since October 2008.

### Conditions of Employment

Frontline employs staff under appropriate terms and conditions subject to direction from Fair Work Australia and the Minister for Tertiary Education, Skills, Jobs and Workplace Relations.

Frontline is respondent to three awards. If an employee is not of a classification covered by these awards, or does not have a specific matter dealt with by an individual contract of employment, management applies the terms and conditions of employment as exists for other Frontline employees.

Details of the staff profile in classification and salary terms appear at Table EEO1 and EEO2.

The code of conduct (approved by directors) is issued to all staff and appears on all staff notice boards. This was last revised by the Board in May 2008 as a critical step in developing the overarching human resource strategy. The code of conduct is reviewed by senior management at least annually to ensure its relevance and currency.

A company policy and procedures manual is maintained that consolidates the major terms and conditions of employment. This was last issued in full to all staff in outlets and head office in May 2009. Updates are posted to the Frontline intranet and distributed via email regularly throughout the year as procedures are improved and new policies are implemented. Significant changes are also advised and explained during management meetings.

Frontline ensures employees are not subjected to any form of discrimination or harassment in the work place by:

- a) distributing and displaying material aimed at raising awareness of the nature and incidence of discrimination or sexual and racial harassment
- b) ensuring the working environment is free of material, which may be offensive to TGMs and other employees
- c) continuing to maintain a register of grievances (none reported in the year under review)
- d) reiterating EEO principles in management training program and in designated work group meetings i.e. at the local trading outlet level
- e) incorporating EEO awareness in the formal induction program for all new staff
- f) incorporating a detailed Harassment and Bullying policy and Whistleblowers policy in the company policy and procedures manual which operate in tandem with the EEO policy to ensure that staff have numerous reporting avenues for inappropriate conduct

Personnel policies, procedures and related correspondence have been reviewed and are free of any gender, cultural or racial bias.

As at 30 June 2011, 27 (2010 - 22) staff members were employed on individual employment contracts, including all full and part-time staff.

## APPENDIX 2 - ANNUAL REPORT OF OH&S ARRANGEMENTS AND STATISTICS

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This report is provided pursuant to s74 of the *Occupational Health and Safety (Commonwealth Employees) Act 1991*.

### Overview

The Army and Air Force Canteen Service maintain:

- a) a national OH&S committee and individual outlet health & safety committees that meet on a quarterly basis
- b) health & safety representatives (HSR) for all designated work groups - all HSR are fully trained, qualified and have completed the Comcare accredited course
- c) documented health and safety management arrangements
- d) an extensive range of OH&S policies
- e) a comprehensive OH&S management system
- f) an OH&S audit and reporting system including a reportable events register

Heightened awareness of OH&S matters continues to be made as a result of actions taken in this past financial year, which include:

- a) the continuous update of an occupational health and safety management system in line with relevant legislation
- b) the further development of a food safety program fully compliant with food hygiene regulations
- c) the continuous distribution of safety awareness material
- d) the review and update of existing policies for amendments in OH&S legislation
- e) web based training modules in food safety and OH&S and induction training

Comcare did not conduct any new investigations under s41 of the OHS Act for the year ending June 2011.

### Occupational Health and Safety

#### Food Safety

Frontline contracts a professional organisation to conduct internal food safety and premises audits on the Frontline controlled facilities throughout Australia. The results from these audits are addressed in conjunction with the Defence Support Group to ensure that all Frontline premises comply with the relevant legislation and continue to provide a safe and healthy environment for staff and customers alike.

Frontline continues to develop and update the web based food safety training programs with ELMO Learning. These web based food safety training programs ensure that all employees receive the required training in food safety and to ensure they attain the required skills and knowledge in order to maintain safe food practices in the work place.

The provision of good quality safe food continues to be a priority with Frontline.

### Occupational Health and Safety

Our processes to ensure compliance with occupational health and safety and food safety program requirements continue to improve. In accordance with new Comcare requirements, a National OH&S Committee has been established and meets on a quarterly basis. Trained health and safety representatives are in place in each outlet. The mandated Health and Safety Management Arrangements have been completed and implemented. Each outlet is audited twice yearly with those issues identified reported to either the Defence Support Group or Frontline management for resolution.

The agency's policy statement was reviewed and updated in May 2009 and signed by the Managing Director.

The Frontline Occupational Health and Safety Management System (OHSMS) continues to assist in the management of occupational health and safety in the workplace. In addition to this Frontline has developed OH&S web based training modules to assist in staff OH&S training. Together these assist Frontline to:-

- provide a safe and healthy place of work for its staff
- reduce work place incidents
- improve the knowledge and development skills of all staff in relation to best occupational health and safety practices
- ensure the safety of customers and visitors to our outlets
- fulfil all legal obligations under the OH&S Act 1991
- reduce Comcare claims

There were no dangerous occurrences related to Section 68 in the period.

Whilst the process of outlet audits is continuous with improvements occurring in regard to local practice, the issues in relation to major facilities works remain the responsibility of Defence.

	2010/11	2009/10	2008/09	2007/08	2006/07
Employees at period end	<b>136</b>	139	134	116	133
Average Number of FTE Employees throughout the period	<b>89</b>	85	79	77	97
Hours of Labour ('000's)	<b>185</b>	175	162	154	199
All injuries <sup>1</sup>	<b>1</b>	1	0	2	4
Lost time Injuries	<b>1</b>	1	0	1	4
Hours Lost (year of review)	<b>448</b>	268	0	182	1,235
Frequency Rate <sup>2</sup>	<b>0.005</b>	0.006	0.000	0.006	0.06
Severity Rate <sup>3</sup>	<b>0.32</b>	0.20	0.00	0.15	0.80
Absenteeism (% Wages) <sup>4</sup>	<b>1.46</b>	1.04	0.99	0.83	0.73

**Table 5: Occupational Health & Safety Performance**

Note 1 For events with a date of injury in the year ended 30 June 2011

Note 2 Frequency Rate: Number of lost time injuries per thousand hours worked

Note 3 Severity Rate: Number of lost days per thousand hours worked

Note 4 Absenteeism for sick leave, not being workers compensation

During the 12 months from July 2010 to June 2011 there was one new claim submitted to Comcare.

Minor injuries on which Frontline have paid medical expenses and wages not included in the above figures account for 8 injuries 2010/11 compared to 6 injuries in 2009/10. Time lost totalled 33 hours compared to 107 in 2009/10. Costs including medical expenses and wages paid this financial year totalled \$2,205 compared to \$2,074 in 2009/10.

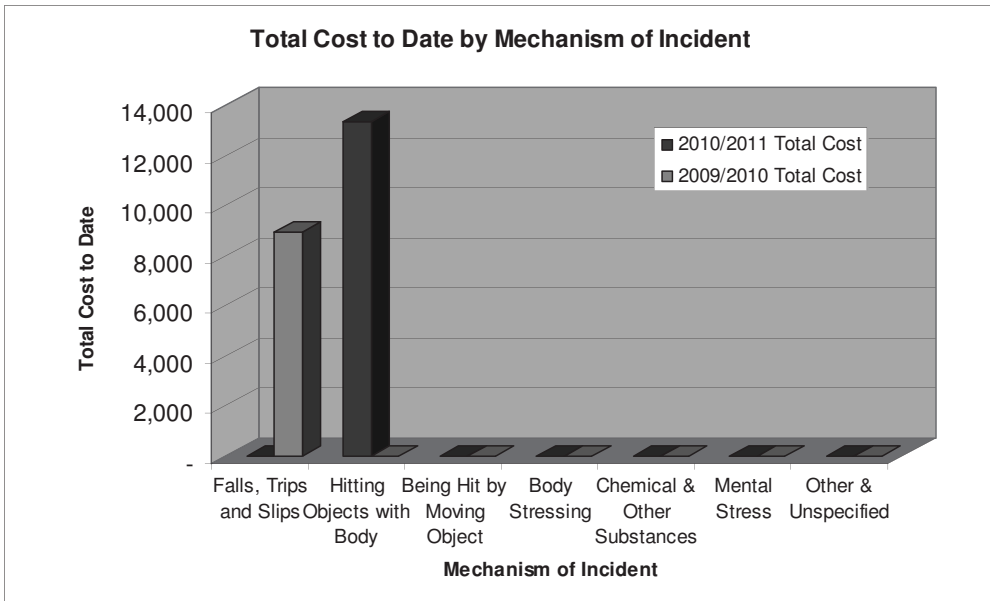


Chart 2: Claims Total Cost to Date by Mechanism of Incident

**Workers Compensation**

Insurance cover for workers compensation is maintained as follows:

- a) Claims established prior to 1 July 1989 are determined under the *Commonwealth Employees Rehabilitation and Compensation Act 1988*; however payments as directed by Comcare are the responsibility of the Army and Air Force Canteen Service.
- b) Claims established from 1 July 1989 are managed, by government direction, in conjunction with Comcare under the provisions of the *Commonwealth Employees Rehabilitation and Compensation Act 1988*.

Claims are managed in accordance with the requirements of Comcare, OH&S legislation and other legal requirements.

Claim performance by mechanism of incident for the 12 months ending 30 June 2011 (compared to the year 2010) appears in summary in Chart 3 and Table 6. Frontline is maintaining a low incidence of injuries and reported claims. Frontline will continue to monitor the workplace through inspection reports and hazard identification forms to keep the number of incidents in the work place to an absolute minimum, striving for zero injuries.

Absenteeism for sick leave, not being for workers compensation, was at a rate of 1.46% of non-casual wages for the period (2010 - 1.04%).

The future focus will remain centred on the training of managers and employees in keeping the work place safe and the continued improvement in OH&S performance with the reduction of injuries and Comcare claims.

The web based training modules for OH&S considerably assist Frontline in reducing the number of incidents and assist in providing a more informed work force thereby creating a safer work environment for all employees.

The cost to date of all claims with an injury date in this period is \$13,332 compared to last year which was \$8,962.

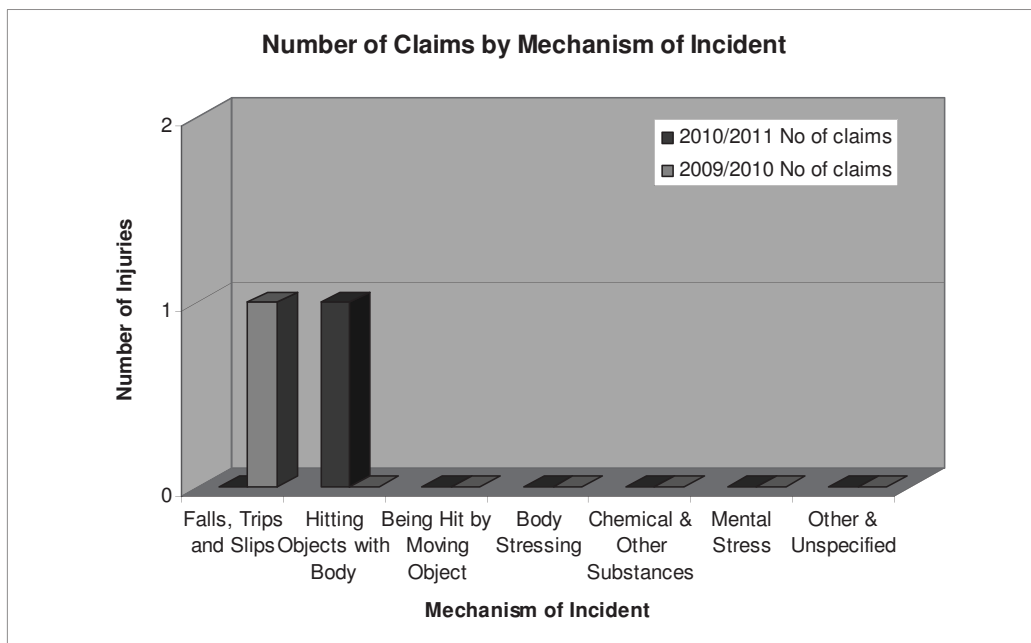


Chart 3: Claims Incidence by Injury Group

FRONTLINE DEFENCE SERVICES				
2011/(2010) INJURIES				
Injury/Disease	Claims No.	% of claims	% of cost to date	Average cost to date (\$)
Falls, Trips & Slips	0 (1)	0 (100)	0 (100)	0 (8,962)
Hitting Objects with Body	1 (0)	100 (0)	100 (0)	13,332 (0)
Being Hit by Moving Objects	0 (0)	0 (0)	0 (0)	0 (0)
Sound and Pressure	0 (0)	0 (0)	0 (0)	0 (0)
Body Stressing	0 (0)	0 (0)	0 (0)	0 (0)
Heat, Elect & Other Enviro Factors	0 (0)	0 (0)	0 (0)	0 (0)
Chemical & Other Substance	0 (0)	0 (0)	0 (0)	0 (0)
Biological Factors	0 (0)	0 (0)	0 (0)	0 (0)
Mental Stress	0 (0)	0 (0)	0 (0)	0 (0)
Other and Unspecified	0 (0)	0 (0)	0 (0)	0 (0)
<b>Total</b>	<b>1 (1)</b>	<b>100 (100)</b>	<b>100 (100)</b>	<b>13,332 (8,962)</b>

Table 6: Injury Types for year ending 30 June 2011 (2010) : details as at 13th September 2011

The occupational health & safety of all staff and customers remains a priority with Frontline and in the future year our key strategies are as follows:

- ensure alignment under the harmonised workplace health and safety legislation
- continue to reduce the number of injuries in every location
- increase staff awareness of OH&S issues through comprehensive training packages. Web based training modules will continue to assist in ensuring all employees, even in remote locations, receive the necessary OH&S training
- continue to focus on the development of the OHSMS
- the continuous improvement to operational procedures and work practices

## APPENDIX 3 - STATEMENTS OF EXPECTATIONS AND INTENT

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### Statement of Expectations

Chairman  
Army and Air Force Canteen Service

This statement formally outlines my expectations concerning the operations and performance of the Army and Air Force Canteen Service (known as Frontline).

The government's vision for Frontline is that it will be a high-performing and self-supporting organisation which provides goods, facilities and services to, or for the entertainment and recreation of, Army and Air Force personnel, and their families, to enhance their living conditions and social environment.

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

My expectations for the Board of Directors are that it will ensure that Frontline:

1. operates in accordance with relevant legislation (including the *Army and Air Force Canteen Service Regulation 1959* made under the *Defence Act 1903* and the *Commonwealth Authorities and Companies Act 1997*);
2. complies with the appropriate government policy, including directions made by the Finance Minister;
3. is a commercially viable organisation which is financially independent of government;
4. delivers on the strategies identified in the 2008-12 Strategic Plan within the agreed timeframes and having regard to guidance provided by the Frontline Advisory Committee;
5. encourages continuous improvement practices to maximise opportunities that will ensure its long term viability;
6. in response to this Statement of Expectations, provides the Minister with its Statement of Intent and makes both Statements publicly available;
7. provides the Minister with its quarterly and annual financial and compliance reports, with copies to be provided to the Secretary for Defence, the Chief of the Defence Force, the Chief of Army and the Chief of Air Force;
8. adopts best practice governance principles and implements risk management strategies as determined by the Commonwealth, as appropriate for the operation of small agencies; and
9. identifies and manages all actual and perceived conflicts of interest, promptly advising the Minister of any significant issues as they arise.

Signed Joel Fitzgibbon  
(Former) Minister for Defence

Issued 26 September 2008

## APPENDIX 3: STATEMENTS OF EXPECTATION AND INTENT

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### Statement of Intent

The Hon Joel Fitzgibbon  
Minister for Defence

This statement outlines our intent concerning the operations and performance of the Army and Air Force Canteen Service (known as Frontline).

The Board will ensure that the Minister for Defence Science and Personnel (the Minister) is kept fully informed of any significant event or issue that may impact on the financial and business operations of Frontline. All communication provided to the Minister is to be forwarded in parallel to the Department of Defence.

The intention of the Board of Directors is that it will ensure that Frontline:

1. operates in accordance with relevant legislation (including the *Army and Air Force Canteen Service Regulation 1959* made under the *Defence Act 1903* and the *Commonwealth Authorities and Companies Act 1997*);
2. complies with the appropriate government policy, including directions made by the Finance Minister;
3. is a commercially viable organisation which is financially independent of government through the performance of all parties to the relevant Defence Instructions and the Frontline Agreement;
4. delivers on the strategies identified in the Strategic Plan 2008-2012 within the agreed timeframes and having regard to guidance provided by the Frontline Advisory Committee;
5. encourages continuous improvement practices to maximise opportunities that will ensure its long term viability;
6. in response to the Minister's Statement of Expectations, provides this Statement of Intent and makes both Statements publicly available;
7. provides the Minister with its quarterly and annual financial and compliance reports, with copies provided to the Secretary for Defence, the Chief of the Defence Force, the Chief of Army and the Chief of Air Force;
8. adopts best practice governance principles and implements risk management strategies as determined by the Commonwealth, as appropriate for the operation of small agencies; and
9. identifies and manages all actual and perceived conflicts of interest, promptly advising the Minister of any significant issues as they arise.

Signed Ted Moore  
Chairman  
Army and Air Force Canteen Service

Issued 21 October 2008

## APPENDIX 4 - LOCATION OF OUTLETS

Outlet Name	Barracks/Base
Mechanical Workshop - L/T	Royal Military College, Legge Road, Duntroon, ACT
The Grassy Knoll Café - L/T	Royal Military College, Fraser Road, Duntroon, ACT
Convenience Store - L/T	Victoria Barracks, Paddington, NSW
Convenience Store - ACC	DNSDC, Moorebank Avenue, Moorebank, NSW
Convenience Store & Tavern (Peeler VC Club) - ACC	SME, Moorebank Avenue, Moorebank, NSW
Convenience Store & Tavern (Maxwell VC Club) - ACC	McArthur Drive, Holsworthy, NSW
Convenience Store - ACC	RAAF Base Richmond, NSW
Post Office and Newsagent - L/T	RAAF Base Richmond, NSW
Mechanical Workshop - L/T	RAAF Base Richmond, NSW
Convenience Store - ACC	RAAF Base Williamtown, NSW
Mechanical Workshop - L/T	RAAF Base Williamtown, NSW
Convenience Store & Military Post Office - ACC	Lone Pine Barracks, Singleton, NSW
Convenience Store - ACC	RAAF Base Wagga Wagga, NSW
Convenience Store - ACC	ARTC, Blamey Barracks, Kapooka, NSW
Convenience Store - L/T	RAAF Base, Darwin, NT
Service Station & Mechanical Workshop - L/T	RAAF Base Darwin, NT
Convenience Store	RAAF Base Tindal, NT
Petrol Station	RAAF Base Tindal, NT
Shout VC Convenience Store	Robertson Barracks, Palmerston, NT
Café Central Convenience Store	Robertson Barracks, Palmerston, NT
Convenience Store	Gallipoli Barracks, Enoggera, QLD
Convenience Store - L/T	LWC, Kokoda Barracks, Canungra, QLD
Convenience Store	RAAF Base Townsville, QLD
Tom's Central Convenience Store	Lavarack Barracks, Townsville, QLD
Chauvel Kiosk	Lavarack Barracks, Townsville, QLD
Convenience Store	RAAF Base Amberley, QLD
C17 Cafe	RAAF Base Amberley, QLD
Pool Kiosk - L/T	RAAF Base Amberley, QLD
Mechanical Workshop - L/T	RAAF Base Amberley, QLD
Convenience Store	Army Aviation Training Centre, Oakey, QLD

## APPENDIX 4 - LOCATION OF OUTLETS

Outlet Name	Barracks/Base
Convenience Store - ACC	RAAF Base, Edinburgh, SA
Convenience Store - L/T	Woodside Barracks, Woodside, SA
Convenience Store - ACC	Gaza Ridge Barracks, Bandiana, VIC
Convenience Store - ACC	Latchford Barracks, Bonegilla, VIC
Family & Convenience Store	PMA, Puckapunyal, VIC
Fish and Chip Take-away - L/T	PMA, Puckapunyal, VIC
Pizza Parlour - L/T	PMA, Puckapunyal, VIC
Chinese Food Take-away - L/T	PMA, Puckapunyal, VIC
Petrol Station	PMA, Puckapunyal, VIC
Convenience Store & Tavern (Mactier VC Club) - ACC	Simpson Barracks, Macleod, VIC
Barracks Bistro - ACC	Victoria Barracks, Melbourne, VIC
Café - ACC	DSTO, Fisherman's Bend, VIC
Convenience Store - ACC	RAAF Base Williams, Laverton, VIC
Café and Post Office - L/T	RAAF East Sale, East Sale, VIC
Convenience Store	RAAF Base Pearce, Bullsbrook, WA

### Outlet Locations

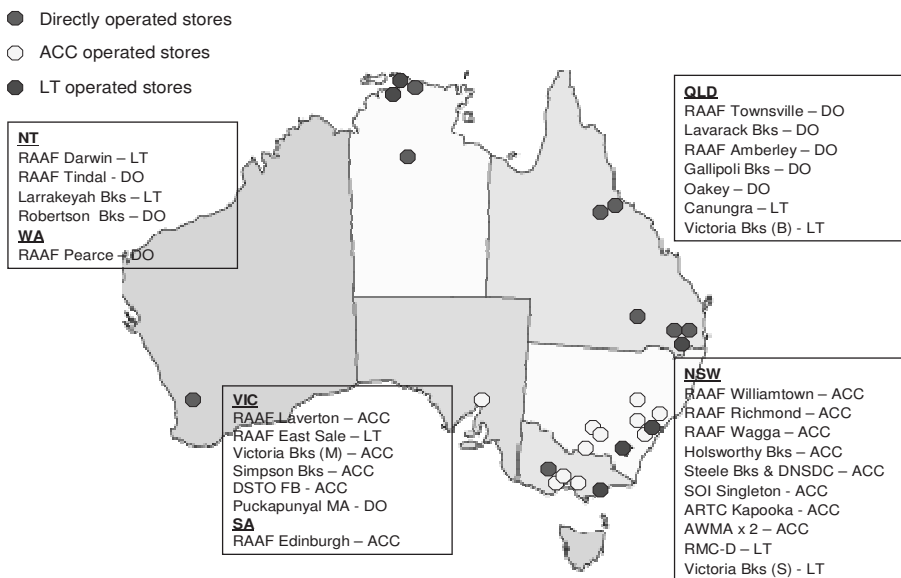


Chart 4: Visual Representation of Outlet Locations

## APPENDIX 5 - TERMS AND ABBREVIATIONS

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<b>Term / Acronym</b>	<b>Description / Definition</b>
AAFCAANS	Army & Air Force Canteen Service
ACC	Australian Commercial Catering Pty Ltd
ADF	Australian Defence Force
ANAO	Australian National Audit Office
Board	Army and Air Force Canteen Service Board of Management
CAC Act	Commonwealth Authorities and Companies Act 1997
Direct Operations	C Stores & Other Frontline Facilities directly operated and staffed by Frontline
DSG	Defence Support Group
DWG	Designated Work Group
EEO	Equal Employment Opportunity
FDS	Frontline Defence Services
FOI	Freedom of Information
Frontline Defence Services	Army & Air Force Canteen Service
FTE	Full Time Equivalents
HACCP	Hazard Analysis and Critical Control Points
HSMA	Health and Safety Management Arrangements
HSR	Health and Safety Representative
MFV	Mobile Food Vans
OH&S	Occupational Health and Safety
OHSMS	Occupational Health and Safety Management System
TGM	Target Group Member

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*Army and Air Force Canteen Service Report for the Period 1 July 2010 to 30 June 2011  
incorporating the Annual Report on the monitoring of the Equal Employment Opportunity (EEO) Management Plan*