



**POLICE
SUPERANNUATION
BOARD**

Annual Report



2016/2017





SA Police Super

Police Superannuation Scheme



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14 September 2017

Hon. Tom Koutsantonis, MP
Minister for Finance
Level 8
State Administration Centre
200 Victoria Square
ADELAIDE SA 5000

Dear Minister

Police Superannuation Board – Annual Report 2016 - 2017

The Police Superannuation Board submits to you for presentation to Parliament its Annual Report for the year ended 30 June 2017.

Yours faithfully

(Graeme Barton)
Presiding Member
Police Superannuation Board

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PRESIDING MEMBER'S REPORT

The Police Superannuation Board has the responsibility for the administration of the Police Superannuation Scheme (the Scheme) in accordance with the *Police Superannuation Act 1990*. The management of the Scheme's investments is the responsibility of Superannuation Funds Management Corporation of South Australia (Funds SA).

The Scheme was closed to new entrant police officers in 1990 and as at 30 June 2017 had a total of membership of 2,920 (contributors, preserved members and pension recipients). The Board approved claims for invalidity benefits from 15 members during 2016-2017 (10 during 2015-2016). The finalised claims were for total and permanent invalidity benefits. There was one new temporary disability pension approved and two temporary disability pensions ceased during the same period.

Overview of the year ended 30 June 2017

- Total funds under management with Funds SA as at 30 June 2017 was \$1.67 billion, compared with \$1.48 billion as at 30 June 2016.
- From 1 January 2017 Funds SA established a customised defined benefit investment strategy for the assets of the Scheme which targeted the long-term return of CPI plus 4.5% (i.e. approximately 7%). Prior to 1 January 2017 the assets of the Scheme were invested by Funds SA in the "growth" investment option.
- The net investment return from Funds SA for the Pension Scheme as at 30 June 2017 was 12.4 percent.
- Member information sessions for metropolitan and country areas were held during 2016-2017.
- The Board reviewed its Policies and Procedures, Financial Management Compliance Program and Risk Management Plan and Policy.

The Board met eleven times during 2016-2017 and I thank the Board members for their valuable contribution to the successful operations of the Board during the year.

Pensions are paid on a fortnightly basis throughout the year and lump sum benefit payments to members were generally paid within two to seven days of members' exit dates from the Scheme. Excellent service delivery, including personal interviews, home visits, telephone, email and written responses to numerous enquiries and regular website articles and information has been well established as a hallmark of the Scheme.

The Police Super manager and his staff have continued to maintain the effectiveness and efficiency of the Scheme through process review and change, innovation, excellent service delivery and quality staff training. Importantly, working relationships with all of the Board's service providers are of a high order.



(Graeme Barton)

Presiding Member
Police Superannuation Board

POLICE SUPERANNUATION BOARD

The Police Superannuation Board (the Board), a body corporate, is responsible to the Minister for the operation, management and administration of the Police Superannuation Scheme (the Scheme), established by the *Police Superannuation Act 1990* (the Act).

The Board's vision is to provide members of the Scheme with quality superannuation services, including effective and efficient service delivery, together with readily accessible, relevant information and assistance.

The Board's values are to:

- act in members' best interests.
- act with fidelity in all matters concerning the administration of the scheme.
- deliver accurate, effective and informative communications on superannuation matters to members in a timely manner.
- provide a fair and reasonable appeal and resolution of complaints process.

The Board's objectives are to:

- provide leadership in the operation, management and administration of the Police Superannuation Scheme.
- provide serving members and superannuants with high quality superannuation services and ensure customer satisfaction.
- provide timely, accurate, relevant and meaningful communications to serving members and superannuants.
- oversee the management and financial reporting framework requirements of the Police Superannuation Scheme.
- develop and maintain practical policies and procedures which ensure compliance with all legislative and administration requirements.

Board Membership as at 30 June 2017

During 2016-2017 the Board met on 11 occasions and the current Board and Deputy members are listed below:

Mr G A Barton	appointed as Presiding Member by the Governor on the Minister's nomination (Deputy Member Mr G Powell) (Appointment to 29 October 2017)
Chief Inspector K L Howie	appointed as Member by the Governor on the Minister's nomination (Deputy Member Chief Inspector J Thomas) (Appointment to 29 October 2017)
Mr F Pit	appointed as Member by the Governor on the Minister's nomination (Deputy Member Mr N Smith) (Appointment to 1 March 2018)

Sergeant B H Zimmermann	appointed as Member by the Governor on the nomination of the Police Association of South Australia (Deputy Member Sergeant S Strange) (Appointment to 29 October 2017)
Senior Sergeant Thomas Scheffler	appointed as Member by the Governor on the nomination of the Police Association of South Australia (Deputy Member Senior Sergeant T Milne) (Appointment to 29 October 2017)

Administration Services

Administrative services are provided to the Board by the Police Super Office, an administrative unit within SAPOL, pursuant to Section 9(3) of the Act and the Service Level Contract between the Board and SAPOL. The Police Super Office:

- has five staff; and
- utilises the services and facilities of SAPOL, Super SA, Funds SA, the Department of Treasury and Finance, the Crown Solicitor and the Auditor-General for administrative, investment management, actuarial, consultancy, legal and auditing services.

Administration Expenses

The Board's administration expenses are financed in the first instance from the Police Superannuation Scheme Employer Contribution Account (Police Employer Account).

The Board's administration expenses for the financial year ended 30 June, 2016 amounted to \$706,000 which was a decrease of \$14,000 over the previous year. The amount of \$706,000 comprised of staff salaries, computer systems expenses, and accommodation costs. Of the \$706,000, \$610,000 (\$591,000 in 2014-2015) was paid to SA Government entities.

In accordance with the provisions of the *Police Superannuation Act 1990* the Police Superannuation Fund portion of administration expenses for 2016-2017 was \$213,000 and the Police Employer Account portion was \$493,000.

Funds under Management

At 30 June 2017, the Board had total funds of \$1.67 billion under management with Funds SA. This compares with \$1.48 billion as at 30 June 2016.

From 1 January 2017 Funds SA established a customised defined benefit investment strategy for the assets of the Scheme which targeted the long-term return of CPI plus 4.5% (i.e. approximately 7%). Prior to 1 January 2017 the assets of the Scheme were invested by Funds SA in the "growth" investment option.

Board Remuneration

Board and Deputy Member fees are set according to State Government guidelines for Statutory Authorities. Board Members, who are State public sector employees, do not receive fees for their Board membership.

Total remuneration received or due and receivable by the members and deputy members of the Board in 2016-2017 was \$9,000 (\$9,000 in 2015-2016).

The number of Board and Deputy members whose remuneration was within the following bands is as follows:

Total Remuneration	Number of Members	
	2017	2016
\$1 - \$10,000	3	3

Computing

The Board utilises a stand alone computer system to provide for the administration of the Police Superannuation Scheme.

Changes in Legislation

During 2016-2017 there were no legislative changes to the *Police Superannuation Act 1990* (the Act) or the Police Superannuation Regulations under the Act.

Compliance Statement

The South Australian and Commonwealth Governments have entered into a Heads of Government Agreement (Agreement) to enable certain public sector schemes to be exempt from the Commonwealth's Superannuation Industry (Supervision) Act 1993 (SIS Act). While the Police Superannuation Scheme (Scheme) is an exempt public sector scheme it is deemed to be a complying fund in terms of the SIS Act.

Under the Agreement the South Australian Government has made a commitment to ensure the Scheme conforms to the principles of the Commonwealth's retirement and income policy objectives. In line with the commitment made the Board continually reviews its member communications and operations to ensure members are well informed and provided with quality superannuation services based on industry standards and legislative requirements.

Risk Management

The Board's risk management policy, plan and procedures are reviewed and amended on a regular basis as legislation, legal and audit advice, or other applicable factors dictate.

The Board is provided with a quarterly risk management monitoring and review report by the Police Super Office. This process is of significant assistance in reviewing and recording all aspects of the Scheme's management, including new legislation, policy issues, probity and security.

No major issues of concern, including complaints, have arisen during this reporting period.

Strategic Objectives

During 2017-2018 the Board will establish its strategic objectives for the Police Super Office and the administration of the Police Superannuation Scheme for 2017-2018 and future years.

The key topics to be examined by the Board include review of member services and communications, additional online member information, member information sessions and the ongoing review of the Board's policies and procedures, the Financial Compliance Management Program and Risk Management Plan and Policy.

POLICE SUPERANNUATION SCHEME

POLICE SUPERANNUATION FUND

The Police Superannuation Fund (the Fund) was established on 1 June 1990 in accordance with the provisions of the *Police Superannuation Act 1990*. Under the Act:

- the assets of the Fund are the assets of the Crown. Member contributions are paid to the Treasurer who is then required, in terms of the Act, to pay an amount equal to those contributions to the Fund;
- the Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for the management and investment of the Police Superannuation Fund.

The Fund consists of the Pension Scheme division which provides pension benefits with a lump sum option. The Pension Scheme division was closed to new members on 31 May 1990.

The most recent actuarial review into the Police Superannuation Fund, based on the state of the Fund as at 30 June 2014, was carried out by Mr G Keen, FIAA and Mr B Watson, FIAA of Brett and Watson Pty Ltd. The Actuarial Report as at 30 June 2014 was provided to the Board on 29 June 2015.

During 2016-2017 the Fund's prescribed proportion of benefit payments for members of the Pension Scheme was 22 percent in line with the recommendations of Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd in the Actuarial Report as at 30 June 2014.

For the year ended 30 June 2017, \$5.7 million (\$6.2 million in 2015-2016) was deposited into the Fund by members. The net investment income derived by Funds SA from investment of the Fund for the year ended 30 June 2017 amounted to \$59.7 million, compared to \$17.8 million in the previous year.

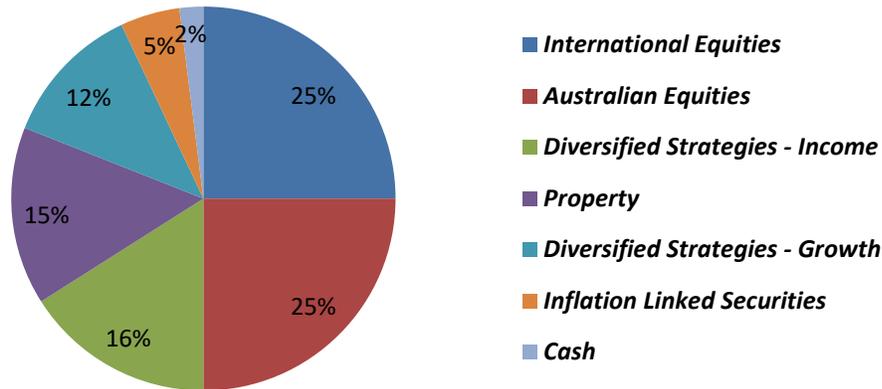
An amount of \$20.2 million (\$19 million in 2015-2016) was paid from the Fund during 2016-2017 in respect of benefits for members of the Pension Scheme.

As at 30 June 2017 the balance of the Fund stood at \$529.5 million. This compares with the total of \$483.7 million as at 30 June 2016.

Investment Activity

The market value of the Fund at 30 June, 2017 was \$529.5 million, an increase of \$45.8 million on the previous year.

The allocation of the Fund's assets by Funds SA as at 30 June 2017 is shown below:



The financial statements (Page 22) present a consolidated financial statement of the Police Superannuation Scheme for the year ended 30 June 2017, together with the report of the Auditor General.

Investment Returns

For the financial year 2016-2017 Funds SA's net investment return (money weighted return, net of investment fees and the Board's administration expenses) for the Pension Scheme was 12.4 percent.

The following table shows the net investment returns achieved by Funds SA for the Pension Scheme over the past 5 years.

Scheme	Investment Returns					
	2013	2014	2015	2016	2017	5 years annualised
Pension	16.5%	14.8%	10.0%	3.7%	12.4%	11.4%

Fund Crediting Rates

Member Contribution Accounts

Under the provisions of the Act, the Board is required to declare a rate of return to be credited to member contribution accounts for members of the Pension Scheme at the end of each financial year.

The Board's end of year crediting rate policy is based on the actual return (money weighted return net of investment fees and the Board's administration expenses), as advised by Funds SA as at 30 June.

The Board declared an end of year crediting rate of 12 percent to be applied to member contribution accounts as at 30 June 2017.

The following table shows crediting rates declared by the Board for Member Contribution Accounts over the past 5 years.

Member Contribution Accounts Crediting Rates						
Scheme	2013	2014	2015	2016	2017	5 years annualised
Pension	16.5%	14.8%	10.0%	3.7%	12.4%	11.4%

In addition, the Board is required to determine an 'exit' rate of return to be applied to the member contribution accounts of members who resign from SAPOL during a particular financial year and elect to take a withdrawal benefit which consists of a refund of member contributions plus accrued interest.

The Board's exit crediting rate policy is based on the actual annualised return, as advised by Funds SA, on a weekly basis.

Actuarial Review

Pursuant to Section 15(4) of the Act an actuarial review must be undertaken in relation to the triennium ending on 30 June 1993 and thereafter in relation to each succeeding triennium to provide a report to the Minister on the state and sufficiency of the Fund and the operation of the superannuation scheme.

The most recent actuarial review into the Police Superannuation Fund, based on the state of the Fund as at 30 June 2014, was carried out by Mr G Keen, FIAA and Mr B Watson, FIAA of Brett and Watson Pty Ltd. The Actuarial Report as at 30 June 2014 was provided to the Board on 29 June 2015.

During 2016-2017 the Employer and Fund's prescribed proportions of benefit payments for members of the Pension Scheme were 78 and 22 percent respectively in line with the recommendations made in the Actuarial Report as at 30 June 2014. The Government contribution for future service liabilities during 2016-2017 was 20.5 percent of member salaries in line with the recommendation made in the above mentioned report.

MEMBERS

Police Officers, who commenced employment with SAPOL on or before 31 May, 1990 are members of the Pension Scheme.

Members of the Pension Scheme make a defined fortnightly contribution based on their superannuation salary and receive a defined pension/lump sum benefit upon retirement from SAPOL. Defined benefits are also paid in the event of total and permanent invalidity or death.

Members as at 30 JUNE			
Member Category	Pension Scheme	Total 2016/2017	Total 2015/2016
Contributors	1,081	1,081	1,174
Preserved	70	70	79
TOTAL	1,151	1,151	1,253

The contributors to the scheme as at 30 June 2017 comprised 884 male and 197 female police officers.

Age Distribution of Contributing Members as at 30 JUNE			
Age	Pension Scheme	Total 2016/2017	Total 2015/2016
30 - 39	0	0	0
40 - 49	203	203	259
50 - 59	775	775	827
60 and over	103	103	88
TOTAL	1,081	1,081	1,174

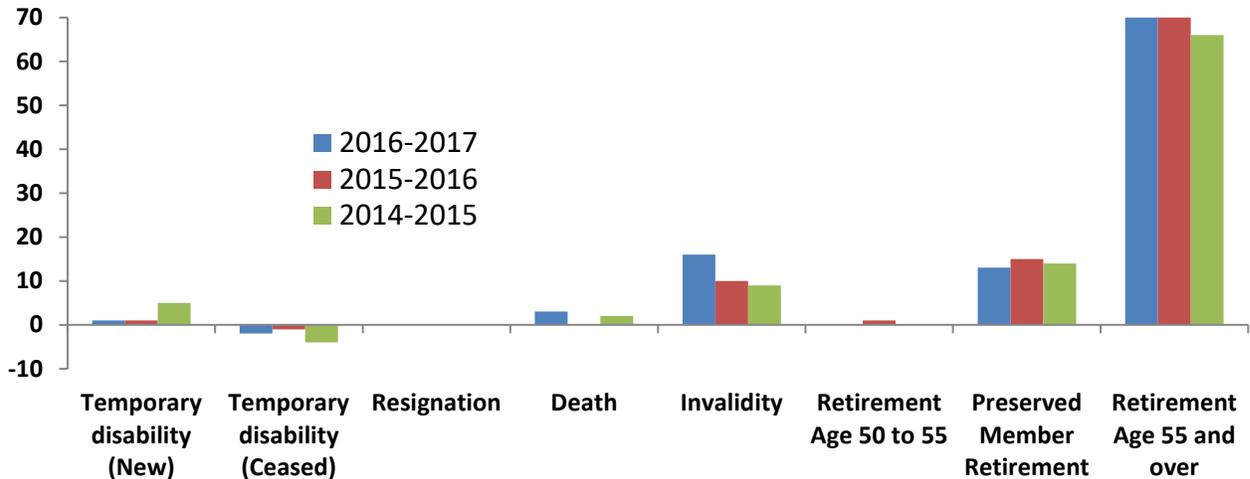
Member Contributions

Police Officers who are members of the Pension Scheme make contributions on a fortnightly basis through deductions from their salary. Member contributions are based on a fixed percentage ranging between five and six percent of superannuation salary.

Superannuation salary is based on a member's highest rank and increment level actually attained in a permanent position with SAPOL and includes a ten percent shift-work build up for members who hold the rank of Senior Sergeant and below and have been classified as a shift-worker during their period of employment.

Member Contributions		
Scheme	2016/2017 \$,000	2015/2016 \$,000
Pension	5,699	6,152
TOTAL	5,699	6,152

During 2016-2017 there was a total of 102 exits from the Pension Scheme (93 contributors and 9 preserved), which was the same number of exits as the previous year.



As illustrated above the majority of member exits during 2016-2017 were age retirements from Age 55 and over. During 2016-2017 no contributors under Age 50 ceased membership of the scheme and elected to take a cash withdrawal benefit (0 in 2015-2016). Four contributors under Age 50 resigned from SAPOL and elected to preserve a benefit in the Pension Scheme during 2016-2017 (0 in 2015-2016).

INCAPACITY FOR EMPLOYMENT

The Pension Scheme provides benefits for members who are temporarily or permanently incapacitated for employment within SAPOL.

Medical and Psychological Advice

To assist in the determination of claims the Board uses independent advice, including medical and psychological advice.

Temporary Incapacity

The payment of a temporary disability pension for up to twelve months provides members with a period for rehabilitation and enables the Board to fully assess each claim with a view to a return to employment, or permanent retirement on the grounds of invalidity.

During 2016-2017, there was one new temporary disability pension approved by the Board. Two temporary disability pensions ceased during 2016-2017 as the members returned to work with SAPOL. One of the members whose temporary disability pension ceased during 2016-2017 will retire, on the grounds of invalidity, in July 2017.

Invalidity Retirement

The Act provides for two categories of benefit payable upon retirement on the grounds of invalidity.

1) Total and Permanent Disablement

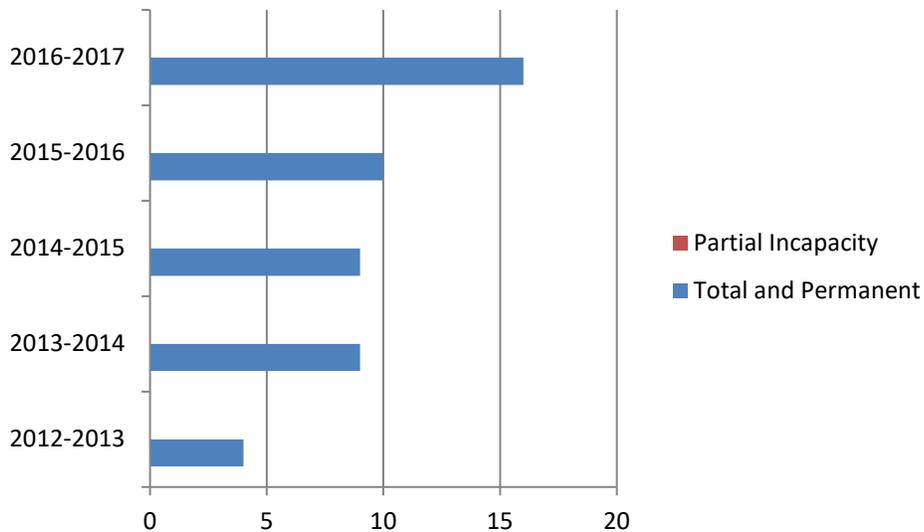
If the Board is satisfied the member’s incapacity for all kinds of work (both inside and outside the police force) is 60 percent or more, and is likely to be permanent, the member of the Pension Scheme is entitled to an indexed pension for life.

2) Partial Disablement

If the Board is satisfied the member’s incapacity for all kinds of work (both inside and outside the police force) is less than 60 percent, or not likely to be permanent, the member is entitled to a lump sum payment based on the member’s accrued benefit to the date of resigning from SAPOL, on the grounds of invalidity.

After consideration of appropriate and professional independent advice, the Board approved the payment of 16 claims as total and permanent disablement pension benefits for the year ended 30 June 2017 (10 claims for the year ended 30 June 2016). The claims of the sixteen members of the Pension Scheme were approved for payment, following their separation from SAPOL, on the grounds of invalidity, being accepted by the Commissioner of Police.

The following chart shows the number of total and permanent and partial incapacity retirements over the past five years. The increase in invalidity claims was due to the cessation of a number of members workers compensation income maintenance payments during 2016-2017 in line with legislative changes under the *Return to Work Act 2014*



PENSIONS

A total of 1,769 pensions were being paid under the Pension Scheme as at 30 June 2017, an increase of 65 on the previous year.

The average age of the 27 aged pensioners who passed away during 2016-2017 was 83 and their average number of years in retirement was 25.

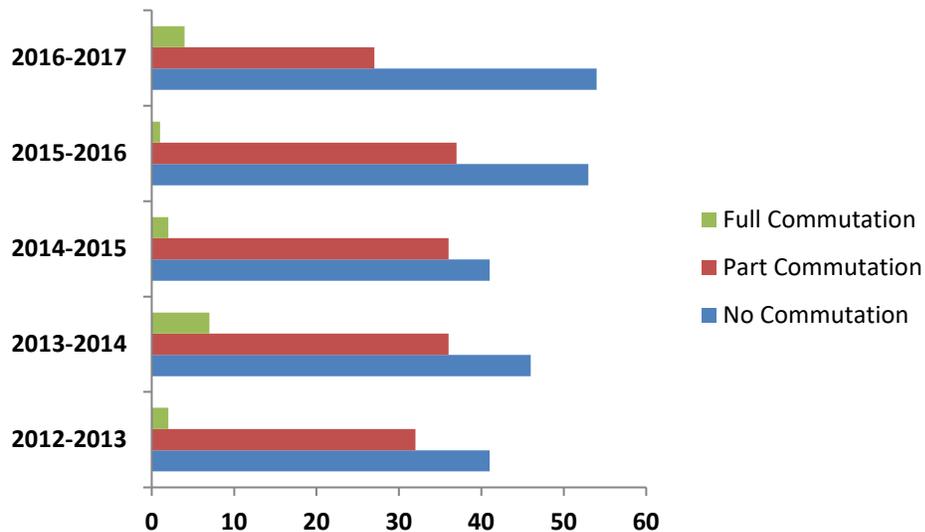
Pension Recipients					
	Member Age (55 and over)	Invalidity Temporary Disability	Spouse	Child	Total
Payable as at 1/7/2016	1,094	210	372	28	1,704
New	85	17	22	5	129
Reinstated				1	1
Ceased due to:					
-Pensions ceased (Temporary Pension)	-	(3)	-	-	(3)
-Death	(27)	(4)	(19)	-	(50)
-100% Commutation	(4)	-	(1)	-	(5)
-Child attaining age 16 or ceasing to be student				(7)	(7)
Payable as at 30/6/2017	1,148	220	374	27	1,769

Commutation of Pension

Regulation 6 of the *Police Superannuation Regulations 1990* provides that members of the Pension Scheme, who retire on account of age, have the option to commute the whole or part of their pension entitlement into a lump sum.

A total of 85 members (72 contributors and 13 preserved members) of the Pension Scheme were eligible to commute part of their pension into a lump sum during 2016-2017.

The following table provides details of the number of members who elected to take a full, part or no commutation of pension during 2016-2017.



The following table shows the details of average commutations and pensions paid to members during 2016-2017.

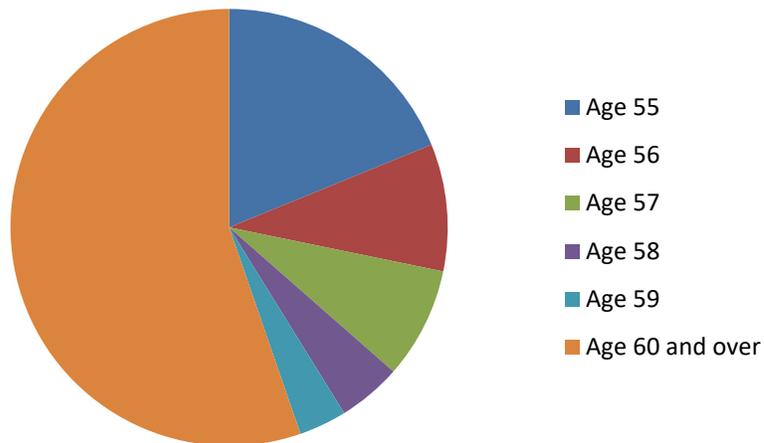
Commutations and pensions				
Category	Retirements Age 55 and over	Preserved Retirements	Average Lump Sum	Average Pension pa
No Commutation	43	11	-	\$61,624
Part Commutation	27	-	\$174,667	\$59,454
Full Commutation	2	2	\$407,013	-

The following table provides a comparison of the numbers of pensioners over the past five years.

Comparison Of Number Of Pensioners					
	2013	2014	2015	2016	2017
Age 55 and over	901	957	1,020	1,094	1,148
Invalidity Temporary Disability	200	204	208	210	220
Spouse Pensions	371	378	373	372	374
Child Allowances	26	27	24	28	27
TOTAL	1498	1566	1625	1704	1769

Retirement Benefits 55 years of age and over

During 2016-2017 a total of 85 members (72 contributors and 13 preserved members) of the Pension Scheme retired at 55 years of age or over. The following chart illustrates the majority of retirements during 2016-2017 were members aged 60 and over. The average age of the 85 members who retired at 55 years of age or over was 59.



The following table shows benefit payments approved on behalf of members of the Pension and Lump Sum schemes during 2016-2017.

Category	Benefits Payments		
	Pension Scheme \$000	Total 2016/2017 \$000	Total 2015/2016 \$000
Pensions	74,153	74,153	69,757
Commutations	8,902	8,902	8,744
Lump Sums	8,694	8,694	8,052
Government Co-contributions	1	1	2
TOTAL	91,750	91,750	86,555

Retirement Benefits 50 - 55 Years of Age

During 2016-2017 no members of the Pension Scheme who retired under 55 years of age (0 in 2015-2016).

Indexations of Pensions

Under the Act, pension payments are adjusted twice yearly (October and April) to reflect the percentage variation in the Consumer Price Index for Adelaide (CPI).

Pursuant to the Transitional Provisions of the Act, all pensions which commenced prior to 1 June 1990 continue to be indexed by the movement in CPI plus one third. Pensions which commenced on or after 1 June 1990 are indexed by the CPI movement only.

In October 2016, the adjustment to pensions was based on the percentage variation between the Consumer Price Index for Adelaide (CPI) for the June quarter of 2016 and the CPI for the December quarter of 2015. The percentage variation in the CPI for the period was 0.19 percent.

In October 2016, pensions which commenced prior to 1 June 1990 were indexed by 0.25 percent (CPI plus one third). Pensions which commenced on or after 1 June 1990 were indexed by 0.19 percent (CPI).

In April 2017, the adjustment to pensions was based on the percentage variation between the Consumer Price Index for Adelaide (CPI) for the December quarter of 2016 and the CPI for the June quarter of 2016. The percentage variation in the CPI for the period was 1.12 percent.

In April 2017, pensions which commenced prior to 1 June 1990 were indexed by 1.49 percent (CPI plus one third). Pensions which commenced on or after 1 June 1990 were indexed by 1.12 percent (CPI).

Employer Contribution

All benefit payments to members are met from a Special Deposit Account which is then reimbursed in accordance with the prescribed Employer and Fund proportions.

The Employer contributes a prescribed proportion of all benefits (pensions, pension supplementation and lump sums) paid to members of the Pension Scheme and Lump Sum Scheme divisions of the Fund, except benefits paid upon resignation.

The most recent actuarial review into the Police Superannuation Fund, based on the state of the Fund as at 30 June 2014, was carried out by Mr G Keen, FIAA and Mr B Watson, FIAA of Brett and Watson Pty Ltd. The Actuarial Report as at 30 June 2014 was provided to the Board on 29 June 2015.

During 2016-2017 the Employer's prescribed proportion of benefit payments for members of the Pension Scheme was 78 percent in line with the recommendations of Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd in the Actuarial Report as at 30 June 2014.

The Employer's prescribed proportion of benefits is met from the Police Employer Account. Monies deposited into the Police Employer Account are invested and managed by Funds SA as part of the schemes but these monies do not form part of the Fund.

The Government employer contribution for future service liabilities during 2016-2017 was 20.5 percent.

For the year ended 30 June 2017, \$25.7 million (\$26 million in 2015-2016) was deposited into the Police Employer Account by SAPOL in relation to employer contributions on behalf of members.

Since 30 June 1994 the Government has adopted a policy of fully funding its superannuation liabilities with a target of achieving full funding by 2034. This will require contributions at levels higher than the current employer contributions to meet the accruing liability for current employees. For the year ended 30 June 2017 \$70.1 million (\$63.8 million in 2015-2016) was transferred to the Police Employer Account by the Government in respect of funding its past service superannuation liabilities.

The net investment income derived by Funds SA from investment of the Police Employer Account for the year ended 30 June 2016 amounted to \$124.4 million, compared to \$35.7 million in the previous year.

An amount of \$71.6 million (\$67.5 million in 2015-2016) was paid from the Police Employer Account during 2016-2017 in respect of benefits for members of the Pension Scheme.

As at 30 June 2017 the balance of the Police Employer Account stood at \$1.15 billion. This compares with the total of \$996.2 million as at 30 June 2016.

ACKNOWLEDGMENT

We place on record our appreciation of the services rendered by staff of SAPOL, Funds SA, the Department of Treasury and Finance, the Crown Solicitor and the Auditor-General.



(Graeme Barton)
Presiding Member
Police Superannuation Board

14/09/2017



(Michael Hogg)
Manager
Police Super Office

14/09/2017

THANKS TO BOARD'S SERVICE PROVIDERS

Administrative Services

SAPOL
100 Angas Street
Adelaide SA 5000

Actuarial and Consultancy Services

Department of Treasury and Finance
State Administration Centre
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Auditor

Auditor General
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INDEPENDENT AUDITOR'S REPORT



Government of South Australia
Auditor-General's Department

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**To the Presiding Member
Police Superannuation Board**

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the financial report of the Police Superannuation Scheme for the financial year ended 30 June 2017.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Police Superannuation Scheme as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Financial Position as at 30 June 2017
- an Income Statement for the year ended 30 June 2017
- a Statement of Changes in Member Benefits for the year ended 30 June 2017
- Statement of Changes in Equity for the year ended 30 June 2017
- a Statement of Cash Flows for the year ended 30 June 2017
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Presiding Member of the Police Superannuation Board and the Manager, Police Super.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of my report. I am independent of the Police Superannuation Scheme. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 Code of Ethics for Professional Accountants have been met.

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

Responsibilities of the Manager, Police Super and the members of the Police Superannuation Board for the financial report

The Manager, Police Super is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

The members of the Police Superannuation Board are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

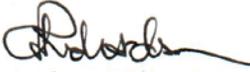
My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an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

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager, Police Super
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Manager, Police Super and the Presiding Member of the Police Superannuation Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.



Andrew Richardson

Auditor-General

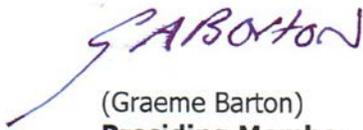
21 September 2017

Certification of the Financial Report for 30 June 2017

We certify that the attached general purpose financial report for the Police Superannuation Scheme:

- complies with any relevant Treasurer's instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards;
- is in accordance with the accounts and records of the Scheme; and
- present a true and fair view of the financial position of the Scheme as at 30 June 2017 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by the Scheme for the financial year over its financial reporting and its preparation of the general purpose financial report have been effective throughout the reporting period.



(Graeme Barton)
Presiding Member
Police Superannuation Board

14/09/2017



(Michael Hogg)
Manager
Police Super

14/09/2017

Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

	Note	2017 \$'000	2016 \$'000
Assets			
Cash and Cash Equivalents		804	984
Contributions Receivable		787	730
Receivables		3	16
Investments			
	9		
Inflation Linked Securities A		71,817	85,038
Property A		254,583	212,576
Australian Equities A		436,411	356,119
International Equities A		441,492	358,466
Fixed Interest		-	40,842
Diversified Strategies – Growth A		196,861	162,391
Diversified Strategies – Income		254,939	231,973
Cash		20,931	35,045
Total Assets		1,678,628	1,484,180
Liabilities			
Benefits Payable		2,181	1,477
Payables		174	141
Total Liabilities Excluding Member Benefits		2,355	1,618
Net Assets Available for Member Benefits		1,676,273	1,482,562
Member benefits			
Defined Benefit Member Liabilities	3	2,153,153	2,089,741
Total net assets / (liabilities)		(476,880)	(607,179)
Equity			
Defined benefits that are over or (under) funded		(476,880)	(607,179)
Total equity		(476,880)	(607,179)

Income Statement for the year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Superannuation activities			
Changes in assets measured at fair value		197,366	66,255
Other revenue		24	24
Total revenue		197,390	66,279
Investment Expense	6	12,738	10,075
Administrative Expense	6	706	720
Total Expenses		13,444	10,795
Profit from superannuation activities		183,946	55,484
Net change in defined benefit member liabilities		(53,647)	(75,739)
Net profit/(loss)		130,299	(20,255)

Statement of Changes in Member Benefits for the year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Opening balance as at 1 July		2,089,741	2,004,564
Contribution revenue			
Past service liability contributions	12	70,100	63,800
Employer contributions		25,715	26,039
Member contributions		5,699	6,152
Government co-contributions		1	2
Total		101,515	95,993
Benefits paid			
Pensions	15	(74,153)	(69,757)
Commutation lump sums		(8,902)	(8,744)
Lump sums		(8,694)	(8,052)
Government co-contributions		(1)	(2)
Total		(91,750)	(86,555)
Net change in defined benefits		53,647	75,739
Closing balance as at 30 June		2,153,153	2,089,741

Statement of Cash Flows for the year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Cash flows from operating activities			
Bank interest received		23	25
Administration expenses		(673)	(722)
Net inflows of cash from operating activities		(650)	(697)
Cash flows from investing activities			
Receipts from the sale of investments from Funds SA		60,145	55,493
Payments to Funds SA for the purchase of investments		(70,100)	(64,218)
Net outflows from investing activities		(9,955)	(8,725)
Cash flows from financing activities			
Contributions from past service liability	12	70,100	63,800
Contributions from employer		25,669	25,917
Contributions from members		5,688	6,124
Government co-contributions		1	2
Benefits paid to members			
Pensions		(74,035)	(69,337)
Commutation lump sums		(8,902)	(8,744)
Lump sums		(8,095)	(7,973)
Government co-contributions		(1)	(2)
Net inflows from financing activities		10,425	9,787
Net increase in cash		(180)	365
Cash at the beginning of the financial period		984	619
Cash at the end of the financial period	10	804	984

Statement of Changes in Equity for the year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Opening balance as at 1 July	3	(607,179)	(586,924)
Net profit/(loss)		130,299	(20,255)
Closing balance as at 30 June	3	(476,880)	(607,179)

Notes to and Forming Part of the Financial Statements

1. Objectives and Funding

(a) Police Superannuation Scheme

The Police Superannuation Scheme (the Scheme) was created pursuant to the *Police Superannuation Act 1990* (the Act). The Act provides defined superannuation benefits for Police Officers who are contributors to the Scheme.

Contributors to the Scheme are members of the Pension Division who are entitled to a pension based benefit. The Pension Division was closed to new members in May 1990.

Pursuant to the Act, contributors make contributions to the Scheme based on a percentage of their salary, with the standard contribution rate being between five and six percent. A contribution account is maintained for each contributor. There are no provisions under the Act for contributing members to purchase additional benefits.

The Act requires that contributions to the Scheme are paid to the Treasurer, who in turn deposits those contributions into the Scheme. The Scheme is managed and invested by the Superannuation Funds Management Corporation of South Australia (Funds SA).

The Scheme is made up of one division, being the Pension Division. The Pension Division consists of the Fund Old Scheme Account (the Fund) and the Police Employer Account and contributions paid to each account and the accretions arising from the investment of those contributions.

(b) Police Superannuation Board

The Police Superannuation Board (the Board), established under the Act, is responsible for the administration of the Scheme. The Act also provides the Board with the necessary powers to administer the Scheme. The Board, with the approval of the relevant Minister, has contracted the South Australia Police Department (SAPOL) to provide administrative services.

Pursuant to the Act, the Board is required to determine a rate of return which is credited to each contribution account within the Fund at the end of the financial year. In determining the rate to be applied, the Act requires that the Board have regard to the net rate of return achieved by the investment of the Fund.

(c) Superannuation Funds Management Corporation of South Australia

Funds SA is established under the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Funds SA Act). Funds SA is responsible for the investment and management of the Scheme's funds pursuant to strategies formulated by Funds SA.

For further information on the investment of the Fund and the Police Employer Account, reference should be made to the financial report of Funds SA. The investment assets, liabilities, income and expense contained in these financial statements are related to the investment activities of Funds SA, an SA Government entity.

(d) Funding Arrangements

Pursuant to section 14 of the Act, all benefit payments are met from the Consolidated Account or a Special Deposit Account established for that purpose which is then reimbursed from the Fund and the Police Employer Account within the Pension Division. The Fund proportion is that amount charged against the contributor's contribution account. The prescribed proportion is determined by the Board, in accordance with section 14(3) of the Act, taking into account the most recent actuarial review.

The Treasurer may also seek reimbursement of the employer portion of the benefit payment from the employer contributions made by SAPOL which are deposited into the Police Employer Account. Employer contributions are based on a percentage of salary at rates based on actuarial valuations. The rate for 2016-2017 was 20.5 percent.

For 2016-2017 the Police Employer Account's and the Fund's prescribed proportions of benefit payments for members of the Scheme were 78 percent and 22 percent respectively in accordance with the recommendations of Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd in the Actuarial Report as at 30 June 2014.

For the year ended 30 June 2017 \$25.7 million (\$26 million in 2015-2016) was deposited into the Police Employer Account in relation to employer contributions on behalf of members.

Since 30 June 1994 the Government adopted a policy of fully funding its superannuation liabilities with a target of achieving full funding by 2034. This will require contributions at levels higher than the current employer contributions to meet the accruing liability for current employees. For the year ended 30 June 2017 the Government transferred a further \$70.1 million (\$63.8 million in 2015-2016) to the Police Employer Account to meet liabilities in respect of the Scheme.

2. Significant Accounting Policies

(a) Basis of Accounting

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the Public Finance and Audit Act 1987, except as provided below.

This financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The financial report is presented in Australian currency and all amounts have been rounded to the nearest thousand dollars (\$'000).

The financial statements were approved by the Board on XX September 2017.

(b) Adoption of AASB 1056

The Board adopted AASB 1056 Superannuation Entities (AASB 1056), applicable for annual reporting periods beginning on or after 1 July 2016.

The adoption of AASB 1056 has resulted in:

- Changes to the presentation format of the financial statements;
- Changes to the measurement of assets and liabilities from 'net market value' to 'fair value' and excluding member liabilities;
- Additional disclosure requirements for assets and liabilities held at fair value as required by AASB 13 Fair Value Measurement;
- Member benefits recognised as liabilities rather than equity;
- Contributions and benefits paid to members are not in the nature of income or expenses, and are presented in the statement of changes in member benefits,

In accordance with the transitional provisions of AASB 1056, the Fund has applied the new accounting Standard retrospectively from the start of the comparative period.

The adoption of AASB 1056 had the following impact on the statement of financial position at the transition date of 1 July 2016 for the year ended 30 June 2016:

Description	As previously reported as at 30 June 2016 \$000	Transition adjustment \$000	Restated balance as at 30 June 2016 \$000
Impact of AASB1056 on statement of financial position			
Investments			
Change in measurement from net market value to fair value			
Australian equities	354,906	1,213	356,119
International equities	356,948	1,518	358,466
Subtotal	711 854	2,731	714,585
Member benefits			
Member benefits recognised as liabilities rather than equity:			
Defined benefit member liabilities		(2,089,741)	(2,089,741)
Equity			
Member Benefits recognised as liabilities rather than equity:			
Member Benefits	(2,089,741)	2,089,741	
<i>Impact of AASB1056 on income statement</i>			
Profit before income tax previously reported	62,191		62,191
Change in measurement from net market value to fair value:			
Changes in assets measured at fair value		2,731	2,731
Contributions and benefits paid to members are transferred to the statement of changes in member benefits:			
Contributions		(95,993)	(95,993)
Benefits paid to members/beneficiaries		86,555	86,555
Operating activities	62,191	(6,707)	55,484
Benefits allocated to members accounts		(75,739)	(75,739)
Net profit/(loss)	62,191	(82,446)	(20,255)

(c) New Accounting Standards and Interpretations

The Board applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 July 2016. The nature of each new standard or amendment (or both) is described below. Apart from AASB 1056, the adoption of these standards and amendments has not had any significant financial impact on the financial statements.

Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Scheme for the annual reporting period ended 30 June 2017. The impact of these standards and interpretations has been assessed and to the extent applicable to the Scheme are outlined in the table below. Standards and Interpretations that are not expected to have a material impact on the Scheme have not been included.

Ref	Title	Application date	Impact on Fund financial report
AASB 2016-1	Amendments to Australia Accounting Standards – recognition of deferred tax assets for unrealised losses	1 July 2017	No significant impact
AASB 2016-2	Amendments to Australia Accounting Standards – disclosure initiative – amendments to AASB107	1 July 2017	No significant impact
AASB 2017-2	Amendments to Australia Accounting Standards – further annual improvements 2014-2016 cycle	1 July 2017	No significant impact
AASB 9 and relevant amending standards	Financial Instruments	1 July 2018	No significant impact

(d) Financial Assets and Liabilities

(a) Classification

The Scheme classifies its financial assets and financial liabilities into the categories below in accordance with AASB 139.

Financial assets and liabilities held for trading:

These assets are acquired principally for the purpose of generating a profit from short-term fluctuation in price. All derivatives are classified as held for trading. Derivative financial instruments entered into, if any, by the Scheme do not meet the hedge accounting criteria as defined by AASB 139. Consequently, hedge accounting is not applied by the Scheme.

Financial instruments designated at fair value through profit or loss upon initial recognition:

These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with risk management and investment strategies of the Fund.

Other financial liabilities

This category includes all financial liabilities, other than those classified at fair value through profit or loss. Other financial liabilities are measured at their nominal amounts. Amounts are generally settled within 30 days of being recognised as other financial liabilities. Given the short-term nature of other financial liabilities, the nominal amount approximates fair value.

(a) Recognition

The Scheme recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Scheme commits to purchase or sell the asset.

(b) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- i. The rights to receive cash flows from the asset have expired; or
- ii. The Scheme has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- iii. Either:
 - a) the Scheme has transferred substantially all the risks and rewards of the asset, or
 - b) the Scheme has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

(c) Initial recognition

Financial assets and financial liabilities at fair value through profit and loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in the income statement.

Receivables and financial liabilities (other than those classified at fair value through profit or loss) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

For financial assets and liabilities where the fair value at initial recognition does not equal the transaction price, the Scheme recognises the difference in the income statement, unless specified otherwise.

(d) Subsequent Measurement

After initial measurement, the Scheme measures investments at fair value through profit or loss. Subsequent changes in the fair value of those investments are recorded as 'changes in assets measured at fair value' through the income statement. Interest earned is recorded in 'Interest revenue'.

(e) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Scheme.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Scheme uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. Refer to Note 8 and Note 9.

(f) Cash and Cash Equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

(g) Receivables and Payables

Receivables are carried at nominal amounts due that approximate fair value. Receivables are normally settled within 30 days. An allowance for uncollectible amounts is only made where there is objective evidence that the debt will not be collected. Objective evidence may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Payables are carried at nominal amounts that approximate fair value. They represent liabilities for goods and services provided to the Scheme prior to the end of the financial year that are unpaid when the Scheme becomes obliged to make future payments in respect of the purchase of these goods or services.

(h) Benefits Payable

Benefits payable are valued at fair value and relate to members who have ceased employment and provided the Scheme with appropriate notification on or prior to 30 June 2017 but paid after 30 June 2017. These also include pension payments payable on or prior to 30 June 2017 but paid after 30 June 2017.

(i) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Scheme and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised:

Changes in fair values

Changes in the fair value of investments invested with Funds SA are calculated as the difference between the fair value at sale, or at balance date, and the fair value at the previous valuation point. All changes are recognised in the income statement.

Interest

Interest revenue on cash and other financial assets carried at fair value is recorded according to the terms of the contract and recognised in the income statement.

(j) Taxation

The Scheme is a constitutionally protected superannuation fund in terms of Section 295-15 of the Income Tax Assessment Act 1997, Regulation 995-1.04 (Schedule 4) and is exempt from income tax. Therefore, no income tax has been brought to account in this financial report.

(k) Goods and Services Tax (GST)

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

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable; or
- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the ATO are classified as operating cash flows.

(l) Foreign Currency

The functional and presentation currency of the Scheme is Australian Dollars, which is the currency of the primary economic environment the Scheme operates. The Scheme's performance is evaluated and its liquidity managed in Australian Dollars. Therefore, the Australian Dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

(m) Investments

(i) Inflation Linked Securities A

The Inflation Linked Securities A portfolio comprises two sub-sectors:

Externally Managed Inflation Linked Securities

Externally managed inflation linked securities are invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

Internally Managed Inflation Linked Securities

Internally managed inflation linked securities, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at the balance date was performed by an independent valuer.

(ii) Property A

The Property A portfolio comprises two sub-sectors:

Listed property trusts

The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

Unlisted property vehicles

The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this sub-sector have been valued in accordance with the valuations supplied by the managers.

(iii) Australian Equities A

The Australian Equities A portfolio comprises investments in listed Australian equities, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date.

(iv) International Equities A

The International Equities A portfolio comprises investments in equities listed on international share markets and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(v) Fixed Interest

The Long Term and Short Term Fixed Interest portfolios are invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vi) Diversified Strategies - Growth A

The Diversified Strategies - Growth A portfolio comprises investments in domestic (Australian) and overseas private equity funds and domestic (Australian) and overseas pooled funds, which are invested and managed by external managers. Valuations of private equity funds are based on the most recently available valuations by the relevant managers.

Both domestic and international funds valuations are generally in accordance with the International Private Equity Venture Capital Valuation Guidelines (December 2012). Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(vii) Diversified Strategies - Income

The Diversified Strategies - Income portfolio comprises investments in both domestic (Australian) and overseas pooled funds, and is invested and managed by external managers. Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(viii) Cash

Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers. Deposits at call have been valued on the basis of principal plus accrued interest.

(n) Operation of Investment Portfolio

Funds SA is responsible for the investment and management of the Scheme's funds pursuant to strategies formulated by Funds SA (refer Note 1 (c)). Funds SA operates a multi-layered notional unitisation structure to facilitate the administration of different investment strategies applying to the various public sector superannuation funds. For the year ending 30 June 2017, funds of the Scheme were invested in the Defined Benefit option.

Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to the Defined Benefit investment option discussed in the preceding paragraph.

(o) Member Liabilities

Member liabilities are measured at the amount of accrued benefits, with defined benefit member liabilities measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due.

(p) Significant accounting judgements, estimates and assumptions

The preparation of the Scheme's financial statements requires management to make judgments, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The significant accounting policies have been consistently applied in the current financial year and the comparative period, unless otherwise stated. Where necessary, comparative information has been represented to be consistent with current period disclosures.

Fair Value of Investments

When the fair values of the investments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including a discounted cash flow model (DCF model). The inputs in these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to establish fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Changes in assumptions about these factors could affect the reported fair value of these investments.

Valuation of defined benefits member liabilities

The amount of member liabilities in relation to defined benefits has been determined using actuarial valuation techniques and assumptions. An actuarial valuation involves making various assumptions about the future. Actual developments in the future may differ from these assumptions. The assumptions member turnover, future investment returns, pension indexation rates, mortality rates and future salary increases. Due to the complexities involved in the valuation and its long term nature, defined benefit member liabilities are highly sensitive to changes in these assumptions. Assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the actuary considers an investment portfolio that reflects the opportunities reasonably available to the Scheme in the investment markets, and also reflects the Scheme's actual investments and investment strategy in respect of defined benefit member liabilities.

The mortality assumption is based on publicly available mortality tables. Future salary increases are based on the Wage Price Index produced by the Australian Bureau of Statistics and in consultation with the employer-sponsors.

3. Liability for Accrued Benefits

The present value of the accrued benefit liabilities of the Scheme has been determined by Mr G Keen, FIAA of Brett & Watson Pty Ltd and is shown below.

The accrued benefit liabilities are the present values of expected future benefit payments arising from membership of the Scheme up to 30 June 2017 and were based on membership data as at 30 June 2017.

The expected future benefit payments have been determined using the 2014 triennial review assumptions relating to mortality, disability, withdrawal, preservation, and retirement. The review's salary promotion scale has also been used, while general salary increases of 1.5 percent per annum above the level of increase in the Consumer Price Index (CPI) have been allowed for. The expected future benefit payments have then been discounted to present values by a market-based, risk-adjusted discount rate. A discount rate of 4.5 percent per annum above CPI has been applied.

Accrued Benefits	2017	2016
	\$'000	\$'000
	Pension Division	Pension Division
Changes in the liability for accrued benefits:		
Liability for accrued benefits at 1 July	2,089,741	2,004,564
Add: Contributions revenue	101,515	95,993
Less: Benefits Paid	91,750	86,555
Add: Benefits Expense	53,647	75,739
Liability for accrued benefits at 30 June	2,153,153	2,089,741
Represented by		
Fund Old Scheme Account	474,477	460,799
Police Employer Account	1,678,676	1,628,942
Totals	2,153,153	2,089,741

Pursuant to the Act, actuarial reviews of the Scheme must be conducted every three years to address the cost of the Scheme to Government and the proportion of future benefits that can be met from the Fund. The actuarial reviews take account of assets held, future contributions to be received from members and future benefits to be paid by the Fund. In contrast, the purpose of the accrued liability calculations, which are made annually, is to estimate the value of future payments that can be attributed to service up to the date of the calculation.

Sensitivity Analysis			
Scenario	Result \$m	Change \$m	Change %
Base Case	2,153		
Discount Rate Plus 0.5%	2,026	(127)	-5.9%
Discount Rate Less 0.5%	2,294	141	6.5%
Salary Increase Rate Plus 0.5%	2,185	32	1.5%
Salary Increase Rate Less 0.5%	2,123	(31)	-1.4%
Pension Increase Rate Plus 0.5%	2,269	116	5.4%
Pension Increase Rate Less 0.5%	2,047	(106)	-4.9%
Mortality Rate Plus 10%	2,127	(26)	-1.2%
Mortality Rate Less 10%	2,181	28	1.3%

During 2016-2017 the funding proportion for the Fund Old Scheme Account was 22 percent and the Government contribution for future service liabilities for 2016-2017 was 20.5 percent.

The following table illustrates the unfunded liability of the Scheme as at 30 June 2017 and the previous year.

Unfunded Liability	2017	2016
	\$'000	\$'000
	Pension Division	Pension Division
Liability for accrued benefits at 30 June	2,153,153	2,089,741
Less net assets available to pay benefits at 30 June	1,676,273	1,482,562
Unfunded liability at 30 June	476,880	607,179
Represented by		
Fund Old Scheme Account	(55,203)	(22,767)
Police Employer Account	532,083	629,946
Totals	476,880	607,179

The Government adopted a policy on 30 June 1994 of fully funding its superannuation liabilities with a target of achieving full funding by 2034. To achieve its funding target the Government transfers an amount of past service liability contributions each year to the Scheme in addition to the current employer contributions paid by SAPOL.

4. Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of the Scheme and include benefits which members would be entitled to receive on termination of membership of the Scheme.

When members resign from the Scheme, they have two options. Firstly, they can elect to take cash refunds of their own contributions, accumulated with interest, together with preserved employer benefits as required by Commonwealth Superannuation Guarantee legislation. Alternatively, they can elect to take fully vested, preserved benefits which will be based on their full accrued entitlements at the date of resignation and will be increased during preservation in line with increases in the CPI.

The vested benefits shown below have been determined by Mr G Keen, FIAA and Mr L Brett, FIAA of Brett & Watson Pty Ltd based on the assumption that all resignation benefits will be taken in the form of fully preserved benefits. The value of vested benefits has then been calculated using the same actuarial and economic assumptions as for the calculation of accrued benefits.

Vested Liabilities	2017	2016
	\$'000	\$'000
	Pension	Pension
	Division	Division
Fund Old Scheme Account	500,981	485,537
Police Employer Account	1,772,182	1,715,997
Totals	2,273,163	2,201,534

5. Guaranteed Benefits

The following guaranteed superannuation benefits are payable to contributors of the Scheme and are set out in the Act:

- Age retirement lump sum (age 50 to 55).
- Age retirement pension with commutation lump sum option (age 55 and over).
- Age retirement lump sum (age 55 and over).
- Total and permanent incapacity (under age 60), based on contributors age 60 age retirement pension benefit.
- Death benefit pension payable to a surviving eligible spouse (lawful, de facto or same sex) with commutation lump sum option.
- Death benefit pension payable to an eligible child (under age 16 or aged between 17 and 25).

- Death benefit lump sum payable to deceased contributors' estate if not survived by an eligible spouse or child.

6. Administration and Direct Investment Expenses

Administration expenses incurred by the Board are financed from the Fund Old Scheme Account and the Police Employer Account in the prescribed proportions of 30 and 70 percent respectively, in accordance with section 10(7) of the Act.

Administration expenses incurred by the Scheme for 2016-2017 amounted to \$706,000 (\$720,000 in 2015-2016) of which the Fund's proportion was \$213,000 (\$218,000 in 2015-2016) and the Employer's proportion was \$493,000 (\$502,000 in 2015-2016). Of the \$706,000, \$610,000 (\$591,000 in 2015-2016) was paid to SA Government entities.

The direct investment expenses comprise fees paid to Funds SA. Funds SA advises the amount based on the Scheme's proportionate investment. The fees paid to Funds SA during 2016-2017 are shown below.

	Fund Old Scheme Account 2017 \$'000	Police Employer Account 2017 \$'000	Total 2017 \$'000	Fund Old Scheme Account 2016 \$'000	Police Employer Account 2016 \$'000	Total 2016 \$'000
Direct investment expenses	4,110	8,628	12,738	3,328	6,747	10,075

7. Remuneration of Board Members

The following are members of the Board who served during 2016-2017, along with the period served.

Board member	Period Served during 2016-2017		
Graeme Barton	01/07/2016	to	30/06/2017
Keryl Howie*	01/07/2016	to	30/06/2017
Ferdi Pit	01/07/2016	to	30/06/2017
Bernadette Zimmermann*	01/07/2016	to	30/06/2017
Thomas Scheffler*	01/07/2016	to	30/06/2017
Deputy member	Period Served during 2016-2017		
Garry Powell*	01/07/2016	to	30/06/2017
Julie Thomas*	01/07/2016	to	30/06/2017
Neil Smith	01/07/2016	to	30/06/2017
Samantha Strange*	01/07/2016	to	30/06/2017
Trevor Milne*	01/07/2016	to	30/06/2017

Board and Deputy members remuneration is set according to State Government guidelines for Statutory Authorities.

* In accordance with the Department of the Premier and Cabinet Circular No. 16, Board and Deputy members who are government employees do not receive remuneration for their board membership. Board and Deputy members who are contributors of the Scheme contribute on the same terms as other contributors.

Total remuneration received or due and receivable by Board and Deputy members of the Board in 2016-2017 was \$9,000 (\$9,000 in 2015-2016). Total remuneration included superannuation of \$600 (\$600 in 2015-2016).

The number of Board and Deputy members whose remuneration was within the following bands is as follows:

Total Remuneration	Number of Board and Deputy Members	
	2017	2016
\$1 - \$10,000	3	3

8. Related Parties

Related parties of the Police Superannuation Scheme include all key management personnel and their close family members, all Cabinet Ministers and their close family members and all public authorities that are controlled and consolidated into the whole of government financial statements and other interests of the Government.

Key management personnel

The key management personnel of the Police Superannuation Board include the Minister for Finance and the governing board members who have responsibility for the strategic direction and management of the Police Superannuation Board.

Compensation	2017
Salaries and other short-term employee benefits	\$9,000
Other long-term employee benefits	\$600
Total	\$9,600

There were no transactions requiring disclosure for key management personnel or related parties.

Transactions with other government entities

There were no significant transactions with government entities other than those disclosed elsewhere in the financial statements.

9. Remuneration of Auditors

Audit fees paid/payable to the Auditor-General's Department relating to work performed under the PFAA were \$23,000 (\$22,000 in 2015-2016). No other services were provided by the Auditor-General's Department.

9. Summary of Investment Holdings

	Fund Old Scheme Account 2017 \$'000	Police Employer Account 2017 \$'000	Total 2017 \$'000	Fund Old Scheme Account 2016 \$'000	Police Employer Account 2016 \$'000	Total 2016 \$'000
Investments						
Inflation Linked Securities A	22,692	49,125	71,817	27,803	57,235	85,038
Property A	80,441	174,142	254,583	69,501	143,075	212,576
Australian Equities A	137,893	298,518	436,411	116,432	239,687	356,119
International Equities A	139,499	301,993	441,492	117,199	241,267	358,466
Fixed Interest	-	-	-	13,353	27,489	40,842
Diversified Strategies – Growth A	62,202	134,659	196,861	53,093	109,298	162,391
Diversified Strategies – Income	80,553	174,386	254,939	75,843	156,130	231,973
Cash	6,614	14,317	20,931	11,458	23,587	35,045
Total Investments	529,894	1,147,140	1,677,034	484,682	997,768	1,482,450

10. Statement of Financial Position

Balances for each division are summarised below:

	Fund Old Scheme Account 2017 \$'000	Police Employer Account 2017 \$'000	Total 2017 \$'000	Fund Old Scheme Account 2016 \$'000	Police Employer Account 2016 \$'000	Total 2016 \$'000
Assets						
Cash and Cash Equivalents	174	630	804	111	873	984
Contributions receivable	143	644	787	133	597	730
Receivables	1	2	3	4	12	16
Inflation Linked Securities A	22,692	49,125	71,817	27,803	57,235	85,038
Property A	80,441	174,142	254,583	69,501	143,075	212,576
Australian Equities A	137,893	298,518	436,411	116,432	239,687	356,119
International Equities A	139,499	301,993	441,492	117,199	241,267	358,466
Fixed Interest	-	-	-	13,353	27,489	40,842
Diversified Strategies – Growth A	62,202	134,659	196,861	53,093	109,298	162,391
Diversified Strategies – Income	80,553	174,386	254,939	75,843	156,130	231,973
Cash	6,614	14,317	20,931	11,458	23,587	35,045
Total Assets	530,212	1,148,416	1,678,628	484,930	999,250	1,484,180
Liabilities						
Benefits Payable	(480)	(1,701)	(2,181)	(325)	(1,152)	(1,477)
Payables	(52)	(122)	(174)	(43)	(98)	(141)
Total Liabilities Excluding Member Benefits	(532)	(1,823)	(2,355)	(368)	(1,250)	(1,618)
Net Assets Available for Member Benefits	529,680	1,146,593	1,676,273	484,562	998,000	1,482,562
Member Benefits						
Defined Benefit Member Liabilities	(474,477)	(1,678,676)	(2,153,153)	(460,799)	(1,628,942)	(2,089,741)
Total Net Assets / (Liabilities)	55,203	(532,083)	(476,880)	23,763	(630,942)	(607,179)
Equity						
Defined benefits that are (over) or under funded	55,203	(532,083)	(476,880)	23,763	(630,942)	(607,179)
Total Equity	55,203	(532,083)	(476,880)	23,763	(630,942)	(607,179)

11. Income Statement

Transactions for each division are summarised below:

	Fund Old Scheme Account 2017 \$'000	Police Employer Account 2017 \$'000	Total 2017 \$'000	Fund Old Scheme Account 2016 \$'000	Police Employer Account 2016 \$'000	Total 2016 \$'000
Superannuation activities						
Changes in assets measured in fair value	63,921	133,445	197,366	21,985	44,270	66,255
Other revenue	6	18	24	5	19	24
Total revenue	63,927	133,463	197,390	21,990	44,289	66,279
Investment expense	(4,110)	(8,628)	(12,738)	(3,328)	(6,747)	(10,075)
Administrative expense	(213)	(493)	(706)	(218)	(502)	(720)
Total expenses	(4,323)	(9,121)	(13,444)	(3,546)	(7,249)	(10,795)
Profit from superannuation activities	59,604	124,342	183,946	18,444	37,040	55,484
Net change in defined benefits	(28,164)	(25,483)	(53,647)	(31,607)	(44,132)	(75,739)
Net profit/(loss)	31,440	98,859	130,299	(13,163)	(7,092)	(20,255)

12. Statement of Changes in Member Benefits

Transactions for each division are summarised below:

	Fund Old Scheme Account 2017 \$'000	Police Employer Account 2017 \$'000	Total 2017 \$'000	Fund Old Scheme Account 2016 \$'000	Police Employer Account 2016 \$'000	Total 2016 \$'000
Opening Balance as at 1 July	460,799	1,628,942	2,089,741	442,034	1,562,530	2,004,564
Contribution revenue						
Past service liability	-	70,100	70,100	-	63,800	63,800
Employer contributions	-	25,715	25,715	-	26,039	26,039
Member contributions	5,699	-	5,699	6,152	-	6,152
Government co-contributions	-	1	1	-	2	2
Total	5,699	95,816	101,515	6,152	89,841	95,993
Benefits paid						
Pensions	(16,314)	(57,839)	(74,153)	(15,298)	(54,459)	(69,757)
Commutation lump sums	(1,958)	(6,944)	(8,902)	(1,924)	(6,820)	(8,744)
Lump sums	(1,913)	(6,781)	(8,694)	(1,772)	(6,280)	(8,052)
Government co-contributions	-	(1)	(1)	-	(2)	(2)
Total	(20,185)	(71,565)	(91,750)	(18,994)	(67,561)	(86,555)
Net change in defined benefits	28,164	25,483	53,647	31,607	44,132	75,739
Closing balance as at 30 June	474,477	1,678,676	2,153,153	460,799	1,628,942	2,089,741

13. Statement of Cash Flows

Transactions for each division are summarised below:

	Fund Old Scheme Account 2017 \$'000	Police Employer Account 2017 \$'000	Total 2017 \$'000	Fund Old Scheme Account 2016 \$'000	Police Employer Account 2016 \$'000	Total 2016 \$'000
Cash flows from operating activities						
Bank interest	5	18	23	5	20	25
Administration expenses	(203)	(470)	(673)	(218)	(504)	(722)
Net inflows of cash from operating activities	(198)	(452)	(650)	(213)	(484)	(697)
Cash flows from investing activities						
Receipts from sale of investments from Funds SA	14,600	45,545	60,145	13,153	42,340	55,493
Payments to Funds SA for the purchase of investments	-	(70,100)	(70,100)	(209)	(64,009)	(64,218)
Net outflows of from investing activities	14,600	(24,555)	(9,955)	12,944	(21,669)	(8,725)
Cash flows from financing activities						
Contributions from past service liability	-	70,100	70,100	-	63,800	63,800
Contributions from employer	-	25,669	25,669	-	25,917	25,917
Contributions from members	5,688	-	5,688	6,124	-	6,124
Government co-contributions	-	1	1	-	2	2
Benefits paid to members						
Pensions	(16,288)	(57,747)	(74,035)	(15,178)	(54,159)	(69,337)
Commutation lump sums	(1,958)	(6,944)	(8,902)	(1,924)	(6,820)	(8,744)
Lump sums	(1,781)	(6,314)	(8,095)	(1,754)	(6,219)	(7,973)
Government co-contributions	-	(1)	(1)	-	(2)	(2)
Net inflows of cash from financing activities	(14,339)	24,764	10,425	(12,732)	22,519	9,787
Net increase in cash	63	(243)	(180)	(1)	366	365
Cash at the beginning of the financial period	111	873	984	111	508	619
Cash at the end of the financial period	174	630	804	110	874	984

14. Statement of Changes in Equity for the year ended 30 June 2017

	Fund Old Scheme Account 2017 \$'000	Police Employer Account 2017 \$'000	Total 2017 \$'000	Fund Old Scheme Account 2016 \$'000	Police Employer Account 2016 \$'000	Total 2016 \$'000
Opening Balance as at 1 July	23,763	(630,942)	(607,179)	36,926	(623,850)	(586,924)
Net profit/(loss)	31,440	98,859	130,299	(13,163)	(7,092)	(20,255)
Closing balance as at 30 June	55,203	(532,083)	(476,880)	23,763	(630,942)	(607,179)

15. Benefits Paid

All benefit payments were met in the first instance from the Special Deposit Account. The Treasurer, in turn, recouped the value of the employee share of benefits paid from the Fund and the employer share from the Police Employer Account.

	Pension Division 2017 \$'000	Pension Division 2016 \$'000
PENSIONS		
Funded from:		
Fund Old Scheme Account	16,314	15,298
Police Employer Account	57,839	54,459
Gross Scheme Costs	74,153	69,757
COMMUTATION LUMP SUMS		
Funded from:		
Fund Old Scheme Account	1,958	1,924
Police Employer Account	6,944	6,820
Gross Scheme Costs	8,902	8,744
LUMP SUMS		
Funded from:		
Fund Old Scheme Account	1,913	1,772
Police Employer Account	6,781	6,280
Gross Scheme Costs	8,694	8,052
GOVERNMENT CO-CONTRIBUTIONS		
Funded from:		
Police Employer Account	1	2
Gross Scheme Costs	1	2
TOTAL BENEFITS PAID		
Funded from:		
Fund Old Scheme Account	20,185	18,994
Police Employer Account	71,565	67,561
Gross Scheme Costs	91,750	86,555

16. Financial Instruments

The Scheme's investments are managed by Funds SA predominantly by the appointment of investment managers as determined by the Funds SA Board. Each investment manager is required to invest the assets in accordance with the terms of a written mandate. The Funds SA Board has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with the Scheme's investment strategy. The Funds SA Board obtains regular reports from each manager on the nature of the investments made on its behalf and the associated risks.

The allocation of assets between the various types of financial instruments is determined by the Funds SA Board. Divergence from target asset allocations and the composition of the portfolio is monitored by the Funds SA Board on a regular basis.

The Scheme's investing activities expose it to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk.

The nature and extent of the financial instruments employed by the Scheme are discussed below. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Funds SA Board has overall responsibility for the establishment and oversight of the Scheme's investment risk management framework.

The Scheme's investment risk management policies are established to identify and analyse the risks faced by the Scheme, including those risks managed by the Scheme's investment managers, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Scheme's activities.

The Police Superannuation Board receives regular reports from Funds SA concerning compliance with the Scheme's investment objectives.

a) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Scheme's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

I. Currency Risk

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

The Scheme's currency risk is managed by Funds SA as investments include assets denominated in foreign currencies.

Funds SA strategic policy for the management of its foreign currency exposure is as follows:

- Foreign currency exposures in the diversified strategies (growth), diversified strategies (income), fixed interest and inflation linked securities asset sectors are fully hedged to Australian dollars.
- Foreign currency exposures over the developed markets component of the international equities asset class are 50% hedged to Australian dollars.

For the purpose of managing foreign currency risk, within defined constraints, the exposure to foreign currency can be varied from the strategic policy stated above, by Funds SA.

II. Interest Rate Risk

Interest rate risk is the risk that a movement in interest rates will cause the value of fixed interest securities to deviate from expectations.

The Scheme's interest rate risk is managed by Funds SA, as investments include fixed interest securities.

Funds SA manages interest rate risk through:

- Ensuring asset allocations of different investment products are consistent with the time horizon of each.
- The use of specialist external investment managers to manage Funds SA's cash and fixed income portfolios.
- The Scheme's receivables and payables are non-interest bearing. The carrying amounts of these assets approximate to fair value.
-

III. Other Market Price Risk

Other market price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the Scheme's financial instruments are valued at net market value (fair value) with changes in net market value recognised in the Income Statement, all changes in market conditions will directly affect investment revenue.

The Scheme's other market price risk is managed by Funds SA as investments include financial instruments exposed to market prices.

Funds SA manages the risk of financial market volatility through the adherence to two principles:

- Ensuring a diversity of exposures to different financial markets and sub markets.
- Ensuring asset allocations for different investment products are consistent with the time horizon of each.

IV. Investments sensitivity analysis

The Funds SA Board has determined that its forecast risk/return profile provides a reasonable measure of the sensitivity of the expected returns in each investment asset class. The following tables show the market risk around expected average returns for each asset class.

2017

Investment asset class	Average Return	Market Risk	Potential impact of market risk (+/-) on Income Statement
	%	%	+/- \$000
Cash	3.2	1.3	364
Inflation Linked Securities A	3.3	4.0	3 137
Property A	7.9	11.1	25 927
Australian Equities A	8.7	19.7	78 064
International Equities A	9.5	16.7	66 796
Long Term Fixed Interest	3.3	3.8	776
Diversified Strategies Growth A	9.2	16.3	29 279
Diversified Strategies Income	6.6	6.5	15 825

2016

Investment asset class	Average Return	Market Risk	Potential impact of market risk (+/-) on Income Statement
	%	%	+/- \$000
Cash	2.9	1.6	655
Inflation Linked Securities A	3.0	4.3	4 013
Property A	7.7	11.0	22 930
Australian Equities A	8.4	19.7	68 567
International Equities A	9.1	16.6	59 931
Long Term Fixed Interest	3.3	3.4	1 168
Diversified Strategies Growth A	9.5	16.3	24 489
Diversified Strategies Income	6.6	6.3	13 457

The statistics shown above are averages calculated over 10 years, net of investment management fees and gross of tax. These investment statistics have zero percent tax rate applied and exclude franking credits.

Market risk is a useful historical measure of the variability of returns earned by an investment portfolio. The market risk shown above represents the range at which actual future returns are expected to occur either side of the nominal return approximately two thirds of the time.

The dollar value of the potential impact on the Income Statement arising from the market risk is indicative only. The impacts are not additive across investment asset classes, as each asset class operates in different markets and is subject to different conditions.

Actual movements in returns may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the underlying trusts invest. As a result, historic variations in rates of return are not a definitive indicator of future variations in rates of return.

2017

Investment Option	Sensitivity variable	Standard Deviation	Expected Nominal Return	Change in Investment assets \$'000
Define Benefit	Nominal standard deviation	11.3%	8.4%	189,505
Total				189,505

2016

Investment Option	Sensitivity variable	Standard Deviation	Expected Nominal Return	Change in Investment assets \$'000
Growth	Nominal standard deviation	10.2%	7.7%	151,209
Total				151,209

b) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme.

The net market value of financial assets, included in the Statement of Financial Position represents the Scheme's maximum exposure to credit risk in relation to those assets. The Scheme does not have any significant exposure to any individual counterparty or industry. The credit risk is monitored by Funds SA through ongoing reviews of the investment managers.

The Scheme does not have any assets which are past due or impaired and there is no concentration of credit risk.

c) Liquidity Risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. The Scheme's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its payment of benefits to members and liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation.

For the Scheme's investments, Funds SA manages liquidity risk as follows:

- By giving careful consideration to the expected net cash redemption requirements of Funds SA's clients. The allocation to cash in the strategic asset allocation of each investment product is set at a level sufficient to manage expected cash redemptions.
- A large proportion of each investment product is invested in highly liquid investments such as actively traded equities, unit trusts or securities with short-term maturities.

For the Scheme itself, the liquidity position is monitored on a daily basis. The Scheme's cash and liquidity policy is to have sufficient cash balances to meet anticipated weekly benefit payments, expenses and investing activities.

The following tables summarise the expected maturity profile of the Scheme's financial liabilities based on the earliest date on which the Scheme can be required to pay. The amounts in the table are the contractual undiscounted cash flows.

30 June 2017	Less than 3 months \$'000	Total Contractual Cash Flows \$'000	Carrying Amount Liabilities \$'000
Benefits payable	2,181	2,181	2,181
Payables	174	174	174
Vested benefits ⁽ⁱ⁾	2,273,163	2,273,163	2,273,163
Total	2,275,518	2,275,518	2,275,518

30 June 2016	Less than 3 months \$'000	Total Contractual Cash Flows \$'000	Carrying Amount Liabilities \$'000
Benefits payable	1,477	1,477	1,477
Payables	141	141	141
Vested benefits ⁽ⁱ⁾	2,201,534	2,201,534	2,201,534
Total	2,203,152	2,203,152	2,203,152

⁽ⁱ⁾ Vested benefits have been included in the less than 3 months column, as this is the amount that members could call upon as at balance date. This is the earliest date on which the Scheme can be required to pay members vested benefits, however, members may not necessarily call upon amounts vested to them during this time.

d) Fair Value Estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets at fair value through profit or loss <i>(Level 1 and level 3 are not relevant to the Scheme)</i>	Level 2 \$'000
30 June 2017	
Unlisted managed investment schemes	
Funds SA	<u>1,677,034</u>
	<u>1,677,034</u>
30 June 2016	
Unlisted managed investment schemes	
Funds SA	<u>1,482,450</u>
	<u>1,482,450</u>

e) Derivative financial instruments

Derivatives can be defined as financial contracts whose value depend on, or are derived from, assets, liabilities reference rates or indices. Funds SA uses derivatives to manage portfolio risk and to facilitate the implementation of investment strategies efficiently and cost effectively. Funds SA uses a variety of derivative instruments, such as over the counter swap agreements, forward rate agreements, futures and options.

Derivatives are an authorised investment within certain mandates managed by Funds SA's external investment managers for the purposes described above.