



**POLICE
SUPERANNUATION
BOARD**

Annual Report



2013/2014





SA Police Super

Police Superannuation Scheme



Ground Floor
151 Pirie Street, Adelaide SA 5000
Telephone (08) 8204 2964
Facsimile (08) 8204 2303
admin@policesuper.sa.gov.au
www.policesuper.sa.gov.au
ABN 68 265 633 782

24 September 2014

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

Dear Minister

Police Superannuation Board – Annual Report 2013 - 2014

The Police Superannuation Board submits to you for presentation to Parliament its Annual Report for the year ended 30 June 2014.

(M A Ramm)
Presiding Member
Police Superannuation Board

CONTENTS

PRESIDING MEMBER'S REPORT	4
POLICE SUPERANNUATION BOARD	5
POLICE SUPERANNUATION SCHEME	8
Police Superannuation Fund	8
Membership	10
Incapacity for Employment	12
Pensions	13
FINANCIAL STATEMENTS	
Police Superannuation Scheme	19
Independent Audit Report	39

PRESIDING MEMBER'S REPORT

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

The Scheme was closed to new entrant police officers in 1990 and as at 30 June 2014 had a total of 3,013 members. The Board approved claims for invalidity benefits from nine members during 2013-2014. The finalised claims were for total and permanent invalidity benefits. There were three new temporary disability pension approved during the same period.

Overview of the year ended 30 June 2014

- Total funds under management with Funds SA as at 30 June 2014 was \$1.28 billion, compared with \$1.09 billion as at 30 June 2013.
- The net investment return from Funds SA for the Pension Scheme as at 30 June 2014 was 14.8 percent.
- Member information sessions for metropolitan and country areas were introduced in July 2013 and as at 30 June a total of 535 members had attended the sessions.
- The Board reviewed its Policies and Procedures, Financial Management Compliance Program and Risk Management Plan and Policy.

The Board met eleven times during 2013-2014 and I thank the Board members for their valuable and well-presented contributions. Achieving timely and appropriate outcomes in respect of all matters has been the primary focus of the Board. In this regard, staff advice and recommendations in respect of meeting business has been greatly appreciated by all Board members.

Mr D Reynolds resigned as a deputy member of the Board and was appointed as a member of the Board, effective 17 October 2013. Mr T Milne and Mr A Cannon were appointed as deputy members of the Board, effective 17 October 2013.

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

The Police Super manager and his staff have maintained the probity, effectiveness and efficiency of the Scheme through policy and process review and innovation, especially in the fields of electronic management of data and staff training. Of further significance, audit results have been exceptional and working relationships with other agencies are creditable.

M A Ramm
Presiding Member

POLICE SUPERANNUATION BOARD

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

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

The Board's values are:

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

The Board's objectives are:

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

Board Membership as at 30 June 2014

During 2013-2014 the Board met on 11 occasions and the current Board and Deputy members are listed below:

Mr M A Ramm RFD	appointed as Presiding Member by the Governor on the Minister's nomination (Deputy Member Mr G Powell) (Appointment to 29 October 2014)
Chief Inspector K L Howie	appointed as Member by the Governor on the Minister's nomination (Deputy Member Mr F Pit APM) (Appointment to 29 October 2014)
Mr K J Oakley APM	appointed as Member by the Governor on the Minister's nomination (Deputy Member Chief Superintendent L Fellows APM) (Appointment to 22 February 2015)

Sergeant B H Zimmermann	appointed as Member by the Governor on the nomination of the Police Association of South Australia (Deputy Member Sergeant A Cannon) (Appointment to 29 October 2014)
Senior Constable First Class D Reynolds	appointed as Member by the Governor on the nomination of the Police Association of South Australia (Deputy Member Senior Sergeant T Milne) (Appointment to 29 October 2014)

Administration Services

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

- has 4 permanent and one contract positions; and
- utilises the services and facilities of SAPOL, Funds SA, the Department of Treasury and Finance, the Crown Solicitor and the Auditor-General for administrative, investment management, actuarial, consultancy, legal and auditing services.

Administration Expenses

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

The Board's administration expenses for the financial year ended 30 June, 2014 amounted to \$630,000 an increase of \$51,000 over the previous year. The amount of \$630,000 comprised of staff salaries, computer systems expenses, accommodation costs and actuarial fees. Of the \$630,000, \$553,000 (\$508,000 in 2012-2013) was paid to SA Government entities.

In accordance with the provisions of the *Police Superannuation Act 1990* the Police Superannuation Fund is required to reimburse the Police Employer Account an amount of \$190,000 for the prescribed share (30 percent) of the administration expenses incurred during 2013-2014. The balance of \$440,000 (70 percent) is met from the Employer Contribution Account.

Funds under Management

At 30 June 2014 the Board had total funds of \$1.28 billion under management with the Superannuation Funds Management Corporation of South Australia. This compares with \$1.09 billion as at 30 June 2013.

Board Remuneration

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

Total remuneration received or due and receivable by the members and deputy members of the Board in 2013-2014 was \$10,000 (\$9,000 in 2012-2013).

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

Total Remuneration	Number of Members	
	2014	2013
Nil	2	3
\$1 - \$10,000	3	2

Computing

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

The Board's Manager IT is working to develop a new superannuation system using new database and development technologies which will provide significant flexibility for system redevelopment, ongoing maintenance and, most importantly, greater support options.

Changes in Legislation

During 2013-2014 there was one legislative change made to the *Police Superannuation Act 1990* in reference to unclaimed superannuation monies.

The Statutes Amendment and Repeal (Superannuation) Act 2012 came into operation on 15 June 2014. Under this change the Board is required to calculate and report any unclaimed monies to the Commissioner of Taxation (by 31 October each year). The Board had no unclaimed monies during 2013-2014.

Compliance Statement

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

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

In February 2014 the Agreement was revised, amended and updated in line with the SIS Act and other relevant legislation.

Risk Management

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

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

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

Strategic Objectives

During 2014-2015 the Board will establish its strategic objectives for the Police Super Office and the administration of the Police Superannuation Scheme for 2014-2015 and future years.

The key topics to be examined by the Board include review of computer hardware and software, new computer administration systems, member services and communications, website modifications, Board member and staff training and the ongoing review of the Board's policies and procedures, the Financial Compliance Management Program and Risk Management Plan and Policy.

POLICE SUPERANNUATION SCHEME

POLICE SUPERANNUATION FUND

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

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

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

During 2013-2014 the Fund's prescribed proportion of benefit payments for members of the Pension Scheme was 19 percent in line with the recommendations of Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd in the most recent triennial Actuarial Report as at 30 June 2011.

For the year ended 30 June 2014, \$6.6 million (\$6.8 million in 2012-2013) was deposited into the Fund by members. The net investment income derived by Funds SA from investment of the Fund for the year ended 30 June 2014 amounted to \$58.1 million, compared to \$56.2 million in the previous year.

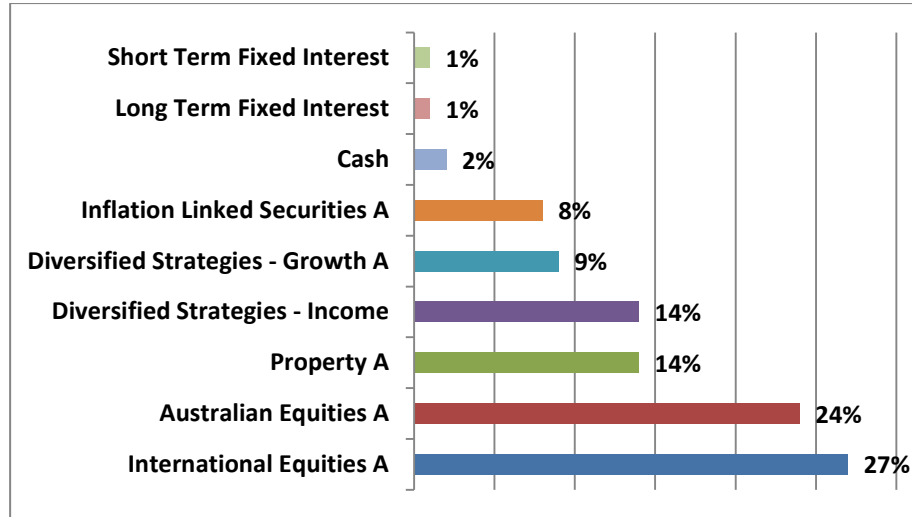
An amount of \$14.8 million (\$13 million in 2012-2013) was paid from the Fund during 2013-2014 in respect of benefits for members of the Pension Scheme.

As at 30 June 2014 the balance of the Fund stood at \$444.1 million. This compares with the total of \$394.3 million as at 30 June 2013.

Investment Activity

The market value of the Fund at 30 June, 2014 was \$444.1 million, an increase of \$49.8 million on the previous year.

The allocation of the Fund's assets by Funds SA as at 30 June 2014 is shown below:



The financial statements present a consolidated financial statement of the Police Superannuation Scheme for the year ended 30 June 2014, together with the report of the Auditor General.

Investment Returns

For the financial year 2013-2014 Funds SA's net investment return (money weighted return, net of investment fees and the Board's administration expenses) for the Pension Scheme was 14.8 percent.

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

Investment Returns						
Scheme	2010	2011	2012	2013	2014	5 years annualised
Pension	12.2%	11.3%	1.7%	16.4%	14.8%	11.2%

Fund Crediting Rates

Member Contribution Accounts

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

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

The Board declared an end of year crediting rate of 14.8 percent to be applied to member contribution accounts as at 30 June 2014.

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

Member Contribution Accounts Crediting Rates						
Scheme	2010	2011	2012	2013	2014	5 years annualised
Pension	12.2%	11.3%	1.7%	16.4%	14.8%	11.2%

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

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

Actuarial Review

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

The last actuarial investigation into the Police Superannuation Fund, based on the state of the Fund as at 30 June 2011, was carried out by Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd. The Actuarial Report of that investigation was dated 19 March 2012 and was tabled in Parliament on 1 May 2012.

During 2013-2014 the Employer and Fund's prescribed proportions of benefit payments for members of the Pension Scheme were 81 and 19 percent respectively. The Government contribution for future service liabilities was 20.5 percent of member salaries.

The next actuarial investigation into the Police Superannuation Fund will be based on the state of the Fund as at 30 June 2014, and a report is required to be provided to the Minister by 30 June 2015.

MEMBERSHIP

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

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

Members as at 30 JUNE			
Member Category	Pension Scheme	Total 2013/2014	Total 2012/2013
Contributors	1,339	1,339	1,429
Preserved	108	108	120
TOTAL	1,447	1,447	1,549

The contributors to the scheme as at 30 June 2014 comprised 1,125 male and 214 female police officers.

Age Distribution of Contributing Members as at 30 JUNE			
Age	Pension Scheme	Total 2013/2014	Total 2012/2013
30 - 39	0	0	0
40 - 49	406	406	484
50 - 59	857	857	867
60 and over	76	76	78
TOTAL	1,339	1,339	1,429

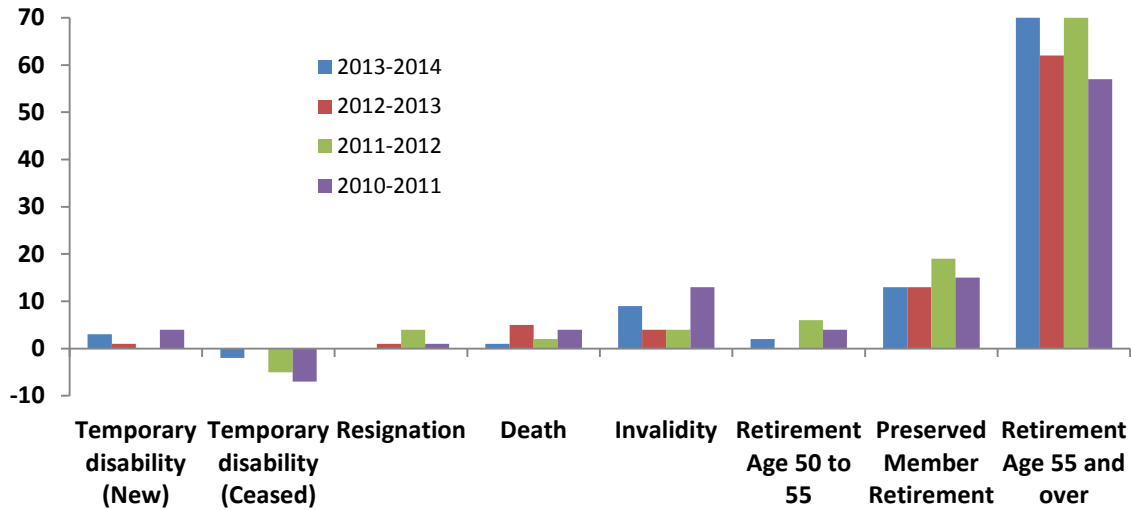
Member Contributions

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

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

Member Contributions		
Scheme	2013/2014 \$,000	2012/2013 \$,000
Pension	6,648	6,785
TOTAL	6,648	6,785

During 2013-2014 there was a total of 102 exits from the Pension Scheme (90 contributors and 12 preserved), an increase of 16 on the previous year.



As illustrated in the previous chart the majority of member exits during 2013-2014 were age retirements from Age 55 and over. During 2013-2014 no contributors ceased membership of the scheme and elected to take a cash withdrawal benefit (1 in 2012-2013). A total of 2 contributors resigned from SAPOL and elected to preserve a benefit in the Pension Scheme during 2013-2014 (4 in 2012-2013).

INCAPACITY FOR EMPLOYMENT

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

Medical and Psychological Advice

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

Temporary Incapacity

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

During 2013-2014, there were 3 new temporary disability pension approved by the Board.

Invalidity Retirement

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

1) Total and Permanent Disablement

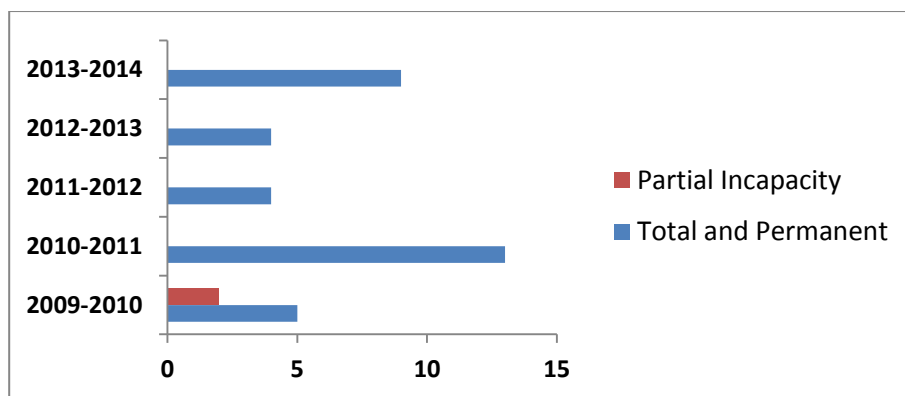
If the Board is satisfied the member's incapacity for all kinds of work (both inside and outside the police force) is 60 percent or more, and is likely to be permanent, the member of the Pension Scheme is entitled to an indexed pension for life.

2) Partial Disablement

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

After consideration of appropriate and professional independent advice, the Board approved the payment of 9 claims as total and permanent disablement pension benefits for the year ended 30 June 2014. The claims of the 4 members of the Pension Scheme were approved for payment, following their resignation from SAPOL, on the grounds of invalidity, being accepted by the Commissioner of Police.

The following chart shows the number of total and permanent and partial incapacity retirements over the past five years.



PENSIONS

A total of 1,566 pensions were being paid under the Pension Scheme as at 30 June 2014, an increase of 68 on the previous year.

The average age of the 26 aged pensioners who died during 2013-2014 was 83 and their average number of years in retirement was 24.

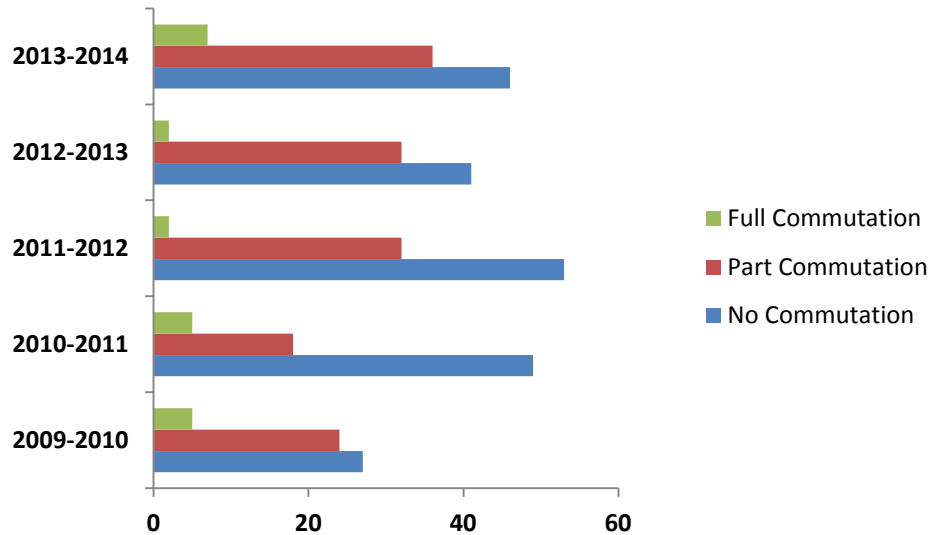
Pension Recipients					
	Member Age (55 and over)	Invalidity Temporary Disability	Spouse	Child	Total
Payable as at 1/7/2013	901	200	371	26	1,498
New	89	12	21	4	126
Reinstated				1	1
Ceased due to:					
-Pensions ceased (Temporary Pension)	-	(2)	-	-	(2)
-Death	(26)	(6)	(14)	-	(46)
-100% Commutation	(7)	-	-	-	(7)
-Child attaining age 16 or ceasing to be student				(4)	(4)
Payable as at 30/6/2014	957	204	378	27	1,566

Commutation of Pension

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

A total of 89 members (76 contributors and 13 preserved members) of the Pension Scheme were eligible to commute part of their pension into a lump sum during 2013-2014.

The following table provides details of the number of members who elected to take a full, part or no commutation of pension during 2013-2014.



The following table shows the details of average commutations and pensions paid to members during 2013-2014.

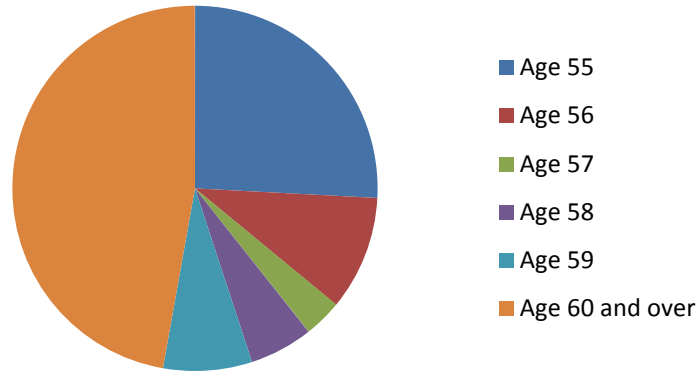
Commutations and pensions				
Category	Retirements Age 55 and over	Preserved Retirements	Average Lump Sum	Average Pension pa
No Commutation	38	8	-	\$56,490
Part Commutation	36	-	\$177,590	\$52,291
Full Commutation	2	5	\$289,029	-

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

Comparison Of Number Of Pensioners					
	2010	2011	2012	2013	2014
Age 55 and over	732	784	850	901	957
Invalidity Temporary Disability	210	214	204	200	204
Spouse Pensions	354	357	361	371	378
Child Allowances	33	27	28	26	27
TOTAL	1329	1382	1443	1498	1566

Retirement Benefits 55 years of age and over

During 2013-2014 a total of 89 members (76 contributors and 13 preserved members) of the Pension Scheme retired at 55 years of age or over. The following chart illustrates the majority of retirements during 2013-2014 were members aged 60 and over. The average age of the 89 members who retired at 55 years of age or over was 59.



The following table shows benefit payments approved on behalf of members of the Pension and Lump Sum schemes during 2013-2014.

Benefits Payments				
Category	Pension Scheme \$000	Total 2013/2014 \$000	Total 2012/2013 \$000	
Pensions	58,863	58,863	53,351	
Commutations	11,054	11,054	7,725	
Lump Sums	7,878	7,878	7,316	
Government Co-contributions	3	3	26	
TOTAL	77,798	77,798	68,418	

Retirement Benefits 50 - 55 Years of Age

During 2013-2014 there were 2 members of the Pension Scheme who retired under 55 years of age (0 in 2012-2013).

Indexations of Pensions

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

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

In October 2013, the adjustment to pensions was based on the percentage variation between the Consumer Price Index for Adelaide (CPI) for the June quarter of 2013 and the CPI for the December quarter of 2012. The percentage variation in the CPI for the period was 0.2 percent.

In October 2013, pensions which commenced prior to 1 June 1990 were indexed by 0.27 percent. Pensions which commenced on or after 1 June 1990 were indexed by 0.2 percent.

In April 2014, the adjustment to pensions was based on the percentage variation between the Consumer Price Index for Adelaide (CPI) for the December quarter of 2013 and the CPI for the June quarter of 2013. The percentage variation in the CPI for the period was 2.05 percent.

In April 2014, pensions which commenced prior to 1 June 1990 were indexed by 2.73 percent. Pensions which commenced on or after 1 June 1990 were indexed by 2.05 percent.

Employer Contribution

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

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

During 2013-2014 the Employer's prescribed proportion of benefit payments for members of the Pension Scheme was 81 percent in line with the recommendations of Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd in the most recent triennial Actuarial Report as at 30 June 2011.

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

For the year ended 30 June 2014, \$28.6 million (\$29.3 million in 2012-2013) was deposited into the Police Employer Account by SAPOL in relation to employer contributions on behalf of members. For the year ended 30 June 2014 \$64.7 million (\$67.1 million in 2012-2013) was transferred to the Police Employer Account by the Government in respect of funding its past service superannuation liabilities.

The net investment income derived by Funds SA from investment of the Police Employer Account for the year ended 30 June 2014 amounted to \$107.1 million, compared to \$95.8 million in the previous year.

An amount of \$63 million (\$55.4 million in 2012-2013) was paid from the Police Employer Account during 2013-2014 in respect of benefits for members of the Pension Scheme.

As at 30 June 2014 the balance of the Police Employer Account stood at \$832.6 million. This compares with the total of \$695.8 million as at 30 June 2013.

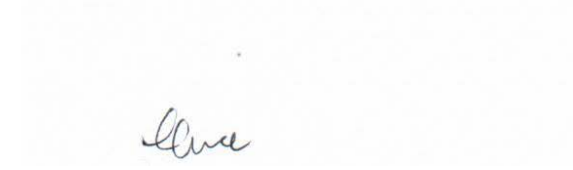
ACKNOWLEDGMENT

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



M A Ramm, RFD. Presiding Member

Date 24/09/2014



K L Howie, Member.

Date 24/09/2014



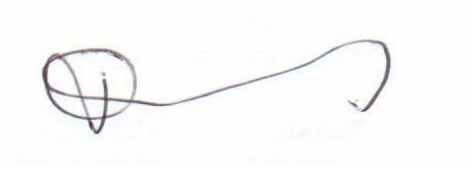
K J Oakley, APM. Member

Date 24/09/2014



B H Zimmermann, Member.

Date 24/09/2014



D L Reynolds, Member.

Date 29/09/2014

THANKS TO BOARD'S SERVICE PROVIDERS

Administrative Services

SAPOL
100 Angas Street
Adelaide SA 5000

Actuarial and Consultancy Services

Department of Treasury and Finance
State Administration Centre
200 Victoria Square
Adelaide SA 5000

Auditor

Auditor General
Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000

Funds Manager

Funds SA
Level 3
63 Pirie Street
Adelaide SA 5000

Legal Services

Crown Solicitor
Level 9
45 Pirie Street
Adelaide SA 5000

POLICE SUPERANNUATION BOARD CONTACT DETAILS

Ground Floor
151 Pirie Street
Adelaide SA 5000

Telephone: (08) 8204 2964
Facsimile: (08) 8204 2303
E-mail: admin@policessuper.sa.gov.au
Website: www.policessuper.sa.gov.au



POLICE SUPERANNUATION SCHEME

STATEMENT BY RESPONSIBLE OFFICERS FOR 30 JUNE 2014

We certify that the:

- financial statements of the Police Superannuation Board:
 - are in accordance with the accounts and records of the authority; and
 - comply with relevant Treasurer's instructions; and
 - comply with relevant accounting standards; and
 - present a true and fair view of the financial position of the authority at the end of the financial year and the result of its operations and cash flows for the financial year.
- internal controls employed by the Police Superannuation Board over its financial reporting and its preparation of the financial statements have been effective throughout the financial year.



(M A Ramm)
Presiding Member
Police Superannuation Board

19/9/2014



(M D Hogg)
Manager
Police Super

10/9/2014

Financial Statements for the year ended 30 June 2014

Statement of Net Assets as at 30 June 2014

	Note	\$'000	\$'000	2014 \$'000	2013 \$'000
INVESTMENTS					
Inflation linked Securities A		96,480			83,097
Property A		180,657			161,954
Australian Equities A		305,176			272,105
International Equities A		349,683			296,867
Long Term Fixed Interest		20,354			18,623
Short Term Fixed Interest		6,892			8,993
Diversified Strategies - Growth A		109,273			92,892
Diversified Strategies - Income		178,258			144,789
Cash		29,704			11,404
Total Investments	9		1,276,477		1,090,724
<i>Plus:</i>					
OTHER ASSETS					
Cash and cash equivalents		640			536
Contributions Receivable		504			417
Sundry Debtors		5			10
Total Other Assets			1,149		963
Total Assets				1,277,626	1,091,687
<i>Less:</i>					
CURRENT LIABILITIES					
Benefits Payable		729			1,519
Sundry Creditors		146			127
Total Liabilities				875	1,646
NET ASSETS AVAILABLE TO PAY BENEFITS				1,276,751	1,090,041

Statement of Changes in Net Assets for the year ended 30 June 2014

	Note	\$'000	\$'000	2014 \$'000	2013 \$'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY				1,090,041	903,823
REVENUE					
Investment Revenue			173,420		157,970
Other Income			31		32
CONTRIBUTIONS REVENUE	10				
Past Service Liability		64,700			67,100
Employer Contributions		28,553			29,276
Member Contributions		6,648			6,785
Government Co-Contributions		3			26
Total Contribution Revenue			99,904		103,187
Total Revenue			273,355		261,189
EXPENSES					
Direct Investment Expense	6		(8,217)		(5,974)
Administrative Expense	6		(630)		(579)
BENEFITS PAID	11				
Pensions		(58,863)			(53,351)
Commutations		(11,054)			(7,725)
Lump Sums		(7,878)			(7,316)
Government Co-Contributions		(3)			(26)
Total Benefits Paid			(77,798)		(68,418)
Total Expenses			(86,645)		(74,971)
NET INCREASE IN FUNDS				186,710	186,218
NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE				1,276,751	1,090,041

POLICE SUPERANNUATION SCHEME

Notes to and Forming Part of the Financial Statements

1. Objectives and Funding

(a) Police Superannuation Scheme

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

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

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

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

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

(b) *Police Superannuation Board*

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

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

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

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

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

(d) Funding Arrangements

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

The Treasurer may also seek reimbursement of the employer portion of the benefit payment from the employer contributions made by SAPOL which are deposited into the Police Employer Account. Employer contributions are based on a percentage of salary at rates based on actuarial valuations. The rate for 2013-2014 was 20.5 percent.

For 2013-2014 the Police Employer Account's and the Fund's prescribed proportions of benefit payments for members of the Scheme were 81 percent and 19 percent respectively.

The rate of employer contribution and the Police Employer Account's and the Fund's prescribed proportions of benefit payments are in accordance with the recommendations of Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd in the most recent triennial Actuarial Report as at 30 June 2011.

For the year ended 30 June 2014 \$28.6 million (\$29.3 million in 2012-2013) was deposited into the Police Employer Account in relation to employer contributions on behalf of members.

Since 30 June 1994 the Government adopted a policy of fully funding its superannuation liabilities with a target of achieving full funding by 2034. This will require contributions at levels higher than the current employer contributions to meet the accruing liability for current employees. For the year ended 30 June 2014 the Government transferred a further \$64.7 million to the Police Employer Account to meet liabilities in respect of the Scheme (\$67.1 million in 2012-2013).

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

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

AAS 25 “Financial Reporting by Superannuation Plans” (AAS 25) is the principal standard applied in preparing this financial report. Other Accounting Standards are also applied where necessary except to the extent that they differ from AAS 25. A number of Australian Accounting Standards and interpretations that have recently been issued or amended, but are not yet effective, have not been adopted for the reporting period ending 30 June 2014. AASB 1056 *Superannuation* entities was recently issued and becomes mandatory for the Board’s financial statements in 2016-2017. The Board does not plan to adopt this standard early and the extent of the impact has not yet been determined.

The financial report has been prepared on an accrual basis and in accordance with the historical cost convention, except for the valuation of investments, which are measured at net market value.

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

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Assets of the Scheme have been measured at net market value, which are provided by Funds SA.

(i) Inflation Linked Securities A

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

Externally Managed Inflation Linked Securities

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

Internally Managed Inflation Linked Securities

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

(ii) Property A

The Property A portfolio comprises two sub-sectors:

Listed property trusts

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

Unlisted property vehicles

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

(iii) Australian Equities A

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

(iv) International Equities A

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

(v) Long Term and Short Term Fixed Interest

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

(vi) Diversified Strategies - Growth A

The Diversified Strategies - Growth A portfolio comprises investments in domestic (Australian) and overseas private equity funds and domestic (Australian) and overseas pooled funds, which are invested and managed by external managers. Valuations of private equity funds are based on the most recently available valuations by the relevant managers. Both domestic and international funds valuations are generally in accordance with the International Private Equity Venture Capital Valuation Guidelines (December 2012). Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(vii) Diversified Strategies - Income

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

(viii) Cash

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

(c) Taxation

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

(d) Revenue

Superannuation contributions and other revenue are brought to account on an accrual basis.

Investment revenue represents the change in market value due to the movement in the value of funds invested with Funds SA.

(e) Operation of Investment Portfolio

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 2014, funds of the Scheme were invested in the Growth option.

Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to the investment option.

(f) Receivables and Payables

Contributions receivable are contributions relating to the 2013-2014 financial year received by the Scheme after 30 June 2014.

Other receivables are carried at nominal amounts due which approximate fair value. Payables are recognised when the Scheme is obligated to make future payments for services received and are carried at the amount payable on demand.

Benefits payable relate to members who have ceased employment and provided the Scheme with appropriate notification prior to 30 June 2014 but who had not been paid until after 30 June 2014.

(g) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Statement of Net Assets are shown inclusive of GST.

(h) Comparative Information

The presentation and classification of items in the financial report are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard has required a change.

Where presentation or classification of items in the financial report has been amended, comparative amounts have been reclassified unless reclassification is impracticable.

3. Liability for Accrued Benefits

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

The accrued benefit liabilities are the present values of expected future benefit payments arising from membership of the Scheme up to 30 June 2014 and were based on membership data as at 30 June 2014.

The expected future benefit payments have been determined using the 2011 triennial review assumptions relating to mortality, disability, withdrawal, preservation, and retirement. The review's salary promotion scale has also been used, while general salary increases of 1.5 percent per annum above the level of increase in the Consumer Price Index (CPI) have been allowed for. In accordance with Australian Accounting Standard AAS25 "Financial Reporting by Superannuation Plans", the expected future benefit payments have then been discounted to present values by a market-based, risk-adjusted discount rate. A discount rate of 4.5 percent per annum above CPI has been applied.

Accrued Benefits		
	2014	2013
	Pension Division	Pension Division
	\$000	\$000
Changes in the liability for accrued benefits:		
Liability for accrued benefits at 1 July	1,903,780	1,833,300
Add: Benefits expense	155,595	139,477
Less: Benefits paid	77,798	68,418
Less: Administration expense	630	579
Liability for accrued benefits at 30 June	1,980,947	1,903,780
Represented by:		
Fund Old Scheme Account	377,610	362,860
Police Employer Account	1,603,337	1,540,920
Totals	1,980,947	1,903,780

Pursuant to the Act, actuarial reviews of the Scheme must be conducted every three years to address the cost of the Scheme to Government and the proportion of future benefits that can be met from the Fund.

The last actuarial review as at 30 June 2011 was carried out by Mr G Keen, FIAA and Mr L Brett, FIAA of Brett & Watson Pty Ltd. The report dated 19 March 2012 was tabled in Parliament on 1 May 2012. The following recommendations were made in the report:

- a) The funding proportion for the Fund to be increased from 17.5 percent to 19 percent.

- b) The Government contribution for future service liabilities for the Pension Division remains at the current level of 20.5 percent.

In line with the above recommendations the funding proportion for the Fund Old Scheme Division during 2013-2014 was 19 percent and the Government contribution for future service liabilities for 2013-2014 was 20.5 percent.

The actuarial reviews take account of assets held, future contributions to be received from members and future benefits to be paid by the Fund. In contrast, the purpose of the accrued liability calculations, which are made annually, is to estimate the value of future payments that can be attributed to service up to the date of the calculation.

4. Vested Benefits

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

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

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

Vested Liabilities		
	2014	2013
	Pension Division	Pension Division
	\$000	\$000
Fund Old Scheme Account	379,188	361,344
Police Employer Account	1,607,908	1,533,816
Totals	1,987,096	1,895,160

5. Guaranteed Benefits

Contributors' benefit entitlements are set out in the Act.

6. Administration and Direct Investment Expenses

Administration expenses incurred by the Board are financed in the first instance from the Police Employer Account through a Special Deposit Account. Pursuant to section 10(7) of the Act, the Fund is required to meet a prescribed proportion, currently 30 percent, of the administration expenses incurred by the Scheme.

Administration expenses incurred by the Scheme for 2013-2014 amounted to \$630,000 (\$579,000 in 2012-2013) of which the Fund is required to reimburse \$190,000 (\$173,000 in 2012-2013) to the Scheme through the Police Employer Account. Of the \$630,000, \$553,000 (\$508,000 in 2012-2013) was paid to SA Government entities.

Direct investment expenses comprise fees paid to Funds SA. Funds SA advises the amount based on the Scheme's proportionate investment.

7. Remuneration of Board Members

The following are members of the Board who served during 2013-2014, along with the period served.

Board Member	Period Served during 2013-2014		
Michael Ramm	1/07/2013	to	30/06/2014
Keryl Howie*	1/07/2013	to	30/06/2014
Kingsley Oakley	1/07/2013	to	30/06/2014
Bernadette Zimmermann*	1/07/2013	to	30/06/2014
David Reynolds*	17/10/2013	to	30/06/2014
Deputy Member	Period Served during 2013-2014		
Garry Powell *	1/07/2013	to	30/06/2014
Ferdi Pit	1/07/2013	to	30/06/2014
Linda Fellows*	1/07/2013	to	30/06/2014
David Reynolds*	1/07/2013	to	16/10/2013
Allan Cannon*	17/10/2013	to	30/06/2014
Trevor Milne*	17/10/2013	to	30/06/2014

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

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

Total remuneration received or due and receivable by Board and Deputy members of the Board in 2013-2014 was \$10,000 (\$9,000 in 2012-2013). Total remuneration included superannuation of \$600 (\$600 in 2012-2013).

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

Total Remuneration	Number of Board and Deputy Members	
	2014	2013
\$1 - \$10,000	3	2

8. Remuneration of Auditors

Amounts paid or payable to the Auditor-General's Department for auditing the accounts of the Board in 2013-2014 total \$20,000 (\$20,000 in 2012-2013).

No other services were provided by the Auditor-General's Department.

9. Summary of Investment Holdings

	Fund Old Scheme Account 2014 \$'000	Police Employer Account 2014 \$'000	Total Pension Divison 2014 \$'000	Total Pension Division 2013 \$'000
INVESTMENTS				
Inflation Linked Securities A	33,565	62,915	96,480	83,097
Property A	62,850	117,807	180,657	161,954
Australian Equities A	106,170	199,006	305,176	272,105
International Equities A	121,654	228,029	349,683	296,867
Long Term Fixed Interest	7,081	13,273	20,354	18,623
Short Term Fixed Interest	2,398	4,494	6,892	8,993
Diversified Strategies - Growth A	38,016	71,257	109,273	92,892
Diversified Strategies - Income	62,015	116,243	178,258	144,789
Cash	10,334	19,370	29,704	11,404
Total Investments	444,083	832,394	1,276,477	1,090,724

10. Changes in Net Assets

Transactions within each division are summarised below:

	Fund Old Scheme Account 2014 \$'000	Police Employer Account 2014 \$'000	Total Pension Division 2014 \$'000	Fund Old Scheme Account 2013 \$'000	Police Employer Account 2013 \$'000	Total Pension Division 2013 \$'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY	394,290	695,751	1,090,041	344,514	559,309	903,823
REVENUE						
Investment Revenue	61,003	112,417	173,420	58,394	99,576	157,970
Other Income	6	25	31	6	26	32
CONTRIBUTION REVENUE						
Past Service Liability	-	64,700	64,700	-	67,100	67,100
Employer Contributions	-	28,553	28,553	-	29,276	29,276
Member Contributions	6,648	-	6,648	6,785	-	6,785
Government Co-Contributions	-	3	3	-	26	26
Total Contribution Revenue	6,648	93,256	99,904	6,785	96,402	103,187
Total Revenue	67,657	205,698	273,355	65,185	196,004	261,189
EXPENSES						
Direct Investment Expense	(2,865)	(5,352)	(8,217)	(2,181)	(3,793)	(5,974)
Administration Expense	(190)	(440)	(630)	(173)	(406)	(579)
BENEFITS PAID						
Pensions	(11,184)	(47,679)	(58,863)	(10,137)	(43,214)	(53,351)
Commutation Lump Sums	(2,100)	(8,954)	(11,054)	(1,468)	(6,257)	(7,725)
Lump Sums	(1,497)	(6,381)	(7,878)	(1,450)	(5,866)	(7,316)
Government Co-Contributions	-	(3)	(3)	-	(26)	(26)
Total Benefits Paid	(14,781)	(63,017)	(77,798)	(13,055)	(55,363)	(68,418)
Total Expenses	(17,836)	(68,809)	(86,645)	(15,409)	(59,562)	(74,971)
NET INCREASE IN FUNDS	49,821	136,889	186,710	49,776	136,442	186,218
NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE	444,111	832,640	1,276,751	394,290	695,751	1,090,041

11. Benefits Paid

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

	Pension Division 2014 \$'000	Pension Division 2013 \$'000
PENSIONS		
Funded from:		
Fund Old Scheme Account	11,184	10,137
Police Employer Account	47,679	43,214
Gross Scheme Costs	58,863	53,351
COMMUTATION LUMP SUMS		
Funded from:		
Fund Old Scheme Account	2,100	1,468
Police Employer Account	8,954	6,257
Gross Scheme Costs	11,054	7,725
LUMP SUMS		
Funded from:		
Fund Old Scheme Account	1,497	1,450
Police Employer Account	6,381	5,866
Gross Scheme Costs	7,878	7,316
GOVERNMENT CO-CONTRIBUTIONS		
Funded from:		
Police Employer Account	3	26
Gross Scheme Costs	3	26
TOTAL BENEFITS PAID		
Funded from:		
Fund Old Scheme Account	14,781	13,055
Police Employer Account	63,017	55,363
Gross Scheme Costs	77,798	68,418

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

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

a) Market Risk

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

1. Currency Risk

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

The Scheme's currency risk is managed by Funds SA who has invested in 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 in the international equities asset sector are hedged to Australian dollars.

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

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.

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.

III. Other Market Price Risk

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

As the Scheme's financial instruments are valued at net market value (fair value) with changes in net market value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect Investment Revenue.

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

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

IV. Sensitivity Analysis

The Funds SA Board has determined that the forecast risk/return profile provide a reasonably possible change in the value of the investments in each investment option. These standard deviations provide the risk variable to be applied to each option in the year ahead. The following table illustrates the effect on change in investment assets from possible changes in market price risk.

2014

Investment Option	Sensitivity variable	Standard Deviation	Change in Investment assets \$'000
Growth	Nominal standard deviation	9.9%	126,371
Total			126,371

2013

Investment Option	Sensitivity variable	Standard Deviation	
Growth	Nominal standard deviation	10.50%	114,526
Total			114,526

A positive or negative rate of return equal to the standard deviations above would have an equal but opposite effect on the Scheme's investment revenue, on the basis that all other variables remain constant.

Standard deviation is a useful historical measure of the variability of return earned by an investment portfolio. The standard deviations above provide a reasonable sensitivity variable to estimate each investment options' expected return in future years.

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 counter party 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 Net Assets 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 counter party 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.

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.

The Scheme's 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.

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.

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

30 June 2014	Less than 3 months \$'000	Total Contractual Cash Flows \$'000	Carrying Amount Liabilities \$'000
Benefits payable	729	729	729
Sundry Creditors	146	146	146
Vested benefits ⁽ⁱ⁾	1,987,096	1,987,096	1,987,096
Total	1,987,971	1,987,971	1,987,971

30 June 2013	Less than 3 months \$'000	Total Contractual Cash Flows \$'000	Carrying Amount Liabilities \$'000
Benefits payable	1,519	1,519	1,519
Sundry Creditors	127	127	127
Vested benefits ⁽ⁱ⁾	1,895,160	1,895,160	1,895,160
Total	1,896,806	1,896,806	1,896,806

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

d) Fair Value Estimation

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

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

Financial assets at fair value through profit or loss <i>(Level 1 and level 3 are not relevant to the Scheme)</i>	Level 2 \$'000
30 June 2014	
Unlisted managed investment schemes	
Funds SA	<u>1,276,477</u>
	<u>1,276,477</u>
30 June 2013	
Unlisted managed investment schemes	
Funds SA	<u>1,090,724</u>
	<u>1,090,724</u>

e) Derivative financial instruments

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

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

INDEPENDENT AUDITOR'S REPORT



Government of South Australia
Auditor-General's Department

9th Floor
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

To the Presiding Member Police Superannuation Board

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the accompanying financial report of the Police Superannuation Scheme for the financial year ended 30 June 2014. The financial report comprises:

- a Statement of Changes in Net Assets for the year ended 30 June 2014
- a Statement of Net Assets as at 30 June 2014
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Presiding Member and the Manager, Police Super.

Police Superannuation Board's Responsibility for the Financial Report

The Members of the Police Superannuation Board are responsible for the preparation of the financial report that gives a true and fair view in accordance with the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as the Members of the Police Superannuation Board determines are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Members of the Police Superannuation Board, as well as the overall presentation of the financial report.

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

Opinion

In my opinion, the financial report gives a true and fair view of the financial position of the Police Superannuation Scheme as at 30 June 2014, its financial performance and its cash flows for the year then ended in accordance with the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.



S O'Neill
AUDITOR-GENERAL
24 September 2014