

Police Superannuation Scheme

Financial report
for the year ended
30 June 2018



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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 2018.

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 2018, 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 2018
- an Income Statement for the year ended 30 June 2018
- a Statement of Changes in Member Benefits for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- a Statement of Changes in Equity for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Presiding Member, 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 2018

POLICE

SUPERANNUATION

SCHEME

**Financial Statements
2017/2018**



Police Superannuation Scheme

Certification of the Financial Report for 30 June 2018

We certify that the financial statements of the Police Superannuation Scheme:

- are in accordance with the accounts and records of the authority; and
- comply with the relevant Treasurer's instructions; and
- comply with relevant accounting standards; and
- present a true and fair view of the financial position of the Scheme as at 30 June 2018 and the result of its operations and cash flows for the financial year.

Internal controls employed by the Police Superannuation Scheme over its financial reporting and its preparation of the financial statements have been effective throughout the financial year.



(G A Barton)
Presiding Member
Police Superannuation Board

17/09/2018



(M D Hogg)
Manager
Police Super

17/09/2018

Police Superannuation Scheme

Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

	Note	2018 \$'000	2017 \$'000
Assets			
Cash and Cash Equivalents		446	804
Contributions Receivable		772	787
Receivables		6	3
Investments			
Inflation Linked Securities A		16,670	71,817
Property A		301,127	254,583
Australian Equities A		491,106	436,411
International Equities A		501,446	441,492
Diversified Strategies – Growth A		258,639	196,861
Diversified Strategies – Income		266,637	254,939
Cash		16,851	20,931
Total Assets		<u>1,853,700</u>	<u>1,678,628</u>
Liabilities			
Benefits Payable		(1,913)	(2,181)
Payables		(196)	(174)
Total Liabilities Excluding Member Benefits		<u>(2,109)</u>	<u>(2,355)</u>
Net Assets Available for Member Benefits		1,851,591	1,676,273
Member benefits			
Defined Benefit Member Liabilities	3	<u>2,209,364</u>	<u>2,153,153</u>
Total net assets / (liabilities)		<u>(357,773)</u>	<u>(476,880)</u>
Equity			
Defined benefits that are over or (under) funded	3	<u>(357,773)</u>	<u>(476,880)</u>
Total equity		<u>(357,773)</u>	<u>(476,880)</u>

Police Superannuation Scheme

Income Statement for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Superannuation activities			
Changes in assets measured at fair value		204,898	197,366
Other revenue		21	24
Total revenue		204,919	197,390
Investment Expense	7	(15,886)	(12,738)
Administrative Expense	6	(667)	(706)
Total Expenses		(16,553)	(13,444)
Profit from superannuation activities		188,366	183,946
Net change in defined benefit member liabilities		(69,259)	(53,647)
Net profit/(loss)		119,107	130,299

Statement of Changes in Member Benefits for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Opening balance as at 1 July		2,153,153	2,089,741
Contribution revenue			
Past service liability contributions		59,400	70,100
Employer contributions		23,952	25,715
Member contributions		5,432	5,699
Government co-contributions		-	1
Total		88,784	101,515
Benefits paid			
Pensions		(81,982)	(74,153)
Commutation lump sums		(10,335)	(8,902)
Lump sums		(9,515)	(8,694)
Government co-contributions		-	(1)
Total		(101,832)	(91,750)
Net change in defined benefits		69,259	53,647
Closing balance as at 30 June		2,209,364	2,153,153

Police Superannuation Scheme

Statement of Cash Flows for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Bank interest received		21	23
Administration expenses		(645)	(673)
Net inflows of cash from operating activities		(624)	(650)
Cash flows from investing activities			
Receipts from the sale of investments from Funds SA		72,970	60,145
Payments to Funds SA for the purchase of investments		(59,400)	(70,100)
Net outflows from investing activities		13,570	(9,955)
Cash flows from financing activities			
Contributions from past service liability		59,400	70,100
Contributions from employer		23,967	25,669
Contributions from members		5,432	5,688
Government co-contributions		-	1
Benefits paid to members			
Pensions		(81,576)	(74,033)
Commutation lump sums		(10,336)	(8,902)
Lump sums		(10,191)	(8,095)
Government co-contributions		-	(1)
Net inflows from financing activities		(13,304)	10,427
Net increase in cash		(358)	(180)
Cash at the beginning of the financial period		804	984
Cash at the end of the financial period		446	804

Statement of Changes in Equity for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Opening balance as at 1 July	3	(476,880)	(607,179)
Net operating result		119,107	130,299
Closing balance as at 30 June	3	(357,773)	(476,880)

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, a 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 2017-2018 was 20.5 percent.

For 2017-2018 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 2018 \$23.9 million (\$25.7 million in 2016-2017) was deposited into the Police Employer Account in relation to employer contributions on behalf of members.

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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 2018 the Government transferred a further \$59.4 million (\$70.1 million in 2016-2017) 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 Mr G Barton, Presiding Member and Mr M Hogg, Manager Police Super on 17 September 2018.

(b) New Accounting Standards

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. The assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments (AASB 9)

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is first applicable to the Scheme for the year ending 30 June 2019. The new standard includes a model for classification and measurement, a single, forward looking 'expected loss' impairment model and a substantially-performed approach to hedge accounting.

All of the Scheme's financial assets are currently measured at fair value through profit or loss and will continue to be measured on that basis under AASB 9. The Board has conducted an assessment on behalf of the Scheme and has determined there will be no material impact of the standard on the Scheme's accounting for financial instruments.

AASB 15 Revenue from Contracts with Customers (AASB 15)

The principle of AASB 15 is that revenue is recognised when control of a good or service transfers to a customer, so that the notion of control replaces the existing notion of risks and rewards. AASB 15 is first applicable to the Scheme for the year ending 30 June 2019. The Board has assessed the impact of the new rules on behalf of the Scheme and determined that there will be no material impact on the financial statements.

AASB 16 Leases (AASB 16)

AASB 16 is first applicable for the year ending 30 June 2020. Assets and liabilities will be reported on the balance sheet for all leases with a term of more than 12 months, even if they were previously classified as an operating lease.

The Scheme has no operating leases, and while the Board is in the process of analysing the impact of the new standard on the Scheme, it expects there will be no material impact on the Scheme's financial statements.

There are no other "not yet effective" accounting standards that are expected to have a material impact on the Scheme in the current or future reporting periods.

(c) 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.

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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.

(b) 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.

(c) 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.

(d) 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.

(e) 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'.

(f) 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.

(g) 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.

(h) Receivables and Payables

Receivables are carried at nominal amounts due that approximate fair value. Receivables are normally settled within 30 days.

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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.

(i) 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 2018 but paid after 30 June 2018. These also include pension payments payable on or prior to 30 June 2018 but paid after 30 June 2018.

(j) 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.

(k) 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.

(l) 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.

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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.

(m) 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.

(n) 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.

(o) 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 2018, 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.

(p) 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.

(q) 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.

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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 Ms E Conway, FIAA of Mercer Consulting (Australia) 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 the balance date and were based on membership data as at the balance date.

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.

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Accrued Benefits

	2018 \$'000 Pension Division	2017 \$'000 Pension Division
Changes in the liability for accrued benefits:		
Liability for accrued benefits at 1 July	2,153,153	2,089,741
Add: Contributions revenue	88,784	101,515
Less: Benefits Paid	101,832	91,750
Add: Benefits Expense	69,259	53,647
	2,209,364	2,153,153
Liability for accrued benefits at 30 June	2,209,364	2,153,153
Represented by		
Fund Old Scheme Account	530,252	474,477
Police Employer Account	1,679,112	1,678,676
	2,209,364	2,153,153
Totals	2,209,364	2,153,153

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.

During 2017-2018 the funding proportion for the Fund Old Scheme Account was 22 percent and the Government contribution for future service liabilities for 2017-2018 was 20.5 percent.

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The following table illustrates the unfunded liability of the Scheme as at 30 June 2018 and the previous year.

Unfunded Liability

	2018 \$'000	2017 \$'000
	Pension Division	Pension Division
Liability for accrued benefits at 30 June	2,209,364	2,153,153
Less net assets available to pay benefits at 30 June	1,851,591	1,676,273
Unfunded liability at 30 June	357,773	476,880
Represented by		
Fund Old Scheme Account	(41,811)	(55,203)
Police Employer Account	399,583	532,083
Totals	357,773	476,880

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 Ms E Conway, FIAA of Mercer Consulting (Australia) 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.

Police Superannuation Scheme

Vested Liabilities

	2018 \$'000	2017 \$'000
	Pension Division	Pension Division
Fund Old Scheme Account	554,905	500,981
Police Employer Account	1,756,939	1,772,182
Totals	2,311,844	2,273,163

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 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 2017-2018 amounted to \$667,000 (\$706,000 in 2016-2017) of which the Fund's proportion was \$202,000 (\$213,000 in 2016-2017) and the Employer's proportion was \$465,000 (\$493,000 in 2016-2017). Of the \$667,000, \$594,000 (\$610,000 in 2016-2017) was paid to SA Government entities.

	Total 2018 \$'000	Total 2017 \$'000
Administration expenses	667	706

Police Superannuation Scheme

7. Direct Investment Expenses

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 2017-2018 are shown below.

	Total 2018 \$'000	Total 2017 \$'000
Direct investment expenses	15,886	12,738

8. Remuneration of Board Members

The following are members of the Board who served during 2017-2018, along with the period served.

Board member	Period Served during 2017-2018		
Graeme Barton	01/07/2017	to	30/06/2018
Keryl Howie*	01/07/2017	to	30/06/2018
Ferdi Pit	01/07/2017	to	30/06/2018
Bernadette Zimmermann*	01/07/2017	to	30/06/2018
Thomas Scheffler*	01/07/2017	to	08/05/2018
Deputy member	Period Served during 2017-2018		
Garry Powell*	01/07/2017	to	29/10/2017
Alannah Pearce*	30/10/2017	to	30/06/2018
Julie Thomas*	01/07/2017	to	30/06/2018
Neil Smith	01/07/2017	to	30/06/2018
Samantha Strange*	01/07/2017	to	29/10/2017
Michael Kent*	30/10/2017	to	30/06/2018
Trevor Milne*	01/07/2017	to	08/05/2018

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. The terms of Mr T Scheffler and Mr T Milne ceased on 8 May 2018 and these positions were vacant as at 30 June 2018.

Total remuneration received or due and receivable by Board and Deputy members of the Board in 2017-2018 was \$10,000 (\$9,000 in 2016-2017). Total remuneration included superannuation of \$600 (\$600 in 2016-2017).

Police Superannuation Scheme

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	
	2018	2017
\$1 - \$10,000	3	3

9. 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	2018 \$'000	2017 \$'000
Salaries and other short-term employee benefits	10	9
Other long-term employee benefits	1	1
Total	11	10

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.

10. Remuneration of Auditors

Audit amounts paid or due and payable are paid to the Auditor-General's Department (an SA Government Entity) for the audit of the Scheme. No other services were provided by the Auditor-General's Department.

	Total 2018 \$'000	Total 2017 \$'000
Audit fees paid or due and payable	23	23

11. 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.

Police Superannuation Scheme

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.

Police Superannuation Scheme

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.

2018

Investment asset class	Average Return	Market Risk	Potential impact of market risk (+/-) on Income Statement +/- \$000
	%	%	
Cash	2.7	1.0	189
Inflation Linked Securities A	3.2	7.0	3 097
Property A	6.0	9.3	25 840
Australian Equities A	7.1	17.9	83 013
International Equities A	8.0	15.5	73 078
Diversified Strategies Growth A	8.0	13.3	30 291
Diversified Strategies Income	4.2	6.8	17 734

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

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.

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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.

2018

Investment Option	Sensitivity variable	Standard Deviation	Expected Nominal Return	Change in Investment assets \$'000
Define Benefit	Nominal standard deviation	9.9%	7.9%	183,395
Total				183,395

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

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 2018	Less than 3	Total	Carrying
	months	Contractual	Amount
	\$'000	Cash Flows	Liabilities
		\$'000	\$'000
Benefits payable	1,913	1,913	1,913
Payables	196	196	196
Vested benefits ⁽ⁱ⁾	2,311,844	2,311,844	2,311,844
Total	2,313,953	2,313,953	2,313,953

30 June 2017	Less than 3	Total	Carrying
	months	Contractual	Amount
	\$'000	Cash Flows	Liabilities
		\$'000	\$'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

Police Superannuation Scheme

⁽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
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30 June 2018

Unlisted managed investment schemes

Funds SA	<u>1,852,476</u>
	<u>1,852,476</u>

30 June 2017

Unlisted managed investment schemes

Funds SA	<u>1,677,034</u>
	<u>1,677,034</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.