

**Public Sector Superannuation Scheme (ABN 74 172 177 893)**

**Statement by the Trustee of the Public Sector Superannuation Scheme ('Scheme')**

The Board of Directors hereby states that in its opinion:

- (a) the accompanying financial statements of the Public Sector Superannuation Scheme are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2018 and the financial performance, changes in equity, changes in member benefits and cash flows of the Scheme for the year ended on that date;
- (b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;
- (c) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;
- (d) the financial statements have been prepared based on properly maintained financial records; and
- (e) the operations of the Public Sector Superannuation Fund (PSS Fund) were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011*, the *Superannuation Act 1990*, the Trust Deed establishing the Scheme, the requirements of the *Superannuation Industry (Supervision) Act 1993* and regulations, and the relevant requirements of the *Corporations Act 2001* and regulations (to the extent applicable).

Signed this 24th day of September 2018 in accordance with a resolution of directors of the Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Scheme.

Patricia Cross  
Chair

Margaret Staib  
Director

**Public Sector Superannuation Scheme**  
**Statement of Financial Position**  
**As at 30 June 2018**

	<b>Note</b>	<b>2018</b>	2017
		<b>\$'000</b>	\$'000
<b>Assets</b>			
Cash and cash equivalents		<b>75 585</b>	43 484
Employer sponsor receivable		<b>58 260 923</b>	56 551 860
Other receivables	4	<b>1 338</b>	3 506
Deferred tax assets	8c	<b>138</b>	152
Investments in pooled superannuation trust	5	<b>20 425 996</b>	19 135 854
<b>Total assets</b>		<b><u>78 763 980</u></b>	<u>75 734 856</u>
<b>Liabilities</b>			
Benefits payable		<b>(11 558)</b>	(13 587)
Income tax payable		<b>(28 965)</b>	(29 488)
Other payables		<b>(1 020)</b>	(1 168)
<b>Total liabilities excluding member benefits</b>		<b><u>(41 543)</u></b>	<u>(44 243)</u>
<b>Net assets available for member benefits</b>		<b><u>78 722 437</u></b>	<u>75 690 613</u>
Member liabilities	9	<b><u>(78 654 955)</u></b>	<u>(75 626 469)</u>
<b>Net assets</b>		<b><u>67 482</u></b>	<u>64 144</u>
<b>Equity</b>			
Operational risk reserve		<b><u>(67 482)</u></b>	<u>(64 144)</u>
<b>Total equity</b>		<b><u>(67 482)</u></b>	<u>(64 144)</u>

*The attached notes form part of these financial statements.*

**Public Sector Superannuation Scheme**  
**Income Statement**  
**For the Financial Year Ended 30 June 2018**

	<b>Note</b>	<b>2018</b>	2017
		<b>\$'000</b>	\$'000
<b>Investment revenue</b>			
Interest		<b>953</b>	911
Changes in fair value of investments	6c	<b>1 749 681</b>	1 660 922
<b>Total revenue</b>		<b>1 750 634</b>	1 661 833
<b>Total expenses</b>			
<b>Operating results</b>		<b>-</b>	-
Net change in member benefits from investing activities		<b>(1 749 541)</b>	(1 660 677)
<b>Operating result before income tax expense</b>		<b>1 093</b>	1 156
<b>Income tax expense</b>	8a	<b>(143)</b>	(137)
<b>Operating result after income tax</b>		<b>950</b>	1 019

*The attached notes form part of these financial statements.*

**Public Sector Superannuation Scheme  
Statement of Changes in Member Benefits  
For the Financial Year Ended 30 June 2018**

	Note	Defined benefit members \$'000	Hybrid benefit members \$'000	Total \$'000
<b>Opening balance of member benefits at the beginning of the financial year</b>		<b>42 512 578</b>	<b>33 113 891</b>	<b>75 626 469</b>
Contributions:				
Member contributions	7a	172 128	407 040	579 168
Employer contributions	7a	56 814	134 717	191 531
Government co-contributions	7a	-	905	905
Low income superannuation tax offset	7a	-	202	202
Income tax on contributions	8b	(8 555)	(20 287)	(28 842)
Net after tax contributions		<u>220 387</u>	<u>522 577</u>	<u>742 964</u>
Net appropriation from Consolidated Revenue Fund	7b	381 525	528 465	909 990
Benefits to members	7b	(873 066)	(1 209 315)	(2 082 381)
Insurance premiums paid to insurer		(1 358)	(1 880)	(3 238)
Insurance premiums charged to members		1 358	1 880	3 238
Insurance claim payments received from insurer		710	984	1 694
Net change in member benefits from investing activities		602 983	1 146 558	1 749 541
Net change in member benefits to be funded by employers		<u>2 192 152</u>	<u>(485 474)</u>	<u>1 706 678</u>
<b>Closing balance of member benefits at the end of the financial year</b>		<b><u>45 037 269</u></b>	<b><u>33 617 686</u></b>	<b><u>78 654 955</u></b>

*The attached notes form part of these financial statements.*

**Public Sector Superannuation Scheme  
Statement of Changes in Member Benefits  
For the Financial Year Ended 30 June 2017**

	Note	Defined benefit members \$'000	Hybrid benefit members \$'000	Total \$'000
Opening balance of member benefits at the beginning of the financial year		39 379 060	31 979 039	71 358 099
Contributions:				
Member contributions	7a	183 056	402 660	585 716
Employer contributions	7a	60 974	134 711	195 685
Government co-contributions	7a	-	1 398	1 398
Low income superannuation tax offset	7a	-	371	371
Income tax on contributions	8b	(9 174)	(20 269)	(29 443)
Net after tax contributions		<u>234 856</u>	<u>518 871</u>	<u>753 727</u>
Net appropriation from Consolidated Revenue Fund	7b	318 807	459 434	778 241
Benefits to members	7b	(805 600)	(1 160 953)	(1 966 553)
Insurance premiums paid to insurer		(1 312)	(1 890)	(3 202)
Insurance premiums charged to members		1 312	1 890	3 202
Insurance claim payments received from insurer		815	1 174	1 989
Net change in member benefits from investing activities		592 204	1 068 473	1 660 677
Net change in member benefits to be funded by employers		<u>2 792 436</u>	<u>247 853</u>	<u>3 040 289</u>
Closing balance of member benefits at the end of the financial year		<u>42 512 578</u>	<u>33 113 891</u>	<u>75 626 469</u>

*The attached notes form part of these financial statements.*

**Public Sector Superannuation Scheme  
Statement of Changes in Equity  
For the Financial Year Ended 30 June 2018**

	<b>Operational risk reserve \$'000</b>	<b>Total equity \$'000</b>
<b>Opening balance as at 1 July 2016</b>	63 125	63 125
Operating result	1 019	1 019
<b>Closing balance as at 30 June 2017</b>	<u>64 144</u>	<u>64 144</u>
<b>Opening balance as at 1 July 2017</b>	<b>64 144</b>	<b>64 144</b>
Operating result	<b>950</b>	<b>950</b>
Net transfers to / (from) reserves	<b>2 388</b>	<b>2 388</b>
<b>Closing balance as at 30 June 2018</b>	<u><b>67 482</b></u>	<u><b>67 482</b></u>

*The attached notes form part of these financial statements.*

**Public Sector Superannuation Scheme**  
**Statement of Cash Flows**  
**For the Financial Year Ended 30 June 2018**

	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Interest received		923	923
Superannuation surcharge paid		(85)	(37)
Income tax paid		(138)	(2 470)
<b>Net cash inflows / (outflows) from operating activities</b>	10b	<u>700</u>	<u>(1 584)</u>
<b>Cash flows from investing activities</b>			
Purchase of investments		(50 000)	(89 998)
Proceeds from sale of investments		509 495	506 914
<b>Net cash inflows from investing activities</b>		<u>459 495</u>	<u>416 916</u>
<b>Cash flows from financing activities</b>			
Contributions received			
Employer contributions		191 531	195 685
Member contributions		579 169	585 716
Government co-contributions		905	1 398
Low income superannuation tax offset		202	371
Income tax paid on contributions		(29 356)	(29 443)
Benefits paid		(2 084 410)	(1 964 529)
Transfers from the Public Sector Superannuation Scheme		-	861
Net appropriation from Consolidated Revenue Fund		912 233	776 661
Insurance premiums received from members		3 238	3 202
Insurance claim payments received from insurer		1 694	1 989
Insurance premium paid		(3 300)	(3 224)
<b>Net cash (outflows) from financing activities</b>		<u>(428 094)</u>	<u>(431 313)</u>
<b>Net increase / (decrease) in cash held</b>		<b>32 101</b>	<b>(15 981)</b>
Cash at the beginning of the financial year		43 484	59 465
<b>Cash at the end of the financial year</b>	10a	<u>75 585</u>	<u>43 484</u>

*The attached notes form part of these financial statements.*

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **1. DESCRIPTION OF THE SCHEME**

The Public Sector Superannuation Scheme ('Scheme') is a defined benefit scheme which provides benefits to its members under the *Superannuation Act 1990* (as amended) and is administered in accordance with a Trust Deed dated 21 June 1990 (as amended). The Trustee of the Scheme is Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243).

Monies paid to the Trustee for the purposes of the Scheme are held in the Public Sector Superannuation Fund (PSS Fund). The PSS Fund comprises contributions made by members and employers, income arising from investments, and unrealised and realised changes in fair value of investments held within the PSS Fund. The Trustee pays member benefits and taxes relating to the PSS Fund out of the PSS Fund. The Trustee pays the direct and incidental costs of management of the PSS Fund and the investment of its money from the assets of the ARIA Investments Trust (AIT) that are referable to the PSS Fund (Note 7(c)).

The principal place of business and registered office of the Trustee is 7 London Circuit, Canberra, ACT 2601.

### **2. BASIS OF PREPARATION**

#### **(a) Statement of compliance**

The financial report of the Scheme is a general purpose financial report which has been prepared in accordance with Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993*. For the purposes of preparing financial statements, the Scheme is a not-for-profit entity.

The form of these financial statements has been agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011*.

The financial statements of the Scheme were authorised for issue by the Directors of the Trustee on 24 September 2018.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 2. BASIS OF PREPARATION (continued)

#### (a) Statement of compliance (continued)

##### Standards adopted with no significant impact on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the disclosures or amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

<b>Standard / Interpretation</b>	<b>Effective for annual reporting periods</b>
<b>AASB 1048</b> 'Interpretation of Standards'	ending on or after 31 December 2017
<b>AASB 2016-2</b> 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	beginning on or after 1 January 2017
<b>AASB 2016-7</b> 'Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities'	beginning on or after 1 January 2017

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 2. BASIS OF PREPARATION (continued)

#### (a) Statement of compliance (continued)

##### Standards in issue but not yet effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Scheme were in issue but not yet effective. The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Scheme.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<b>AASB 9</b> 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
<b>AASB 15</b> 'Revenue from Contracts with Customers', <b>AASB 2014-5</b> 'Amendments to Australian Accounting Standards arising from AASB 15', <b>AASB 2015-8</b> 'Amendments to Australian Accounting Standards - Effective Date of AASB 15', and <b>AASB 2016-3</b> 'Amendments to Australian Accounting Standards - Clarifications to AASB 15'	1 January 2019	30 June 2020
<b>AASB 1058</b> 'Income of Not-for-Profit Entities'	1 January 2019	30 June 2020
<b>AASB 2016-8</b> 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities'	1 January 2019	30 June 2020
<b>AASB 2017-4</b> 'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'	1 January 2019	30 June 2020
<b>AASB 2017-6</b> 'Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation'	1 January 2019	30 June 2020
<b>AASB 2014-10</b> 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', <b>AASB 2015-10</b> 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128', <b>AASB 2017-5</b> 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.'	1 January 2019	30 June 2020

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **2. BASIS OF PREPARATION (continued)**

#### **(b) Functional and presentation currency**

The financial statements are presented in Australian dollars, which is the functional currency of the Scheme.

Amounts in these financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

#### **(c) Use of judgements and estimates**

In the application of Accounting Standards, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Accounting Standards that have significant effects on the financial statements, and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES**

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2018 and the comparative information presented in these financial statements for the year ended 30 June 2017.

#### **(a) Cash and Cash Equivalents**

Cash and cash equivalents include cash at bank used to transact member and employer contributions, transfers to and from other funds, benefit payments and tax liabilities.

#### **(b) Financial assets**

Financial assets (being investments in a pooled superannuation trust, cash at bank and other receivables) are recognised on the date the Scheme becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. After initial measurement, any gains and losses from changes in fair value are recognised in the Income Statement.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair values have been determined as follows:

- (i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the fair value of the underlying investments.
- (ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

#### **(c) Employer Sponsor Receivable**

The Commonwealth Government is obliged under the *Superannuation Act 1990* (as amended) to meet any funding shortfall for the defined benefit member liabilities of the Scheme. The asset is measured at its 'intrinsic value' (i.e. the amount of the difference between the defined benefit member liability and the fair value of assets available to meet that liability). The value of the employer sponsor receivable will not necessarily be the same as the value of the corresponding liability in the accounts of the employer sponsor and the Australian Government Long Term Cost Report due to the application of different accounting standards which may result in different valuation assumptions from those set out in Note 9.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**

#### **(d) Foreign Currency Transactions**

The Scheme does not undertake transactions denominated in foreign currencies.

#### **(e) Payables**

Payables (being benefits payable and other payables) are recognised at their nominal value which is equivalent to fair value.

##### **Benefits payable**

Benefits payable to a member are recognised where a valid withdrawal notice has been received from the employer sponsor, and approved, but payment has not been made by reporting date.

##### **Other payables**

Other payables represent liabilities for services provided during the financial period and which are unpaid at reporting date. All amounts are unsecured. Creditors are subject to normal credit terms.

#### **(f) Member liabilities**

Defined benefit member liabilities are 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 (Note 9).

The accumulation component of hybrid benefit member liabilities are measured as the amount of member account balances as at the reporting date (Note 9).

The impact of the Scheme's default death and invalidity insurance arrangements have been considered in determining member liabilities. Balances and transactions in respect of these arrangements are presented in aggregate as part of member liabilities and the benefits paid/payable balances presented in the Statement of Financial Position and Statement of Changes in Member Benefits.

#### **(g) Contributions**

Employer and member contributions, superannuation co-contributions and low income superannuation tax offsets from the Commonwealth Government are recognised when there is a right to receive the contribution.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**

#### **(h) Operational risk reserve**

The purpose of the operational risk reserve (ORR) is to provide adequate financial resources to address potential losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Fund. The transferred assets underlying the ORR are held in a separate cash option of the ARIA Investments Trust ('AIT') and income earned on these assets is recognised in the reserve.

#### **(i) Derivatives**

The Scheme does not directly enter into derivative financial instruments.

#### **(j) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues are recognised as follows:

##### **Investment revenue**

Interest revenue is recognised on an accrual basis.

Changes in the fair value of investments are recognised as income and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

#### **(k) Expenses**

Expenses are recognised on an accruals basis and, if not paid at reporting date, are reflected in the Statement of Financial Position as an accrual or payable depending upon whether or not the expense has been billed.

#### **(l) Income Tax**

Income tax is recognised in the Income Statement and the Statement of Changes in Member Benefits. As the Scheme invests in the AIT, which is a pooled superannuation trust, tax on this investment revenue is paid by the AIT.

##### **Current tax**

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**

#### **(l) Income Tax (continued)**

##### **Deferred tax**

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Scheme expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Scheme intends to settle its current tax assets and liabilities on a net basis.

##### **Current and deferred tax for the period**

Current and deferred tax for the period is recognised as an expense or benefit in the Income Statement, except for tax on contributions, which is recognised in the Statement of Changes in Member Benefits.

#### **(m) Goods and Services Tax ('GST')**

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit. Where the amount of GST incurred is not recoverable from the ATO, it is recognised as part of the cost of acquisition of an asset or as an expense item.

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 4. OTHER RECEIVABLES

	2018 \$'000	2017 \$'000
Receivable from the ARIA Investments Trust	45	-
Interest receivable	77	47
Amount to be appropriated from Consolidated Revenue Fund	1 216	3 459
	<u>1 338</u>	<u>3 506</u>

There are no receivables that are past due or impaired (2017: nil).

### 5. INVESTMENTS

	2018 \$'000	2017 \$'000
Pooled Superannuation Trust - ARIA Investments Trust	20 425 996	19 135 854
	<u>20 425 996</u>	<u>19 135 854</u>

### 6. CHANGES IN FAIR VALUE OF INVESTMENTS

	2018 \$'000	2017 \$'000
<b>(a) Investments held at 30 June:</b>		
Pooled Superannuation Trust - ARIA Investments Trust	1 736 524	1 645 494
	<u>1 736 524</u>	<u>1 645 494</u>
<b>(b) Investments realised during the year:</b>		
Pooled Superannuation Trust - ARIA Investments Trust	13 157	15 428
	<u>13 157</u>	<u>15 428</u>
<b>(c) Total changes in fair value of investments</b>	<u>1 749 681</u>	<u>1 660 922</u>



## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **7. FUNDING ARRANGEMENTS**

#### **(a) Contributions**

##### **Member Contributions**

Members contribute to the Scheme at optional rates ranging from 2% - 10% or they may opt to make nil contributions. The contribution rates were the same in the prior year.

##### **Employer Contributions**

Employers who do not operate their own productivity schemes contribute employer (productivity) contributions to the Scheme on a sliding scale averaging 3% of salaries paid to members. The contribution rates were the same in the prior year.

##### **Transferring Superannuation Benefits From Other Funds**

Money invested in other superannuation funds can be rolled over to the Scheme.

##### **Government Co-Contributions**

For the financial years ended 30 June 2018 and 30 June 2017, the Commonwealth Government contributed \$0.50 for every \$1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of \$500 per member.

##### **Low Income Superannuation Tax Offset**

The low income superannuation tax offset (LISTO) is a Commonwealth Government superannuation payment of up to \$500 for the financial years 2017-18 onwards. LISTO payments are recognised as revenue when received.

#### **(b) Benefits**

Where a benefit that becomes payable in respect of a member can be fully met from Scheme assets attributable to that member, the benefit is paid to the beneficiary from the PSS Fund. Where a benefit becomes payable that cannot be fully met from Scheme assets attributable to the member, all moneys held in the PSS Fund in respect of the member are paid from the Consolidated Revenue Fund, and the Commonwealth Government then assumes responsibility for funding the benefit.

Of the total benefits payable as at 30 June 2018, \$1.22 million (2017: \$3.46 million) is payable by the Consolidated Revenue Fund. The Commonwealth Government is the corresponding debtor for this amount in accordance with the funding arrangements described above.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 7. FUNDING ARRANGEMENTS (continued)

#### (b) Benefits (continued)

Benefits paid and payable by the PSS Fund and the Consolidated Revenue Fund during the year are as follows:

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Gross Appropriation from Consolidated Revenue Fund	<b>2 047 771</b>	1 930 265
less: Transfers from PSS Fund to Consolidated Revenue Fund	<b>(1 137 781)</b>	(1 152 024)
<b>Net appropriation from Consolidated Revenue Fund</b>	<b><u>909 990</u></b>	<u>778 241</u>
<b>Consolidated Revenue Fund</b>		
Lump-sum benefits	<b>411 577</b>	490 805
Pensions	<b>1 636 194</b>	1 439 460
	<b><u>2 047 771</u></b>	<u>1 930 265</u>
<b>PSS Fund</b>		
Lump-sum benefits	<b>34 610</b>	36 288
<b>Total benefits paid and payable</b>	<b><u>2 082 381</u></b>	<u>1 966 553</u>

#### (c) Costs of Managing, Investing and Administering the Scheme

Costs of and incidental to the management of the Scheme and the investment of its money are charged against the assets of AIT that are referable to the Scheme. Transactions in respect of these costs have been brought to account in the financial statements of AIT.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 7. FUNDING ARRANGEMENTS (continued)

#### (c) Costs of Managing, Investing and Administering the Scheme (continued)

Expenses met by the AIT and referable to the Scheme are as follows:

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
<b>Investment</b>		
Investment manager fees	<b>24 906</b>	34 486
Custodian fees	<b>2 871</b>	2 805
Investment consultant and other service provider fees	<b>3 494</b>	2 590
Other investment expenses	<b>1 223</b>	1 429
<b>Total direct investment expenses</b>	<b>32 494</b>	41 310
Regulatory fees	<b>1 718</b>	1 878
Other operating expenses	<b>20 531</b>	15 772
<b>Total costs</b>	<b>54 743</b>	58 960

Costs other than those incurred in managing and investing Scheme assets are met by CSC. Administrative fees are paid to CSC by employing agencies to meet these costs. Sponsoring employers have contributed further administration funding of \$27.97 million (2017: \$28.79 million). Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 8. INCOME TAX

	2018	2017
	\$'000	\$'000

#### (a) Income tax recognised in the Income Statement

##### Income tax expense comprises:

Current tax expense	138	139
Deferred tax expense relating to the origination and reversal of temporary differences	5	(2)
<b>Total income tax expense</b>	<b>143</b>	<b>137</b>

The prima facie income tax expense on the operating result before income tax reconciles to the income tax expense in the Income Statement as follows:

<b>Operating result before income tax expense</b>	<b>1 093</b>	<b>1 156</b>
Income tax expense / (benefit) calculated at 15%	164	173
Net change in member benefits from investing activities	262 431	249 102
Investment revenue already taxed	(262 452)	(249 138)
<b>Total income tax expense</b>	<b>143</b>	<b>137</b>

#### (b) Income tax on contributions recognised in Statement of Changes in Member Benefits

##### Contributions received:

Member contributions	579 168	585 716
Employer contributions	191 531	195 685
Government co-contributions	905	1 398
Low income superannuation tax offset	202	371
<b>Total contributions received</b>	<b>771 806</b>	<b>783 170</b>
Contributions tax calculated at 15%	115 771	117 476
Member contributions not subject to tax	(86 875)	(87 857)
Government co-contributions not subject to tax	(136)	(210)
Low income superannuation tax offset not subject to tax	(30)	(56)
Prior year over/(under)	6	-
Rollovers in subject to tax	106	90
<b>Total income tax on contributions</b>	<b>28 842</b>	<b>29 443</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 8. INCOME TAX (continued)

2018	2017
\$'000	\$'000

#### (c) Recognised deferred tax assets

##### Deferred tax assets comprise:

Temporary differences	138	152
	<u>138</u>	<u>152</u>

Taxable and deductible temporary differences arise from the following:

2018	Opening balance \$'000	Charged to income \$'000	Closing balance \$'000
<b>Gross deferred tax assets / (liabilities):</b>			
Interest receivable	(7)	(5)	(12)
Insurance premiums payable	159	(9)	150
<b>Net deferred tax assets</b>	<u>152</u>	<u>(14)</u>	<u>138</u>
2017	Opening balance \$'000	Charged to income \$'000	Closing balance \$'000
<b>Gross deferred tax assets / (liabilities):</b>			
Interest receivable	(9)	2	(7)
Insurance premiums payable	162	(3)	159
<b>Net deferred tax assets</b>	<u>153</u>	<u>(1)</u>	<u>152</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 9. MEMBER LIABILITIES

The Scheme is a defined benefit scheme; however some members of the Scheme have a hybrid interest as components of a member's benefit are treated as accumulation interests. These components can include transfer amounts from other funds and Government contributions such as co-contributions and low income super contributions. These amounts attract investment earnings based on the performance of the PSS Fund and are payable as a lump sum when eligible for release. The defined benefit component is determined through a set formula based on a member's contribution rate, final average salary and length of membership and is not impacted by fund earnings. As such there are considered to be two categories of members with different risk exposures – those with only a defined benefit interest, and those with a hybrid benefit interest comprising defined benefit and accumulation components.

The breakdown of member liabilities into these two member categories is shown in the table below:

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Defined benefit members	<b>45 037 269</b>	42 512 578
Hybrid benefit members	<b>33 617 686</b>	33 113 891
<b>Total member liabilities</b>	<b>78 654 955</b>	75 626 469

The Statement of Changes in Member Benefits has been disaggregated to show amounts related to these member categories. The disaggregated movements have been attributed on a proportional basis considering the relative contributions and benefits for the hybrid member category compared to the total Scheme.

The Scheme engages qualified actuaries on an annual basis to measure defined benefit liabilities. The value of the member liabilities will not necessarily be the same as the value presented in the accounts of the employer sponsor and the Australian Government Long Term Cost Report due to the application of different accounting standards which may result in different valuation assumptions. The liabilities change from year to year as a result of contributions, benefit payments, interest costs and investment returns relative to the actuarial assumptions adopted.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **9. MEMBER LIABILITIES (continued)**

The Scheme uses sensitivity analysis to monitor the potential impact of key changes to key variables about which the assumptions need to be made. The Scheme has identified four assumptions (being the mortality rates, the discount rate/investment returns, the rate of salary adjustment and the inflation rate) for which changes are reasonably possible that would have a material impact on the amount of the defined benefit member liabilities:

- The current mortality assumptions adopted are Scheme specific based on the experience observed. The actuaries have updated these assumptions from the prior year based on analysis of the Scheme's actual experience.

- The assumed discount rate of 6% has been determined by reference to the target investment returns expected on the investment portfolio, which reflect the opportunities reasonably available to the Scheme in the investment markets. There has been no change to this assumption from the prior year.

- The assumed annual salary adjustment of 3.5% has been determined by historical observations over a long term period and in consultation with the employer sponsor. This assumption has reduced from 4% as at 30 June 2017 reflecting continued lower wage growth assumptions over the average expected period of future service of the Scheme's members.

- The assumed inflation rate of 2.5% has been determined based on the mid-point of the Reserve Bank of Australia (RBA) inflation target. There has been no change to this assumption from the prior year.

Other variables about which assumptions have been made in measuring defined benefit member liabilities and for which changes are not considered reasonably possible, or for which reasonably possible changes would not be expected to have a material effect, include resignation rates.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 9. MEMBER LIABILITIES (continued)

The following are sensitivity calculations on a univariate basis for the mortality rates, the discount rate/investment returns, the rate of salary adjustment and the inflation rate assumptions for the Scheme.

Key assumptions	Assumed at reporting date	Reasonably Possible Change	(Increase) / Decrease in member liabilities (\$'000 )
<b>30 June 2018</b>			
Discount rate / Investment returns	6%	+ 1% - 1%	10 321 479 (13 118 969)
Salary adjustment rate	3.5%	+ 1% - 1%	(2 686 984) 2 392 254
Inflation rate	2.5%	+ 1% - 1%	(9 569 962) 7 912 849
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	520 098 (542 658)
<b>30 June 2017</b>			
Discount rate / investment Returns	6%	+ 1% - 1%	10 344 020 (13 251 563)
Salary adjustment rate	4%	+ 1% - 1%	(3 059 570) 2 699 835
Inflation rate	2.5%	+ 1% - 1%	(9 242 286) 7 624 610
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	501 726 (523 142)

\*For example, if the base probability of death is 3.0%, the higher rate is 3.15% and the lower rate is 2.85%



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 9. MEMBER LIABILITIES (continued)

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any other factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their Scheme membership as at the reporting date.

The actuarial estimate of vested benefits at 30 June 2018 is \$88.0 billion (2017: \$85.4 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2018 and elected the option which maximised their benefit entitlement.

The vested benefits have been calculated on the basis of current legislative arrangements as at the reporting date.

### 10. CASH FLOW INFORMATION

<b>(a) Reconciliation of Cash</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>

For the purposes of the Statement of Cash Flows, cash represents cash at bank. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	<u><b>75 585</b></u>	<u>43 484</u>
<b>(b) Reconciliation of operating results after income tax to net cash inflows / (outflows) from operating activities</b>		
<b>Operating result after income tax</b>	<b>950</b>	1 019
Net change in member benefits from investing activities	<b>1 749 541</b>	1 660 677
Changes in fair value of investments	<b>(1 749 681)</b>	(1 660 922)
(Increase)/decrease in interest receivable	<b>(30)</b>	12
(Increase)/decrease in deferred tax assets	<b>5</b>	1
Increase/(decrease) in other payables	<b>(85)</b>	(37)
Increase/(decrease) in income tax payable	<b>-</b>	(2 334)
<b>Net cash inflows/(outflows) from operating activities</b>	<u><b>700</b></u>	<u>(1 584)</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 11. AUDITOR'S REMUNERATION

Amounts paid or payable to the Australian National Audit Office for audit services:

	2018	2017
	\$	\$
Financial statements	48 600	68 825
Regulatory returns and compliance	32 400	35 175
<b>Total</b>	<b>81 000</b>	<b>104 000</b>

The audits were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the AIT that are referable to the Scheme.

Deloitte Touche Tohmatsu have been contracted by the Australian National Audit Office to provide audit services on its behalf. Fees for those services are included above.

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu to the Scheme during the reporting period.

### 12. FINANCIAL INSTRUMENTS

#### (a) Financial instruments management

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The investments of the Scheme (other than cash held for managing contribution receipts, benefit payments and tax payments) comprise units in the AIT. AIT is a pooled superannuation trust which is also governed by the Commonwealth Superannuation Corporation as Trustee. This type of investment has been determined by the Trustee to be appropriate for the Scheme and is in accordance with the Scheme's published investment strategy. The Trustee applies strategies to manage the risk relating to the investment activities of AIT. The investments of AIT are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets in accordance with contractual investment mandates.

#### (b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **12. FINANCIAL INSTRUMENTS (continued)**

#### **(c) Capital risk management**

The RSE licence of the Trustee of the Scheme required the Trustee to maintain a balance of at least \$100 000 in an administration reserve account in the AIT. This requirement was revoked on 24 February 2017. The Trustee of the Scheme was in compliance with this requirement through to the date of revocation. The RSE licence of the Trustee of the Scheme also requires the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect registrable superannuation entities within its business operations in the form of operational risk reserve(s), operational risk trustee capital or a combination thereof to meet the target amount of financial resources that the RSE licensee determines is necessary to respond to these losses. The Trustee of the Scheme was in compliance with this requirement throughout the reporting period.

#### **(d) Categories of financial instruments**

The financial assets and liabilities of the Scheme are recognised at fair value as at the reporting date. Changes in fair value are recognised in the Income Statement and the Statement of Changes in Member Benefits.

#### **(e) Financial risk management objectives**

The Scheme is exposed to a variety of financial risks as a result of its pooled investment in AIT. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Scheme's risk management and investment policies, approved by the Trustee, seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. These policies may include the use of financial derivative instruments.

The Trustee is responsible for ensuring that there is an effective risk management control framework in place for the Scheme. Consistent with regulatory requirements, the Trustee has developed, implemented and maintains a Risk Management Framework to identify the policies, procedures, processes and controls that comprise its risk management and control systems for the Scheme and for the Scheme's investments through the AIT. The overall investment strategy of the Scheme is set out in the Trustee's approved investment policies which address the investment strategy and objectives and risk mitigation strategies including risk mitigation relating to the use of derivatives.

The Trustee's internal investment team monitors and manages the financial risks relating to the Scheme's investments. Derivative Risk Statements set out the strict parameters for the Trustee's investment managers authorised to use derivatives. In essence, derivatives cannot be used to raise the level of risk above the level it would otherwise have been, and derivatives cannot be used to leverage the investments.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 12. FINANCIAL INSTRUMENTS (continued)

#### (e) Financial risk management objectives (continued)

The Scheme's investments are managed on behalf of the Trustee by specialist external investment managers who invest their respective fund allocation in accordance with the terms of a written investment mandate or disclosure document. The Trustee has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with its investment strategy.

#### (f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Scheme. In its capacity as trustee of AIT, the Trustee has adopted a policy of spreading the aggregate value of transactions across approved creditworthy counterparties as a means of mitigating the risk of financial loss. The Scheme's exposure to its counterparties are continuously monitored by the Trustee.

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within AIT exceeded 5% of net assets of that trust at 30 June 2018 or 30 June 2017.

The credit risk on the Scheme's directly held cash and cash equivalents and interest receivable is limited because the counterparty is the Reserve Bank of Australia.

The table below shows the maximum exposure of financial assets to credit risk at the reporting date:

	2018	2017
	\$'000	\$'000
<b>Investments</b>		
Pooled Superannuation Trust - ARIA Investments Trust	20 425 996	19 135 854
<b>Other financial assets</b>		
Cash and cash equivalents	75 585	43 484
Receivables	1 338	3 506
<b>Total</b>	<b>20 502 919</b>	<b>19 182 844</b>

There has been no change to the Scheme's exposure to credit risk or the manner in which it manages and measures that risk during the reporting period.

#### (g) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in either realising assets or otherwise raising sufficient funds to meet its financial liabilities and/or member benefit payments or tax liabilities.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 12. FINANCIAL INSTRUMENTS (continued)

#### (g) Liquidity risk (continued)

The Trustee's approach to managing liquidity is to ensure that the Scheme will always have sufficient liquidity to meet its liabilities and member benefit payments. The Scheme allows members to withdraw benefits, and it is therefore exposed to the liquidity risk of meeting member withdrawals at any time. The Trustee undertakes forecasting and scenario testing of the cashflow requirements of the Scheme to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements.

As a further risk mitigation strategy, it is the Trustee's policy that the target asset allocation to illiquid assets is limited to around 25% of the investments of the AIT (with a plus or minus 10 percentage point rebalancing range around that target). Regular scenario testing is performed to confirm the validity of the strategy.

The following tables summarise the maturity profile of the Scheme's financial liabilities. The tables have been drawn up based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Scheme can be required to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000
<b>30 June 2018</b>					
Benefits payable	11 558	-	-	-	11 558
Other payables	1 020	-	-	-	1 020
Member liabilities	566 457	1 699 370	9 516 963	66 872 165	78 654 955
<b>Total financial liabilities</b>	<b>579 035</b>	<b>1 699 370</b>	<b>9 516 963</b>	<b>66 872 165</b>	<b>78 667 533</b>
<b>30 June 2017</b>					
Benefits payable	13 587	-	-	-	13 587
Other payables	1 168	-	-	-	1 168
Member liabilities	511 708	1 535 126	8 710 938	64 868 697	75 626 469
<b>Total financial liabilities</b>	<b>526 463</b>	<b>1 535 126</b>	<b>8 710 938</b>	<b>64 868 697</b>	<b>75 641 224</b>

There has been no change to the Scheme's exposure to liquidity risk or the manner in which it manages and measures that risk during the reporting period.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **12. FINANCIAL INSTRUMENTS (continued)**

#### **(h) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other market price risk. The policies and procedures put in place to mitigate the exposure to market risk are detailed in the Trustee's investment policies and the Risk Management Framework.

There has been no change to the Scheme's exposure to market risk or the manner in which it manages and measures that risk since the 2017 reporting period.

#### **Foreign currency risk**

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

The Scheme does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Scheme is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee's approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of the AIT, relating to emerging markets, may remain unhedged due to lack of suitable currency instruments for hedging.

#### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2018 and 30 June 2017 had a maturity profile of less than one month.

The Scheme is indirectly exposed to interest rate risk through its investments in AIT. The Trustee manages interest rate risk through its investment strategy including diversification of asset allocation and the use of a diversity of specialist investment sector managers.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 12. FINANCIAL INSTRUMENTS (continued)

#### (h) Market risk (continued)

##### Interest rate risk (continued)

The following table illustrates the Scheme's sensitivity to a 0.2% p.a. (2017: 0.3%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of a reasonably possible change in interest rates. Had interest rates been lower or higher by 0.2% (2017: 0.3%) at reporting date, and all other variables were held constant, the financial result would have improved / (deteriorated) as demonstrated:

	Carrying amount \$'000	Interest rate risk \$' 000			
		Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
<b>2018</b>		<b>-0.2%</b>		<b>+0.2%</b>	
Cash and cash equivalents	75 585	(151)	(151)	151	151
2017		-0.3%		+0.3%	
Cash and cash equivalents	43 484	(130)	(130)	130	130

In the Trustee's opinion, the sensitivity analysis at reporting date approximates the direct interest rate exposures of the Scheme during the financial year.

##### Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all similar financial instruments traded in the market.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 12. FINANCIAL INSTRUMENTS (continued)

#### (h) Market risk (continued)

##### Other price risk (continued)

The Scheme's investment in AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in AIT is carried at fair value recognised in the Income Statement, all changes in market conditions will directly affect the Scheme's net investment income.

In its capacity as trustee of AIT, the Trustee manages the market price risk arising from these investments by diversifying the portfolio in accordance with its investment strategy.

The following table illustrates the Scheme's sensitivity to a reasonably possible change in the value of its investment in AIT, based on risk exposures at reporting date. The volatility factor of 4.0% (2017: 4.2%) represents the average annual volatility in the default option unit price of the Scheme's investment in the AIT. For the Cash option and the investments backing the operational risk reserve a factor of 0.2% (2017: 0.3%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at the reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as follows:

	Change in price	Carrying amount \$'000	Price risk \$' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
<b>2018</b>			(Lower price)		Higher price	
<b>Financial Assets</b>						
ARIA Investments Trust:						
Default option	-/+4.0%	20 308 286	(812 331)	(812 331)	812 331	812 331
Cash option	-/+0.2%	50 273	(101)	(101)	101	101
Operational risk reserve	-/+0.2%	67 437	(135)	(135)	135	135
Total increase / (decrease)		20 425 996	(812 567)	(812 567)	812 567	812 567
<b>2017</b>						
<b>Financial Assets</b>						
ARIA Investments Trust:						
Default option	-/+4.2%	19 020 653	(798 867)	(798 867)	798 867	798 867
Cash option	-/+0.3%	51 057	(153)	(153)	153	153
Operational risk reserve	-/+0.3%	64 144	(192)	(192)	192	192
Total increase / (decrease)		19 135 854	(799 212)	(799 212)	799 212	799 212

In the Trustee's opinion, the sensitivity analysis at reporting date is representative of the other market price exposures during the financial year.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 12. FINANCIAL INSTRUMENTS (continued)

#### (i) Fair value measurements

The Scheme's financial instruments are included in the Statement of Financial Position at fair value. The fair value is determined per the accounting policies in Note 3.

#### Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of the Scheme's financial instruments whereby the assets and liabilities are each grouped into one of three categories based on the degree to which their method of valuation is observable.

**Level 1:** fair value measurements are those derived from quoted prices in active markets.

**Level 2:** fair value measurements are those derived from inputs (other than quoted prices included within Level 1) that are observable such as prices or derived from prices.

**Level 3:** fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2018</b>				
<b>Financial Assets</b>				
Pooled superannuation trust	-	20 425 996	-	20 425 996
<b>2017</b>				
<b>Financial Assets</b>				
Pooled superannuation trust	-	19 135 854	-	19 135 854

There were no transfers between Level 1 and 2 in the period.

Units in the pooled superannuation trust are valued daily based on the latest listed and unlisted market prices and values of the underlying investments, less any tax and expenses.

#### Reconciliation of Level 3 fair value measurements

There were no Level 3 financial assets or liabilities for the period.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **13. RELATED PARTIES**

#### **(a) Trustee**

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. No fees were charged to the Scheme or its assets by CSC for acting as Trustee of the Scheme during the reporting period.

#### **(b) Key Management Personnel**

The Directors of CSC throughout the year ended 30 June 2018 and to the date of the report were:

Ariane Barker	Sunil Kemppi
Patricia Cross (Chair)	Anthony Needham
Christopher Ellison	Peggy O'Neal
Nadine Flood	Margaret Staib
Winsome Hall	Michael Vertigan
Garry Hounsell	

In addition to the Directors listed above, the following executives of the Trustee had authority and responsibility for planning, directing and controlling the activities of the Scheme throughout the year ended 30 June 2018:

Paul Abraham	Executive Manager, Investment Operations
Peter Carrigy-Ryan	Chief Executive Officer
Robert Firth	Head of Risk
Philip George	Executive Manager, Program Management (Previously General Manager, Scheme Administration until 6 August 2017)
Richard Hill	Executive Manager, Technology
Bronwyn McNaughton	Executive Manager, Corporate
Christine Pearce	Executive Manager, Member & Employer Services
Alison Tarditi	Chief Investment Officer
Philip Yardy	Executive Manager, Scheme Administration (Commenced 7 August 2017)
Andy Young	Chief Operating Officer (Previously General Manager, Finance until 31 May 2018)

The following changes to the executives of the Trustee were made subsequent to 30 June 2018:

Alana Scheiffers	Head of Legal & Compliance (From 1 July 2018)
Adam Nettheim	Head of Scheme Operations (From 6 August 2018)
Philip Yardy	Executive Manager, Scheme Administration (Contract ended 3 August 2018)
Christine Pearce	Services Transformation Lead (Previously Executive Manager, Member & Employer Services until 9 September 2018)

Winsome Hall and Bronwyn McNaughton are members of the Scheme. The terms and conditions of their membership, or those of any related parties are the same as for any other member who is not part of the key management personnel of the the Scheme.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

### 13. RELATED PARTIES (continued)

#### (c) Key Management Personnel Compensation

The aggregate compensation of the key management personnel is set out below:

	2018	2017
	\$	\$
Short-term employee benefits	1 077 743	920 822
Post-employment benefits	91 822	94 412
Other long-term benefits	86 462	71 102
Termination benefits	-	50 132
	<u>1 256 027</u>	<u>1 136 468</u>

Aggregate compensation in relation to the Scheme is a pro-rata apportionment of the overall compensation paid by the Trustee, based on the net assets of the entities under its trusteeship or actual control.

The compensation of key management personnel (including Directors) related to investment management is charged against assets of the AIT that are referable to the Scheme.

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally-related entities at any time during the year.

#### (d) Investing entities

Throughout the year ended 30 June 2018, the Scheme's only investment consisted of units in AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

The other investors in AIT throughout the year were the Commonwealth Superannuation Scheme, the Public Sector Superannuation Accumulation Plan and the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme. All investing transactions are conducted under normal industry terms and conditions.

The Trustee of the Scheme, Commonwealth Superannuation Corporation, is the trustee of the following regulated superannuation schemes: Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme.

The Trustee pays costs of and incidental to the management of the Scheme and the investment of its money from the assets of the AIT that are referable to the Scheme (see Note 7(c)). No fees were charged for acting as Trustee during the year ended 30 June 2018 (2017: \$nil).

The Scheme held the following investments in related parties at 30 June:

	Fair Value of Investment	Fair Value of Investment	Share of Net Income after tax	Share of Net Income after tax
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
ARIA Investments Trust	20 425 996	19 135 854	1 749 681	1 660 922
	<u>20 425 996</u>	<u>19 135 854</u>	<u>1 749 681</u>	<u>1 660 922</u>

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2018

### **14. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

The Scheme had no capital or other expenditure commitments at 30 June 2018 (2017: \$nil).

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustee, these requests do not represent a material liability on the Scheme.

There were no other contingent liabilities or contingent assets for the Scheme at 30 June 2018 (2017: \$nil).

### **15. SUBSEQUENT EVENTS**

No matters have arisen since 30 June 2018 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.