

Southern State Superannuation Scheme

Financial report
for the year ended
30 June 2018



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To the Chair Audit Risk and Finance Committee South Australian Superannuation Board Southern State Superannuation Scheme

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 15(3) of the *Southern State Superannuation Act 2009*, I have audited the financial report of the Southern State 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 Southern State 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 issued 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 Changes in Reserves for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information
- a Certificate a Board Member of the South Australian Superannuation Board, Chief Executive, State Superannuation Office and the Manager, Financial Services, State Superannuation Office.

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 Southern State 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 Chief Executive, State Superannuation Office and members of the South Australian Superannuation Board for the financial report

The Chief Executive, State Superannuation Office is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and 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 that is free from material misstatement, whether due to fraud or error.

The members of the South Australian 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, but not for the purpose of expressing an opinion on the effectiveness of the scheme's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive, State Superannuation Office

- 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 Chief Executive, State Superannuation Office and those charged with governance about, 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

20 September 2018

Southern State Superannuation Scheme

Statement of Financial Position

as at 30 June 2018

	Note	2018 \$000	2017 \$000
Assets			
Cash and cash equivalents		21 288	15 996
Receivables	6	1 357	613
Contributions receivable	7	40 313	24 039
Investments	4	17 242 415	15 406 188
Total assets		17 305 373	15 446 836
Liabilities			
Benefits payable		86 737	55 390
Payables	8	1 700	476
Unearned revenue		-	568
Insurance liabilities		23 723	22 216
Total liabilities excluding member benefits		112 160	78 650
Net assets available for member benefits		17 193 213	15 368 186
Member benefit liabilities	3	16 991 695	15 187 504
Total net assets		201 518	180 682
Equity			
Death, invalidity and income protection insurance reserve	9	155 347	149 835
Administration fee reserve	10	4 027	7 518
Operational risk reserve	11	32 873	30 050
Investment allocation over/(under)	13	9 271	(6 721)
Total equity		201 518	180 682

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

Income Statement

for the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
Net changes in investments measured at fair value		1 593 304	1 595 166
Interest revenue		326	293
Other revenue		13	13
Total revenue		1 593 643	1 595 472
Investment expenses	14	111 245	101 105
Administration expenses	15	16 526	11 634
Total expenses		127 771	112 739
Result from superannuation activities		1 465 872	1 482 733
Insurance expenses		6 693	5 628
Result from operating activities		1 459 179	1 477 105
Net benefits allocated to members accounts		(1 438 292)	(1 469 013)
Net operating result		20 887	8 092

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

Southern State Superannuation Scheme

Statement of Changes in Member Benefits

for the year ended 30 June 2018

	2018	2017
	\$000	\$000
Opening balance as at 1 July	15 187 504	13 349 428
Employer contributions	1 156 697	1 098 629
Member contributions	109 250	140 589
Transfers from other super entities	371 518	322 152
Government co-contributions	1 291	1 389
Net contributions	1 638 756	1 562 759
Benefits to members	(1 272 857)	(1 193 696)
Net benefits allocated to members, comprising:		
Net investment income	1 454 805	1 480 634
Net administration expenses	(16 513)	(11 621)
Closing balance as at 30 June 2018	16 991 695	15 187 504

The Statement of Changes in Member Benefits should be read in conjunction with the accompanying notes.

Statement of Changes in Reserves

for the year ended 30 June 2018

2018	Administration Fee Reserve	Death, Invalidity and Income Protection Insurance Reserve	Operational Risk Reserve	Over/(under) allocated benefits	Total equity
	\$000	\$000	\$000	\$000	\$000
Opening balance	7 518	149 835	30 050	(6 721)	180 682
Net operating result	(3 491)	5 512	2 868	15 998	20 887
Net transfers from reserves/equity	-	-	(45)	(6)	(51)
Closing balance	4 027	155 347	32 873	9 271	201 518

2017	Administration Fee Reserve	Death, Invalidity and Income Protection Insurance Reserve	Operational Risk Reserve	Over/(under) allocated benefits	Total equity
	\$000	\$000	\$000	\$000	\$000
Opening balance	5 962	141 260	27 424	(2 053)	172 593
Net operating result	1 556	8 575	3 019	(5 058)	8 092
Net transfers from reserves/equity	-	-	(393)	390	(3)
Closing balance	7 518	149 835	30 050	(6 721)	180 682

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

Southern State Superannuation Scheme

Statement of Cash Flows

for the year ended 30 June 2018

	Note	2018	2017
		\$000	\$000
Bank interest		335	303
Other income		1 235	945
Insurance administration expenses paid		(5 506)	(2 740)
Administration expenses paid		(17 730)	(12 478)
Net cash flows from operating activities	17	<u>(21 666)</u>	<u>(13 970)</u>
Receipts from the sale of investments from Funds SA		267 854	233 352
Payments to Funds SA for the purchase of investments		(622 022)	(621 913)
Net cash flows from investing activities		<u>(354 168)</u>	<u>(388 561)</u>
Employer contributions		1 140 309	1 093 191
Member contributions		108 620	140 380
Government co-contributions		1 170	1 510
Transfers from other superannuation entities		371 262	322 119
Benefit payments to members		(1 240 190)	(1 163 963)
Payments from Operational Risk Reserve		(45)	(18)
Net cash flows from financing activities		<u>381 126</u>	<u>393 219</u>
Net change in cash		5 292	(9 313)
Cash at beginning of the financial period		15 996	25 309
Cash at end of the financial period		<u>21 288</u>	<u>15 996</u>

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Southern State Superannuation Scheme

Notes to the Financial Statements

1. Objectives and funding

(a) *Southern State Superannuation Scheme*

The Southern State Superannuation Scheme (the Scheme/the Triple S Scheme) is both a contributory and non-contributory superannuation scheme established pursuant to the *Southern State Superannuation Act 2009* (the Act). The Scheme commenced on 1 July 1995 pursuant to the *Southern State Superannuation Act 1994* and is continued under the *Southern State Superannuation Act 2009*. The *Southern State Superannuation Regulations 2009* provide the majority of the Scheme rules that, until 31 July 2009, were set out under the *Southern State Superannuation Act 1994*.

Members can elect to make contributions to the Scheme based on a percentage of their salary commencing from 1 percent, under Regulation 17. A member of the police force, an operations employee of the SA Ambulance Service who commenced employment after 1 July 2008 or a former standard contributory member of the SA Ambulance Service Superannuation Scheme who elected to transfer to the Triple S Scheme must contribute at a rate of at least 4.5 percent of salary. A separate contribution account is maintained for each member. Member and employer contributions and any rollover amounts and co-contribution amounts are deposited by the Treasurer into the Southern State Superannuation Fund that is managed and invested by the Superannuation Funds Management Corporation of South Australia (Funds SA).

An employer is required to pay contributions to the Treasurer under section 21 of the Act. The employer contributes 9.50 percent (2017 9.50) percent of salary where the member has elected to contribute less than 4.5 percent of salary. Where the member has elected to contribute 4.5 percent or more of salary, the employer must contribute at a rate of 10 percent.

Benefits, represented by the balances of all member accounts, are available for employees who retire, resign and meet a condition of release, are retrenched, elect Transition to Retirement or Early Access to Super while still an employee of the SA Public Sector or die, or become terminally ill, or terminate their employment because of invalidity. The balance of individual member entitlements is provided in annual statements provided to each member.

The Scheme is an exempt public sector superannuation scheme and operates on a not for profit basis.

(b) *South Australian Superannuation Board*

The purpose of this financial report is to discharge the responsibilities of the Board under section 15 of the Act to maintain accounts of receipts and payments.

The Act charges the Board with responsibility for all aspects of the administration of the Act except for the management and investment of the Southern State Superannuation Fund (the Fund). The Act also provides the Board with the necessary powers to administer the Scheme.

The Board is required under section 13 of the Act to adjust a member's contribution account, rollover account and co-contribution account to reflect movements in the value of units allocated to each account.

Pursuant to section 14 of the Act, where a member or members have nominated a class of investments, or a combination of classes of investments, the Board shall adjust a member's contribution account, rollover account and co-contribution account to reflect the movement in the value of units held in the class of investments nominated by the member.

(c) *Superannuation Funds Management Corporation of South Australia*

Funds SA is a South Australian Government Entity 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.

Section 10(3) of the Act provides that the Fund is to be invested and managed by Funds SA.

For further information on investment activities, reference should be made to the annual report of Funds SA. The financial report of Funds SA discloses the investment assets, liabilities, income and expenses relating to the investment activities of Funds SA.

(d) *Funding arrangements*

The Act requires that member contributions, employer contributions, rollovers from other schemes and co-contributions paid by the Commonwealth be paid to the Treasurer, who, in turn, deposits these amounts into the Fund, the Consolidated Account (which is appropriated to the necessary extent) or to a Special Deposit Account with the Department of Treasury and Finance established for that purpose. During the current reporting period contributions were made to a Special Deposit Account. All employer contributions are received from SA Government Entities.

Under section 10 of the Act, any payment to a member must be made out of the Consolidated Account (which is appropriated to the necessary extent) or from a Special Deposit Account established for that purpose. During the current reporting period payments were made from the Special Deposit Account.

Southern State Superannuation Scheme

2. Significant accounting policies

(a) *Basis of accounting*

This financial report is a general purpose financial report. The financial statements have been prepared in accordance with relevant Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board, Treasurer's Instructions and Accounting Policy Statements promulgated under the provision of the *Public Finance and Audit Act 1987* (PFAA), except as provided below.

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

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

The scheme is a not-for-profit entity for the purpose of preparing financial statements.

(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. Super SA 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. Super SA 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 Super SA 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*

i) *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 by the Scheme, if any, 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.

ii) *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.

Southern State Superannuation Scheme

iii) 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.

iv) 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'.

v) 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 financial statements note 4.

vi) 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.

vii) Receivables and payables

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

viii) 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.

ix) Insurance liabilities

Insurance liabilities have been recognised and measured using the approach to measuring defined benefit member liabilities as required by AASB 1056. The Scheme has adopted the equivalent AASB 1056 approved shortcut method that provides a valuation to meet the accrued insurance liabilities as at that date when they are expected to fall due.

x) 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.

Southern State Superannuation Scheme

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.

xi) 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.

xii) 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.

xiii) 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.

xiv) Investments

Funds SA provides investments measured at fair value. Below is the basis for valuation of these investments.

(1) Inflation Linked Securities A

The Inflation Linked Securities portfolio invests in discretely managed portfolios and internal inflation linked securities. Discretely managed portfolios are 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 balance date.

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 balance date was performed by an independent valuer.

(2) Property A

The Property A portfolio comprises two sub-sectors:

Listed Property Trusts

These investments comprise arrangements whereby professional fund managers are appointed under an investment management agreement to manage and invest in listed property securities and real estate investment trusts. Investments in this sub-sector are in pooled funds and have been valued in accordance with the valuations supplied by the managers.

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.

(3) 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 balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the valuations supplied by the managers.

(4) 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 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 balance date where applicable.

(5) Short Term and Long Term Fixed Interest

The Short Term and Long Term Fixed Interest portfolios have exposure to domestic and global debt instruments and is managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at balance date.

Southern State Superannuation Scheme

(6) Diversified Strategies Growth A

The Diversified Strategies Growth A portfolio comprises investments in Australian and international private equity funds and Australian and international pooled funds, which are invested and managed by external managers. The valuation of private equity investments is based on the most recent valuation performed by the fund managers plus or minus cash flows between the last valuation date and the reporting date. Both Australian and international private equity valuations are generally in accordance with the International Private Equity and Venture Capital Valuation Guidelines (December 2015). 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 balance date where applicable.

(7) Diversified Strategies Income

The Diversified Strategies Income portfolio comprises investments in discretely managed investments and Australian and international pooled funds, 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 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 balance date where applicable.

(8) 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.

(9) Socially Responsible Investment

The Socially Responsible Investment portfolio comprises an externally managed pooled vehicle (unlisted unit trust). The valuation is performed and supplied by the relevant fund manager.

xv) 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 SA managed eight distinct investment options each differing by strategic asset allocation:

- High Growth
- Growth
- Balanced
- Moderate
- Conservative
- Capital Defensive
- Cash
- Socially Responsible Investment.

During the financial year all these investment options were available to Southern State Superannuation Scheme members.

Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to each of the investment options discussed in the preceding paragraphs.

xvi) 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. 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.

Southern State Superannuation Scheme

3. Member benefit liabilities

Triple S members are defined contribution members and bear the investment risk relating to the underlying assets and unit prices used to measure the member liabilities. Member account balances are determined by unit prices that are determined based on the underlying investment movements unit prices are updated daily. Refer to Note 18 for the Fund's management of the investment risks.

	2018	2017
	\$000	\$000
Members liability at the end of financial year	16 991 695	15 187 504
As compared to net assets available to pay benefits	17 193 213	15 368 186

All defined contribution schemes carry a proportion of amounts yet to be allocated. This unallocated amount arises because the financial report of the Fund is prepared on an accrual basis while monies are allocated to members on a cash basis.

4. Fair value of financial instruments

Classification of financial instruments under the fair value hierarchy

AASB 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Valuations are the responsibility of the Board. The valuation of investments is performed on a daily basis and are subject to quality assurance procedures. After the checks above have been performed the Board considers the valuation results, including assumptions used in the valuations.

The Board also considers the appropriateness of the valuation methods and inputs, and may request that alternative valuation methods are applied to support the valuation arising from the method chosen.

Valuation technique

The Scheme's investments are not quoted in an active market. The Scheme's investment manager, Funds SA considers the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investing, to ensure they are reasonable and appropriate and therefore the net asset value (NAV) of these funds may be used as an input into measuring their fair value. In measuring this fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the underlying funds and fund managers. In measuring fair value, consideration is also paid to any transactions of a fund. The Scheme classifies these funds as Level 2.

There were no changes in valuation techniques during the year.

	2018	2017
	\$000	\$000
Financial assets at fair value through profit or loss - Level 2		
Level 1 and level 3 are not relevant to the Scheme		
Unlisted managed investment schemes		
Funds SA	17 242 415	15 406 188

Southern State Superannuation Scheme

5. Value of investments by option

	2018	2017
	\$000	\$000
High Growth A	1 293 826	1 089 735
Growth A	629 327	520 001
Balanced A	14 281 366	12 791 849
Moderate A	273 455	245 196
Conservative A	338 323	327 553
Capital Defensive A	175 893	171 090
Cash A	195 286	213 867
Socially Responsible	54 940	46 897
Investments at 30 June	17 242 416	15 406 188

Note that the 2017 investment values have been restated for consistency with the current year presentation.

6. Receivables

	2018	2017
	\$000	\$000
ATO GST recoup	558	268
Interest	28	24
Other receivables	511	224
Rollovers receivable	260	97
	1 357	613

7. Contributions receivables

	2018	2017
	\$000	\$000
Member contributions	1 666	1 255
Employer contributions	38 647	22 784
	40 313	24 039

8. Payables

	2018	2017
	\$000	\$000
Audit fees	80	79
Other payables	1 620	366
Contributions refundable	-	31
	1 700	476

9. Death, Invalidation and Income Protection Insurance Reserve

The Scheme self-insures and provides an insurance benefit based on units of cover, subject to certain limitations, in the event of death or invalidity before age 65. An Income Protection Insurance benefit, subject to eligibility criteria, is also available in the event of a member becoming temporarily disabled before age 60.

The *Standard Insurance* benefit of two units of cover costs \$1.50 per week and is compulsory for most members of the scheme except casual employees who can elect to opt out of insurance and those who opted out of an additional unit of cover under Item 1 Schedule 3 of the repealed *Southern State Superannuation Regulations 1995*, and those who are special category members in terms of Regulation 28. Police Officers and operations employees of the SA Ambulance Service, who commenced employment after 1 July 2008 or former standard contributory member of the SA Ambulance Service Superannuation Scheme who elected to transfer to the Triple S Scheme, are required to have at least 6 units of Standard Insurance cover. The value of a unit of Standard Insurance for members up to age 34 years is \$75 000. The value of a unit declines from age 35. Additional units can be purchased (subject to medical evidence) to provide permanent employees with cover up to \$1.5 million and casual employees up to \$750 000. Fixed Insurance closed to new applications in November 2014.

As required by Section 17 of the Act, a report was obtained on the costs and liabilities of the insurance arrangements in existence as at 30 June 2016. The actuary concluded that the reserves are sufficient to support the Death and TPD premium subsidy of \$0.25 per

Southern State Superannuation Scheme

unit per week for the next three years and the expected cost of the premium subsidy is \$3.5 million per annum. In respect of Income Protection, the report reveals that the expected loss for 2015-16 is \$4.2 million and that these losses will continue until new IP premiums are implemented. In accordance with section 17 of the Act, the next report regarding the costs and liabilities of the insurance arrangements will be performed as at 30 June 2019 and be available by 30 June 2020.

To be eligible for the Income Protection Insurance benefit, a member must be an active member, working full-time or part-time and receiving an employer contribution. Casual employees not automatically provided with the benefit can apply and be accepted for cover subject to medical evidence. Income Protection payments can continue for 24 months for members employed full or part time. Casual employees can be paid for up to 12 months.

	2018	2017
	\$000	\$000
Opening Balance of Insurance Reserve	149 835	141 260
Investment earnings on Insurance Reserve ⁽ⁱ⁾	13 994	15 295
Premiums and charges	27 281	26 313
	41 275	41 608
Benefit payments	(30 577)	(30 403)
Administration fees ⁽ⁱⁱ⁾	(5 186)	(2 630)
Closing balance of Reserve	155 347	149 835

(i) The Insurance Reserve is notionally invested in the Balanced option. The rate of return on earnings in 2018 was 9.0 percent.

(ii) The amount relates to the annual administration fee paid for administering the insurance arrangements.

10. Administration Fee Reserve

This Reserve has been set aside for future scheme requirements. The movement in the reserve reflects the difference between administration fees collected from members and the cost of administering the scheme during the year.

	2018	2017
	\$000	\$000
Opening Balance of Administration Fee Reserve	7 518	5 962
Investment earnings on Administration Fee Reserve ⁽ⁱ⁾	673	775
Premiums and charges	12 216	12 293
	12 889	13 068
Administration fees ⁽ⁱⁱ⁾	(16 380)	(11 512)
Closing balance of Reserve	4 027	7 518

(i) The Administration Fee Reserve is notionally invested in the Balanced option. The rate of return on earnings in 2018 was 9.0 percent.

(ii) The amount relates to the annual service level agreement paid for administering the Scheme (refer Note 15).

11. Operational Risk Reserve

The Operational Risk Reserve is to be accumulated to 0.25% of funds under management in line with Prudential Standard SPS114. The reserve is currently 0.19% of funds under management.

	2018	2017
	\$000	\$000
Opening Balance of Operational Risk Reserve	30 050	27 424
Investment Revenue on Operational Risk Reserve ⁽ⁱ⁾	2 868	3 019
Transfer to Reserve	(45)	(393)
Closing balance of Reserve	32 873	30 050

(i) The Operational Risk Reserve is notionally invested in the Balanced Option. The rate of return on earnings 2018 was 9.0 percent.

12. Allocated to members' accounts

The value of funds which have been formally allocated to investor accounts equals the member benefits. The formal allocation of earnings to investors' accounts has been determined for the 2017-18 financial year.

Southern State Superannuation Scheme

13. Unallocated to members' accounts

All accumulation funds carry a proportion of amounts yet to be allocated. This unallocated amount arises because the financial report of the Fund is prepared on an accrual basis while monies are allocated to members on a cash basis.

14. Investment expenses

	2018	2017
	\$000	\$000
Investment expense	111 245	101 105

Investment expenses comprise fees paid to Funds SA. Funds SA advises the amount applicable to the Scheme based on the Scheme's investment. Current year investment expenses increased due to higher total investments and investment performance for the financial year.

15. Administration expenses

	2018	2017
	\$000	\$000
Administration fees ⁽ⁱ⁾	16 379	11 512
Other expenses ⁽ⁱⁱ⁾	147	122
	16 526	11 634

- i) Regulation 16 provides for an administrative charge to be debited each year to members' employer contribution accounts and section 10 of the Act requires the amount to be paid from the Southern State Superannuation Fund. The purpose of this charge is to provide for existing and future costs of administering the Scheme. The amount of the charge is determined by the Board. For the year ended 30 June 2018, the charge was \$1.35 per week per member for all members, active and non-active. The charge for a member with an aggregate balance of \$1 000 or less, is the lesser of the charges applicable to members, or the amount of interest credited to the member's employer contribution account with a minimum of \$10. This charge is included on member annual statements. For the year ended 30 June 2018, the amount charged to members' employer contribution accounts was \$12.2 million (2017: \$12.3 million).

Administration expenses incurred by the Board in administering the Scheme are met in the first instance from the Department of Treasury and Finance Operating Account. The Department of Treasury and Finance seeks reimbursement from the Board monthly. Based on actual costs, the charge for the year ended 30 June 2018, was \$16.4 million (2017: \$11.5 million).

- ii) Other expenses include Auditor's remuneration. See note 16.

16. Auditors' remuneration

	2018	2017
	\$000	\$000
Audit fees	76	75

Audit fees paid (or payable), GST exclusive, relate to the Auditor-General's Department work performed under the PFAA. No other services were provided by the Auditor-General's Department.

17. Reconciliation of cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and deposits with the Department of Treasury and Finance. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:

Southern State Superannuation Scheme

	2018	2017
	\$000	\$000
Cash and cash equivalents	21 288	15 996
Reconciliation of operating result to net cash from operating activities		
Net operating result	20 887	8 092
Adjustments for:		
Changes in investments measured at fair value	(1 593 304)	(1 595 166)
Investment expenses	111 245	101 105
Insurance recognition	1 507	3 025
Decrease/(increase) in receivables	264	(41)
(Decrease)/increase in payables	(557)	2
Allocation to members' accounts	1 438 292	1 469 013
Net cash outflows from operating activities	(21 666)	(13 970)

18. 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 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 the 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) and fixed interest asset sectors are fully hedged to Australian dollars.
- Foreign currency exposures over the developed markets component of the international equities asset class are 50 percent hedged to Australian dollars.

Southern State Superannuation Scheme

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 Fund'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 fair value with changes in value recognised in the Income Statement, all changes in market conditions will directly affect investment revenue.

The Fund'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 options 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 option. The following tables show the market risk around expected average returns for each investment option.

2018	Average Return	Market Risk	Average FUM	Potential impact of market risk (+/-) on Income Statement
Investment Option	%	%	\$000	\$000
High Growth A	8.5%	12.1%	1 191 781	144 205
Growth A	7.8%	10.2%	574 664	58 616
Balanced A	7.2%	8.9%	13 536 607	1 204 758
Moderate A	6.4%	7.0%	259 326	18 153
Conservative A	5.6%	5.2%	332 938	17 313
Capital Defensive A	4.7%	3.3%	173 492	5 725
Cash A	3.2%	1.4%	204 577	2 864
Socially Responsible	6.4%	10.5%	50 919	5 346

Southern State Superannuation Scheme

2017 Investment Option	Average Return	Market Risk	Average FUM	Potential impact of market risk (+/-) on Income Statement
	%	%	\$000	\$000
High Growth A	8.3%	12.0%	1 017 669	122 120
Growth A	7.7%	10.2%	472 993	48 245
Balanced A	7.1%	8.9%	12 005 458	1 068 486
Moderate A	6.3%	6.9%	210 765	14 543
Conservative A	5.5%	5.1%	316 880	16 161
Capital Defensive A	4.6%	3.3%	169 242	5 585
Cash A	2.9%	1.5%	220 909	3 314
Socially Responsible	6.2%	10.3%	50 963	5 249

Note the 2017 sensitivity values have been restated from the prior year for consistency with the 2018 presentation.

The Funds SA statistics shown above are 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.

(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.

Southern State Superannuation Scheme

	Less than 3 Months	Total contractual Cash Flows	Carrying amount liabilities
2018	\$000	\$000	\$000
Benefits payable	86 737	86 737	86 737
Vested benefits ⁽ⁱⁱ⁾	16 991 695	16 991 695	16 991 695
Total	17 078 432	17 078 432	17 078 432
2017	\$000	\$000	\$000
Benefits payable	55 390	55 390	55 390
Unearned revenue ⁽ⁱ⁾	568	568	568
Vested benefits ⁽ⁱⁱ⁾	15 187 504	15 187 504	15 187 504
Total	15 243 462	15 243 462	15 243 462

- (i) Unearned revenue amounts disclosed here exclude amounts relating to statutory payables (e.g. Commonwealth, State and Local Government taxes, fees and charges; Auditor-General's Department audit fees).
- (ii) 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) Derivative financial instruments

Derivatives can be defined as financial contracts whose value depends on, or is 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.

19. Segment information

The scheme operates in one reportable segment, being the provision of benefits to members. The scheme also operates from one reportable geographic segment, being Australia, from where its activities are managed. While the Scheme operates from Australia only, the Scheme, through its investment managers Funds SA, has investment exposures in different countries and across different industries. Revenue derived from interest and the realised and unrealised changes in the value of investments.

20. Related parties

Key management personnel

The key management personnel of the Scheme includes the Treasurer, Board members, and the Chief Executive and members of the Executive Leadership Group, State Superannuation Office who have responsibility for the strategic direction and management of the Scheme.

Compensation

All key management personnel are compensated by the Department of Treasury and Finance or the Board, therefore their compensation is disclosed in the respective financial reports.

Transactions with key management personnel and other related parties

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.

21. Events after the reporting period

From 3 September 2018 the Scheme implements Project Protect, which introduces new Death and Total and Permanent Disablement (TPD) and Income Protection (IP) insurance products. Enhancements arising from Project Protect:

- are more sustainable,
- have closer alignment to industry practice, and
- offer greater flexibility for members.

Southern State Superannuation Scheme

Certification of the financial report

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

- complies with any relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*;
- is in accordance with the accounts and records of the Scheme; and
- presents fairly the financial position of the Scheme as at 30 June 2018 and the results of its operation and cash flows for the year then ended on that date, in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia.

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.



Dascia Bennett
CHIEF EXECUTIVE
STATE SUPERANNUATION OFFICE



Virginia Deegan
BOARD MEMBER
SA SUPERANNUATION BOARD



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Date 17/09/2018