



**POLICE
SUPERANNUATION
BOARD**

Annual Report



2015/2016





SA Police Super

Police Superannuation Scheme



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28 September 2016

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

Dear Minister

Police Superannuation Board – Annual Report 2015 - 2016

The Police Superannuation Board submits to you for presentation to Parliament its Annual Report for the year ended 30 June 2016.

Yours faithfully

(G A Barton)
Presiding Member
Police Superannuation Board

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PRESIDING MEMBER'S REPORT

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

The Scheme was closed to new entrant police officers in 1990 and as at 30 June 2016 had a total of membership of 2,957 (contributors, preserved members and pension recipients). The Board approved claims for invalidity benefits from ten members during 2015-2016. The finalised claims were for total and permanent invalidity benefits. There was one new temporary disability pension approved during the same period.


Overview of the year ended 30 June 2016

- Total funds under management with Funds SA as at 30 June 2016 was \$1.48 billion, compared with \$1.42 billion as at 30 June 2015.
- The net investment return from Funds SA for the Pension Scheme as at 30 June 2016 was 3.7 percent.
- Member information sessions for metropolitan and country areas were held during 2015-2016 and a total of 353 members 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 2015-2016 and I thank the Board members for their valuable contribution to the successful operations of the Board during the year.

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

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



(G A Barton)
Presiding Member
Police Superannuation Board

POLICE SUPERANNUATION BOARD

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

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

The Board's values are to:

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

The Board's objectives are to:

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

Board Membership as at 30 June 2016

During 2015-2016 the Board met on 11 occasions and the current Board and Deputy members are listed below:

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

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

Administration Services

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

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

Administration Expenses

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

The Board's administration expenses for the financial year ended 30 June, 2016 amounted to \$720,000 which was an increase of \$104,000 over the previous year. The amount of \$720,000 comprised of staff salaries, computer systems expenses, accommodation costs and the increase in expenses related to the purchase of new hardware/software (computer servers) and actuarial review costs. Of the \$720,000, \$591,000 (\$532,000 in 2014-2015) was paid to SA Government entities.

In accordance with the provisions of the *Police Superannuation Act 1990* the Police Superannuation Fund is required to reimburse the Police Employer Account \$218,000 of the administration expenses incurred during 2015-2016. The balance of \$502,000 is met from the Employer Contribution Account.

Funds under Management

At 30 June 2016 the Board had total funds of \$1.48 billion under management with the Superannuation Funds Management Corporation of South Australia. This compares with \$1.42 billion as at 30 June 2015.

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 2015-2016 was \$9,000 (\$9,000 in 2014-2015).

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

Total Remuneration	Number of Members	
	2016	2015
\$1 - \$10,000	3	3

Computing

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

Changes in Legislation

During 2015-2016 a legislative change (Superannuation Amendment (Superannuation) Act 2015) was made to Section 4(6) of the *Police Superannuation Act 1990* to increase the shift work build-up of superannuation salary from ten to eleven percent.

Compliance Statement

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

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

Risk Management

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

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

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

Strategic Objectives

During 2016-2017 the Board will establish its strategic objectives for the Police Super Office and the administration of the Police Superannuation Scheme for 2016-2017 and future years.

The key topics to be examined by the Board include review of computer hardware and software, member services and communications, member information sessions, 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.

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

During 2015-2016 the Fund's prescribed proportion of benefit payments for members of the Pension Scheme was 22 percent in line with the recommendations of Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd in the Actuarial Report as at 30 June 2014.

For the year ended 30 June 2016, \$6.2 million (\$6.4 million in 2014-2015) 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 2016 amounted to \$17.8 million, compared to \$44.1 million in the previous year.

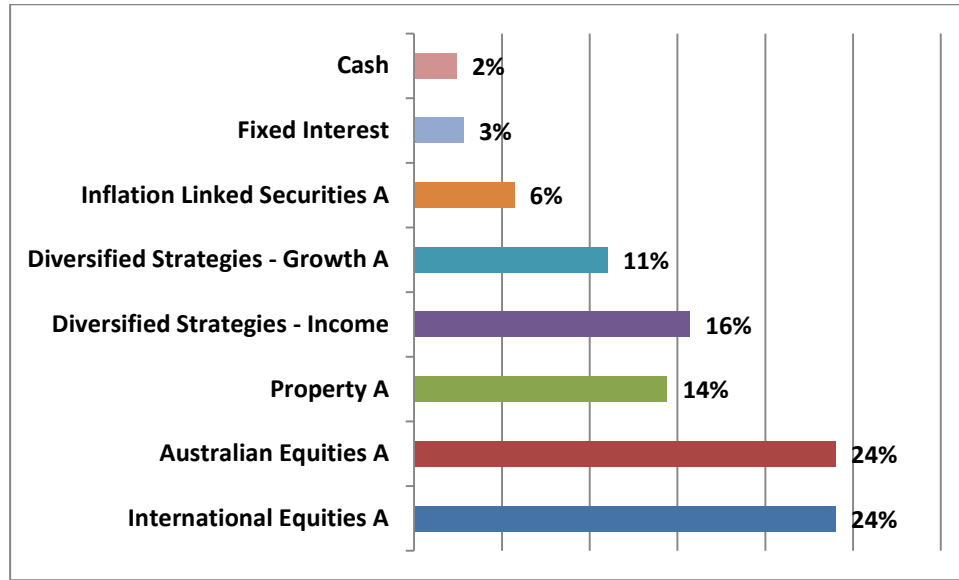
An amount of \$19 million (\$15.5 million in 2014-2015) was paid from the Fund during 2015-2016 in respect of benefits for members of the Pension Scheme.

As at 30 June 2016 the balance of the Fund stood at \$483.7 million. This compares with the total of \$479 million as at 30 June 2015.

Investment Activity

The market value of the Fund at 30 June, 2016 was \$484 million, an increase of \$5 million on the previous year.

The allocation of the Fund's assets by Funds SA as at 30 June 2016 is shown below:



The financial statements present a consolidated financial statement of the Police Superannuation Scheme for the year ended 30 June 2016, together with the report of the Auditor General.

Investment Returns

For the financial year 2015-2016 Funds SA's net investment return (money weighted return, net of investment fees and the Board's administration expenses) for the Pension Scheme was 3.7 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	2012	2013	2014	2015	2016	5 years annualised
Pension	1.7%	16.5%	14.8%	10.0%	3.7%	9.2%

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 3.7 percent to be applied to member contribution accounts as at 30 June 2016.

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	2012	2013	2014	2015	2016	5 years annualised
Pension	1.7%	16.5%	14.8%	10.0%	3.7%	9.2%

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 review must be undertaken in relation to the triennium ending on 30 June 1993 and thereafter in relation to each succeeding triennium to provide a report to the Minister on the state and sufficiency of the Fund and the operation of the superannuation scheme.

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

During 2015-2016 the Employer and Fund's prescribed proportions of benefit payments for members of the Pension Scheme were 78 and 22 percent respectively in line with the recommendations made in the Actuarial Report as at 30 June 2014. The Government contribution for future service liabilities during 2015-2016 was 20.5 percent of member salaries in line with the recommendation made in the above mentioned report.

MEMBERS

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

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

Members as at 30 JUNE			
Member Category	Pension Scheme	Total 2015/2016	Total 2014/2015
Contributors	1,174	1,174	1,260
Preserved	79	79	95
TOTAL	1,253	1,253	1,355

The contributors to the scheme as at 30 June 2016 comprised 973 male and 201 female police officers.

Age Distribution of Contributing Members as at 30 JUNE			
Age	Pension Scheme	Total 2015/2016	Total 2014/2015
30 - 39	0	0	0
40 - 49	259	259	329
50 - 59	827	827	839
60 and over	88	88	92
TOTAL	1,174	1,174	1,260

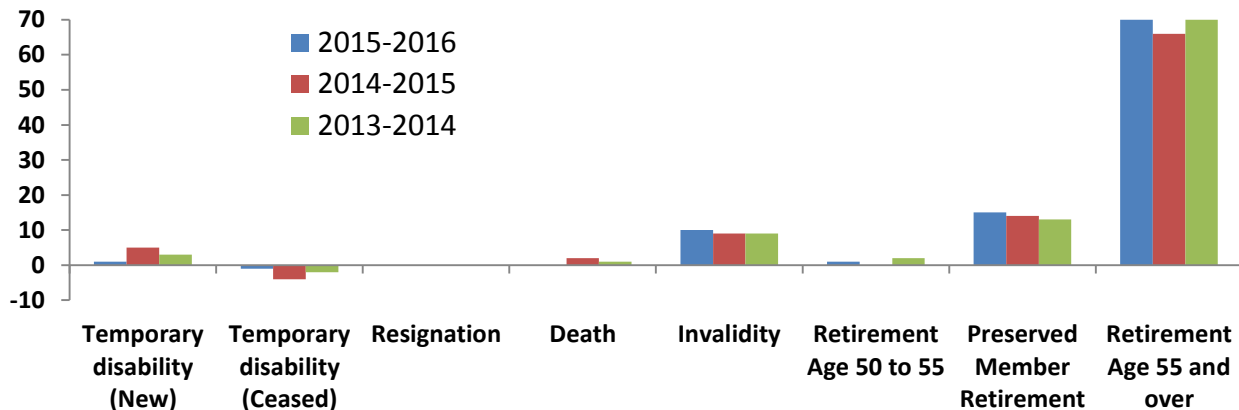
Member Contributions

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	2015/2016 \$,000	2014/2015 \$,000
Pension	6,152	6,418
TOTAL	6,152	6,418

During 2015-2016 there was a total of 102 exits from the Pension Scheme (86 contributors and 16 preserved), an increase of 10 on the previous year.



As illustrated in the previous chart the majority of member exits during 2015-2016 were age retirements from Age 55 and over. During 2015-2016 no contributors under Age 50 ceased membership of the scheme and elected to take a cash withdrawal benefit (0 in 2014-2015). No contributors under Age 50 resigned from SAPOL and elected to preserve a benefit in the Pension Scheme during 2015-2016 (1 in 2014-2015).

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 2015-2016, there was 1 new temporary disability pension approved by the Board. One temporary disability pension was ceased during 2015-2016 as the member retired from SAPOL, on the grounds of invalidity. The one temporary disability pension ceased was approved during 2014-2015.

Invalidity Retirement

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

1) Total and Permanent Disablement

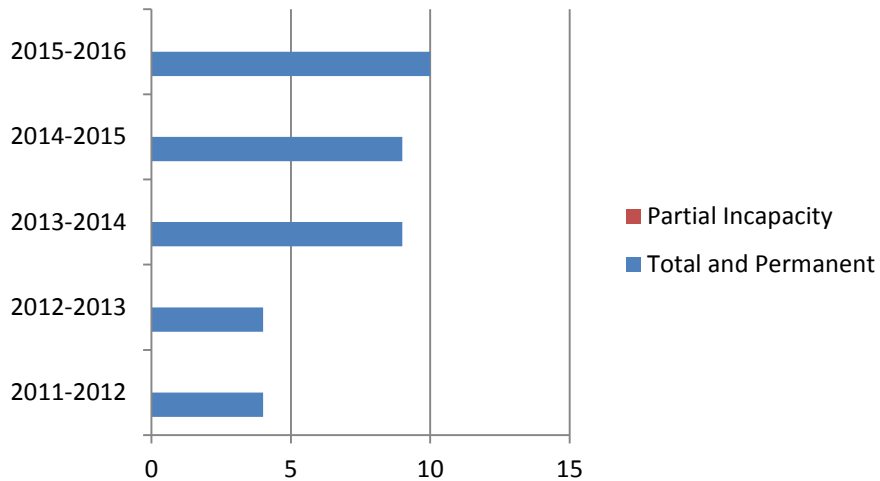
If the Board is satisfied the member's incapacity for all kinds of work (both inside and outside the police force) is 60 percent or more, and is likely to be permanent, the member of the Pension Scheme is entitled to an indexed pension for life.

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 10 claims as total and permanent disablement pension benefits for the year ended 30 June 2016 (9 claims for the year ended 30 June 2016). The claims of the 10 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 1,704 pensions were being paid under the Pension Scheme as at 30 June 2016, an increase of 79 on the previous year.

The average age of the 16 aged pensioners who passed away during 2015-2016 was 82 and their average number of years in retirement was 23.

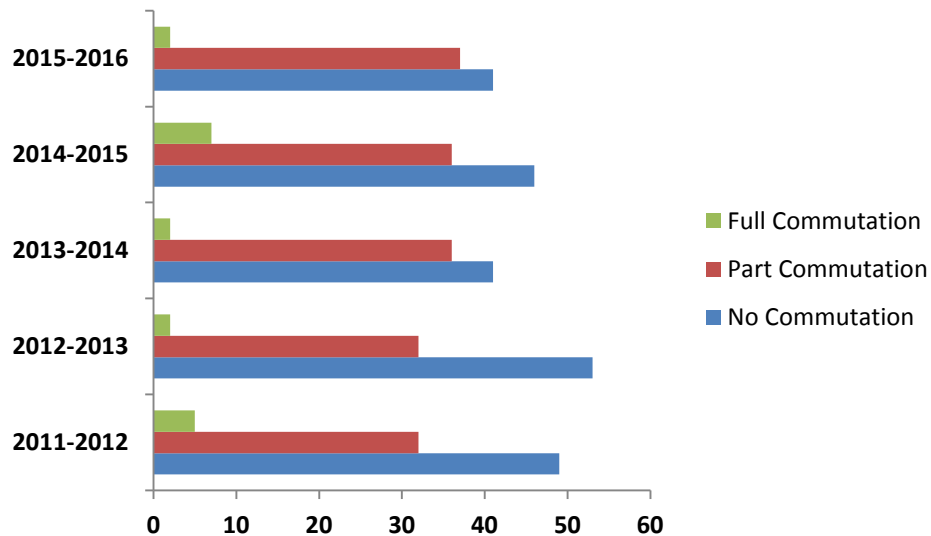
Pension Recipients					
	Member Age (55 and over)	Invalidity Temporary Disability	Spouse	Child	Total
Payable as at 1/7/2015	1,020	208	373	24	1,625
New	91	11	14	2	118
Reinstated				6	6
Ceased due to:					
-Pensions ceased (Temporary Pension)	-	(1)	-	-	(1)
-Death	(16)	(8)	(15)	-	(39)
-100% Commutation	(1)	-	-	-	(1)
-Child attaining age 16 or ceasing to be student				(4)	(4)
Payable as at 30/6/2016	1,094	210	372	28	1,704

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 91 members (76 contributors and 15 preserved members) of the Pension Scheme were eligible to commute part of their pension into a lump sum during 2015-2016.

The following table provides details of the number of members who elected to take a full, part or no commutation of pension during 2015-2016.



The following table shows the details of average commutations and pensions paid to members during 2015-2016.

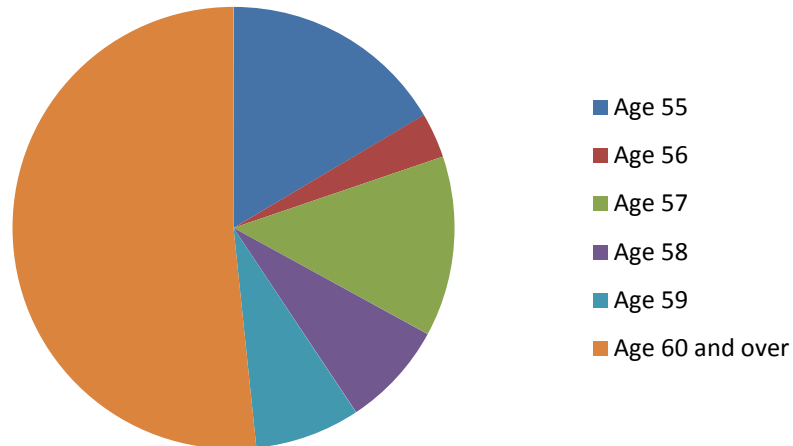
Commutations and pensions				
Category	Retirements Age 55 and over	Preserved Retirements	Average Lump Sum	Average Pension pa
No Commutation	39	14	-	\$56,898
Part Commutation	37	-	\$177,259	\$57,861
Full Commutation	-	1	\$413,942	-

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

Comparison Of Number Of Pensioners					
	2012	2013	2014	2015	2016
Age 55 and over	850	901	957	1,020	1,094
Invalidity Temporary Disability	204	200	204	208	210
Spouse Pensions	361	371	378	373	372
Child Allowances	28	26	27	24	28
TOTAL	1443	1498	1566	1625	1704

Retirement Benefits 55 years of age and over

During 2015-2016 a total of 91 members (76 contributors and 15 preserved members) of the Pension Scheme retired at 55 years of age or over. The following chart illustrates the majority of retirements during 2015-2016 were members aged 60 and over. The average age of the 91 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 2015-2016.

Category	Benefits Payments		
	Pension Scheme \$000	Total 2015/2016 \$000	Total 2014/2015 \$000
Pensions	69,757	69,757	63,932
Commutations	8,744	8,744	9,726
Lump Sums	8,052	8,052	7,684
Government Co-contributions	2	2	2
SG Contributions	-	-	1
TOTAL	86,555	86,555	81,345

Retirement Benefits 50 - 55 Years of Age

During 2015-2016 there was one member of the Pension Scheme who retired under 55 years of age (0 in 2014-2015).

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 2015, the adjustment to pensions was based on the percentage variation between the Consumer Price Index for Adelaide (CPI) for the June quarter of 2015 and the CPI for the December quarter of 2014. The percentage variation in the CPI for the period was 0.57 percent.

In October 2015, pensions which commenced prior to 1 June 1990 were indexed by 0.76 percent (CPI plus one third). Pensions which commenced on or after 1 June 1990 were indexed by 0.57 percent (CPI).

In April 2016, the adjustment to pensions was based on the percentage variation between the Consumer Price Index for Adelaide (CPI) for the December quarter of 2015 and the CPI for the June quarter of 2015. The percentage variation in the CPI for the period was 0.47 percent.

In April 2016, pensions which commenced prior to 1 June 1990 were indexed by 0.63 percent (CPI plus one third). Pensions which commenced on or after 1 June 1990 were indexed by 0.47 percent (CPI).

Employer Contribution

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

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

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

During 2015-2016 the Employer's prescribed proportion of benefit payments for members of the Pension Scheme was 78 percent in line with the recommendations of Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd in the Actuarial Report as at 30 June 2014.

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

The Government employer contribution for future service liabilities during 2015-2016 was 20.5 percent.

For the year ended 30 June 2016, \$26 million (\$27.3 million in 2014-2015) was deposited into the Police Employer Account by SAPOL in relation to employer contributions on behalf of members.

Since 30 June 1994 the Government has adopted a policy of fully funding its superannuation liabilities with a target of achieving full funding by 2034. This will require contributions at levels higher than the current employer contributions to meet the accruing liability for current employees. For the year ended 30 June 2016 \$63.8 million (\$59.9 million in 2014-2015) was transferred to the Police Employer Account by the Government in respect of funding its past service superannuation liabilities.

The net investment income derived by Funds SA from investment of the Police Employer Account for the year ended 30 June 2016 amounted to \$35.7 million, compared to \$85.1 million in the previous year.

An amount of \$67.6 million (\$65.9 million in 2014-2015) was paid from the Police Employer Account during 2015-2016 in respect of benefits for members of the Pension Scheme.

As at 30 June 2016 the balance of the Police Employer Account stood at \$996.2 million. This compares with the total of \$938.7 million as at 30 June 2015.

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.



(G A Barton)

**Presiding Member
Police Superannuation Board**

28/09/2016



M D Hogg

**Manager
Police Super Office**

28/09/2016

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
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State Administration Centre
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Funds Manager

Funds SA
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Adelaide SA 5000

Legal Services

Crown Solicitor
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INDEPENDENT AUDITOR'S REPORT



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**To the Presiding Member
Police Superannuation Board**

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the accompanying financial report of the Police Superannuation Scheme for the financial year ended 30 June 2016. The financial report comprises:

- a Statement of Net Assets as at 30 June 2016
- a Statement of Changes in Net Assets for the year ended 30 June 2016
- 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 Treasurer's Instructions promulgated under 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 determine is 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.

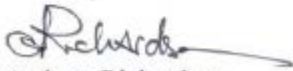
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. 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 evaluating 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.

My report refers only to the financial statements described above and does not provide assurance over the integrity of publication of the financial report on the Police Superannuation Scheme's website nor does it provide an opinion on any other information which may have been hyperlinked to/from these statements.

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 2016, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.



Andrew Richardson
Auditor-General
19 September 2016

Financial Statements for the year ended 30 June 2016

Statement of Net Assets as at 30 June 2016

	Note	\$'000	\$'000	2016 \$'000	2015 \$'000
INVESTMENTS					
Inflation Linked Securities A		85,038			101,630
Property A		212,576			204,338
Australian Equities A		354,906			339,993
International Equities A		356,948			363,595
Fixed Interest		40,842			27,844
Diversified Strategies – Growth A		162,391			138,085
Diversified Strategies – Income		231,973			195,240
Cash		<u>35,045</u>			<u>46,820</u>
Total Investments	9		1,479,719		1,417,545
Plus:					
OTHER ASSETS					
Cash and Cash Equivalents		984			619
Contributions Receivable		730			580
Sundry Debtors		16			8
Total Other Assets			<u>1,730</u>		<u>1,207</u>
Total Assets				1,481,449	1,418,752
Less:					
CURRENT LIABILITIES					
Benefits Payable		1,477			966
Sundry Creditors		<u>141</u>			<u>146</u>
Total Liabilities				<u>1,618</u>	<u>1,112</u>
NET ASSETS AVAILABLE TO PAY BENEFITS				1,479,831	1,417,640

Statement of Changes in Net Assets for the year ended 30 June 2016

	Note	\$'000	\$'000	2016 \$'000	2015 \$'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY				1,417,640	1,276,751
REVENUE					
Investment Revenue			63,524		138,772
Other Income			24		37
CONTRIBUTIONS REVENUE					
Past Service Liability	10	63,800			59,900
Employer Contributions		26,039			27,335
Member Contributions		6,152			6,418
Government Co-Contributions		2			2
Superannuation Guarantee Contributions		-			1
Total Contribution Revenue			95,993		93,656
Total Revenue			159,541		232,465
EXPENSES					
Direct Investment Expense	6		(10,075)		(9,615)
Administrative Expense	6		(720)		(616)
BENEFITS PAID	11				
Pensions		(69,757)			(63,932)
Commutations		(8,744)			(9,726)
Lump Sums		(8,052)			(7,684)
Government Co-Contributions		(2)			(2)
Superannuation Guarantee Contributions		-			(1)
Total Benefits Paid			(86,555)		(81,345)
Total Expenses			(97,350)		(91,576)
NET INCREASE IN FUNDS				62,191	140,889
NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE				1,479,831	1,417,640

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, an SA Government entity.

(d) *Funding Arrangements*

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

The Treasurer may also seek reimbursement of the employer portion of the benefit payment from the employer contributions made by SAPOL which are deposited into the Police Employer Account. Employer contributions are based on a percentage of salary at rates based on actuarial valuations. The rate for 2015-2016 was 20.5 percent.

For 2015-2016 the Police Employer Account's and the Fund's prescribed proportions of benefit payments for members of the Scheme were 78 percent and 22 percent respectively in accordance with the recommendations of Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd in the Actuarial Report as at 30 June 2014.

For the year ended 30 June 2016 \$26 million (\$27.3 million in 2014-2015) 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 2016 the Government transferred a further \$63.8 million (\$59.9 million in 2014-2015) to the Police Employer Account to meet liabilities in respect of the Scheme.

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 2016. 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.

(iv) International Equities A

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

(v) Fixed Interest

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

(vi) Diversified Strategies - Growth A

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

(vii) Diversified Strategies - Income

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

(viii) Cash

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

(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 2016, 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 2015-2016 financial year received by the Scheme after 30 June 2016.

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 2016 but who had not been paid until after 30 June 2016.

(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 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 2016 and were based on membership data as at 30 June 2016.

The expected future benefit payments have been determined using the 2014 triennial review assumptions relating to mortality, disability, withdrawal, preservation, and retirement. The review's salary promotion scale has also been used, while general salary increases of 1.5 percent per annum above the level of increase in the Consumer Price Index (CPI) have been allowed for. 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	2016 \$'000	2015 \$'000
	Pension Division	Pension Division
Changes in the liability for accrued benefits:		
Liability for accrued benefits at 1 July	2,004,564	1,980,947
Add: Benefits Expense	172,452	105,578
Less: Benefits Paid	86,555	81,345
Less: Administration Expense	720	616
	<hr/>	<hr/>
Liability for accrued benefits at 30 June	2,089,741	2,004,564
Represented by		
Fund Old Scheme Account	460,799	442,034
Police Employer Account	1,628,942	1,562,530
	<hr/>	<hr/>
Totals	2,089,741	2,004,564

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

The most recent actuarial review as at 30 June 2014 was carried out by Mr G Keen, FIAA and Mr B Watson, FIAA of Brett & Watson Pty Ltd. On 29 June 2015 the Board was provided with the Actuarial Report as at 30 June 2014 and the following recommendations were made in that report:

- a) The funding proportion for the Fund to be increased from 19 percent to 22 percent.
- b) The Government contribution for future service liabilities for the Pension Division remains at the current level of 20.5 percent.

During 2015-2016 the funding proportion for the Fund Old Scheme Account was 22 percent and the Government contribution for future service liabilities for 2015-2016 was 20.5 percent in line with the above recommendations.

The following table illustrates the unfunded liability of the Scheme as at 30 June 2016 and the previous year.

Unfunded Liability	2016	2015
	\$'000	\$'000
	Pension Division	Pension Division
Liability for accrued benefits at 30 June	2,089,741	2,004,564
Less net assets available to pay benefits at 30 June	1,479,831	1,417,640
Unfunded liability at 30 June	609,910	586,924
Represented by		
Fund Old Scheme Account	(22,870)	(36,926)
Police Employer Account	632,780	623,850
Totals	609,910	586,924

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	2016	2015
	\$'000	\$'000
	Pension Division	Pension Division
Fund Old Scheme Account	485,537	472,026
Police Employer Account	1,715,997	1,668,131
Totals	2,201,534	2,140,157

5. Guaranteed Benefits

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

- Age retirement lump sum (age 50 to 55).
- Age retirement pension with commutation lump sum option (age 55 and over).
- Age retirement lump sum (age 55 and over).
- Total and permanent incapacity (under age 60), based on contributors age 60 age retirement pension benefit.
- Death benefit pension payable to a surviving eligible spouse (lawful, de facto or same sex) with commutation lump sum option.
- Death benefit pension payable to an eligible child (under age 16 or aged between 17 and 25).
- Death benefit lump sum payable to deceased contributors' estate if not survived by an eligible spouse or child.

6. Administration and Direct Investment Expenses

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

Administration expenses incurred by the Scheme for 2015-2016 amounted to \$720,000 (\$616,000 in 2014-2015) of which the Fund's proportion was \$218,000 (\$187,000 in 2014-2015) and the Employer's proportion was \$502,000 (\$429,000 in 2014-2015). Of the \$720,000, \$591,000 (\$532,000 in 2014-2015) 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 2015-2016, along with the period served.

Board member	Period Served during 2015-2016		
Graeme Barton	01/07/2015	to	30/06/2016
Keryl Howie*	01/07/2015	to	30/06/2016
Ferdi Pit	01/07/2015	to	30/06/2016
Bernadette Zimmermann*	01/07/2015	to	30/06/2016
Thomas Scheffler*	01/07/2015	to	30/06/2016
Deputy member	Period Served during 2015-2016		
Garry Powell*	01/07/2015	to	30/06/2016
Julie Thomas*	01/07/2015	to	30/06/2016
Neil Smith	01/07/2015	to	30/06/2016
Samantha Strange*	01/07/2015	to	30/06/2016
Trevor Milne*	01/07/2015	to	30/06/2016

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

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

Total remuneration received or due and receivable by Board and Deputy members of the Board in 2015-2016 was \$9,000 (\$9,000 in 2014-2015). Total remuneration included superannuation of \$600 (\$600 in 2014-2015).

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	
	2016	2015
\$1 - \$10,000	3	4

8. Remuneration of Auditors

Amounts paid or payable to the Auditor-General's Department for auditing the accounts of the Board in 2015-2016 total \$22,000 (\$21,000 in 2014-2015).

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

9. Summary of Investment Holdings

	Fund Old Scheme Account 2016 \$'000	Police Employer Account 2016 \$'000	Total 2016 \$'000	Total 2015 \$'000
INVESTMENTS				
Inflation Linked Securities A	27,803	57,235	85,038	101,630
Property A	69,501	143,075	212,576	204,338
Australian Equities A	116,035	238,871	354,906	339,993
International Equities A	116,703	240,245	356,948	363,595
Fixed Interest	13,353	27,489	40,842	27,844
Diversified Strategies – Growth A	53,093	109,298	162,391	138,085
Diversified Strategies – Income	75,843	156,130	231,973	195,240
Cash	11,458	23,587	35,045	46,820
Total Investments	483,789	995,930	1,479,719	1,417,545

10. Changes in Net Assets

Transactions within each division are summarised below:

	Fund Old Scheme Account 2016 \$'000	Police Employer Account 2016 \$'000	Total 2016 \$'000	Fund Old Scheme Account 2015 \$'000	Police Employer Account 2015 \$'000	Total 2015 \$'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY	478,960	938,680	1,417,640	444,111	832,640	1,276,751
REVENUE						
Investment Revenue	21,092	42,432	63,524	47,354	91,418	138,772
Other Income	5	19	24	7	30	37
CONTRIBUTION REVENUE						
Past Service Liability	-	63,800	63,800	-	59,900	59,900
Employer Contributions	-	26,039	26,039	-	27,335	27,335
Member Contributions	6,152	-	6,152	6,418	-	6,418
Government Co-Contributions	-	2	2	-	2	2
SG Contributions	-	-	-	-	1	1
Total Contribution Revenue	6,152	89,841	95,993	6,418	87,238	93,656
Total Revenue	27,249	132,292	159,541	53,779	178,686	232,465
EXPENSES						
Direct Investment Expense	(3,328)	(6,747)	(10,075)	(3,288)	(6,327)	(9,615)
Administration Expense	(218)	(502)	(720)	(187)	(429)	(616)
BENEFITS PAID						
Pensions	(15,298)	(54,459)	(69,757)	(12,147)	(51,785)	(63,932)
Commutations	(1,924)	(6,820)	(8,744)	(1,848)	(7,878)	(9,726)
Lump Sums	(1,772)	(6,280)	(8,052)	(1,460)	(6,224)	(7,684)
Government Co-Contributions	-	(2)	(2)	-	(2)	(2)
SG Contributions	-	-	-	-	(1)	(1)
Total Benefits Paid	(18,994)	(67,561)	(86,555)	(15,455)	(65,890)	(81,345)
Total Expenses	(22,540)	(74,810)	(97,350)	(18,930)	(72,646)	(91,576)
NET INCREASE IN FUNDS	4,709	57,482	62,191	34,849	106,040	140,889
NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE	483,669	996,162	1,479,831	478,960	938,680	1,417,640

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 2016 \$'000	Pension Division 2015 \$'000
PENSIONS		
Funded from:		
Fund Old Scheme Account	15,298	12,147
Police Employer Account	54,459	51,785
Gross Scheme Costs	69,757	63,932
COMMUTATION LUMP SUMS		
Funded from:		
Fund Old Scheme Account	1,924	1,848
Police Employer Account	6,820	7,878
Gross Scheme Costs	8,744	9,726
LUMP SUMS		
Funded from:		
Fund Old Scheme Account	1,772	1,460
Police Employer Account	6,280	6,224
Gross Scheme Costs	8,052	7,684
GOVERNMENT CO-CONTRIBUTIONS		
Funded from:		
Police Employer Account	2	2
Gross Scheme Costs	2	2
SG CONTRIBUTIONS		
Funded from:		
Police Employer Account	-	1
Gross Scheme Costs	-	1
TOTAL BENEFITS PAID		
Funded from:		
Fund Old Scheme Account	18,994	15,455
Police Employer Account	67,561	65,890
Gross Scheme Costs	86,555	81,345

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.

I. Currency Risk

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

The Scheme's currency risk is managed by Funds SA who have 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), fixed interest and inflation linked securities asset sectors are fully hedged to Australian dollars.
- Foreign currency exposures in the international equities asset sector are 50% hedged to Australian dollars.

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

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.

2016

Investment Option	Sensitivity variable	Standard Deviation	Change in Investment assets \$'000
Growth	Nominal standard deviation	10.2%	150,931
Total			150,931

2015

Investment Option	Sensitivity variable	Standard Deviation	
Growth	Nominal standard deviation	10%	141,754
Total			141,754

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

30 June 2015	Less than 3 months \$'000	Total Contractual Cash Flows \$'000	Carrying Amount Liabilities \$'000
Benefits payable	966	966	966
Sundry Creditors	146	146	146
Vested benefits ⁽ⁱ⁾	2,140,157	2,140,157	2,140,157
Total	2,141,269	2,141,269	2,141,269

⁽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 2016	
Unlisted managed investment schemes	
Funds SA	<u>1,479,719</u>
	<u>1,479,719</u>
30 June 2015	
Unlisted managed investment schemes	
Funds SA	<u>1,417,545</u>
	<u>1,417,545</u>

e) Derivative financial instruments

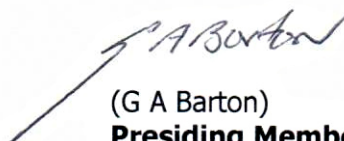
Derivatives can be defined as financial contracts whose value depend on, or are derived from, assets, liabilities reference rates or indices. Funds SA uses derivatives to manage portfolio risk and to facilitate the implementation of investment strategies efficiently and cost effectively. Funds SA uses 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.

Statement by Responsible Officers for 30 June 2016

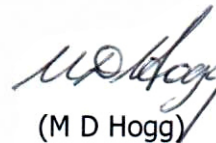
We certify that the:

- financial statements of the Police Superannuation Scheme:
 - are in accordance with the accounts and records of the authority; and
 - comply with 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 for the Police Superannuation Scheme over its financial reporting and its preparation of the financial statements have been effective throughout the financial year.



(G A Barton)
Presiding Member
Police Superannuation Board

19/09/2016



(M D Hogg)
Manager
Police Super

19/09/2016