Australian Government

Commonwealth Superannuation Corporation

Annual Report 2013–14

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Commonwealth Superannuation Corporation (CSC)

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Superannuation schemes

CSS	ABN:	19 415 776 361
	RSE:	R1004649
	USI:	19415776361001
	Website:	css.gov.au
	Annual report:	css.gov.au/forms-and-publications/publications
PSS	ABN:	74 172 177 893
	RSE:	R1004595
	USI:	74172177893001
	Website:	pss.gov.au
	Annual report:	pss.gov.au/forms-and-publications/publications
MilitarySuper	ABN:	50 925 523 120
	RSE:	R1000306
	USI:	50925523120001
	Website:	militarysuper.gov.au
	Annual report:	militarysuper.gov.au/forms-and-publications/publications
PSSap	ABN:	65 127 917 725
	RSE:	R1004601
	USI:	65127917725001
	Website:	pssap.gov.au
	Annual report:	pssap.gov.au/forms-and-publications/publications
DFRB	Website:	csc.gov.au
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DFRDB	Website:	dfrdb.gov.au
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1922 Scheme	Website:	csc.gov.au
	Annual reports:	csc.gov.au/reports-and-information/annual-reports
PNG Scheme	Website:	csc.gov.au
	Annual reports:	csc.gov.au/reports-and-information/annual-reports

Note: All statistics are derived solely from records available to CSC, ComSuper and Pillar Administration as of the time these statistics were compiled. Where statistics for earlier financial years are quoted, they may vary from those previously published due to the application of retrospective adjustments now reflected in this report. For similar reasons statistical information in this report may also vary from that presented by other agencies.

Letter of Transmittal

Senator the Hon Mathias Cormann
Minister for Finance
Parliament House
Canberra ACT 2600

Dear Minister

I am pleased to provide you with the annual report of the Commonwealth Superannuation Corporation (CSC) for the year ended 30 June 2014.

CSC is a Commonwealth authority established under section 5 of the *Governance of Australian Government Superannuation Schemes Act 2011* (the GAGSS Act) and for the period of this report was subject to the *Commonwealth Authorities and Companies Act 1997* (the CAC Act).

The Board of CSC is responsible for the preparation and contents of the **Annual Report 2013–14**. This report was approved by the Board on 3 October 2014 and satisfies section 9 of the CAC Act for 2013–14 and the relevant Finance Minister's Orders, which are the:

> *Commonwealth Authorities (Annual Reporting) Orders 2011*

> *Finance Minister's Orders (Financial Statements for reporting periods ending on or after 1 July 2011).*

The report also provides information required by other applicable legislation.

Subsection 30(4) of the GAGSS Act requires you to cause a copy of this report to be laid before each House of Parliament within 15 sitting days after you receive it.

Yours sincerely,

Patricia Cross
Chairman

3 October 2014

Reader's guide

The activities of CSC are guided by legislative and government requirements, and CSC's vision, mission statement and strategic objectives.

This report describes these activities in the 2013–14 financial year, satisfying the requirements of the CAC Act, the *Commonwealth Authorities (Annual Reporting) Orders 2011* and the *Finance Minister's Orders (Financial Statements for reporting periods ending on or after 1 July 2011)*.

The report is divided into the sections described below.

Introduction

This section includes an introduction from the Chairman outlining significant achievements in 2013–14 and the annual review from the Chief Executive Officer (the CEO) of activities and performance to 30 June 2014.

CSC Board

This section describes the CSC Board, detailing its function, composition, committees and approach to performance evaluation, director remuneration and corporate governance.

Organisation

This section outlines the management of CSC covering matters including accountability, executive management, corporate governance and people.

Investments

This section describes CSC's approach to investment management and governance of the four Funds (the CSS, PSS, MilitarySuper and PSSap Funds). It also outlines 2013–14 investment performance.

Super schemes

This section presents the superannuation schemes and services available to members. It details scheme membership and benefits, services and administration, and the review of decisions.

Financial statements

These sections contain audited financial statements for each Fund and CSC.

Appendices

The report includes seven appendices on matters including CSC's corporate governance framework, organisational structure, changes to applicable legislation and a glossary.

There is also a list of specific reporting requirements for CSC and an index.

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Introduction

Introduction

About CSC

CSC was established on 1 July 2011, following the passage of legislation to merge the Boards responsible for the public sector and military superannuation schemes and Funds.

CSC manages nine super schemes and provides superannuation services to Australian Government employees and members of the Australian Defence Force (ADF). CSC's primary function is to manage and invest the Funds in the best interests of all members and in accordance with the provisions of the various acts and deeds that govern the schemes.

Vision

CSC's vision is to grow the wealth of Australian Government employees and members of the ADF for their retirement.

Mission statement

> Achieve consistent long-term investment return targets within a structured risk framework

> Provide information and services to members that are relevant, reliable and helpful.

Strategic objectives

1. Achieve investment excellence:

> offer investment options and services appropriate to member needs

> for the default Funds, achieve an average investment return of the Consumer Price Index (CPI) + 3.5% per annum over 10 years with negative returns no more than one in five years.

2. Achieve industry best practice in member interaction:

> provide useful education and financial advice services for members

> support employers to assist service delivery

> work with administrators to achieve best possible scheme administration services.

3. Be a capable, efficient and sustainable organisation:

> achieve excellence in Board governance policy and practice

> attract and retain high quality people

> retain existing members and attract eligible employees.

About the schemes

Regulated schemes

Regulated superannuation schemes must comply with the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) so as to be entitled to concessional tax treatment.

CSC is trustee of four regulated public sector and military schemes:

> the Commonwealth Superannuation Scheme (CSS) established on 1 July 1976 by the *Superannuation Act 1976* (the CSS Act)

> the Public Sector Superannuation Scheme (PSS) established on 1 July 1990 by the *Superannuation Act 1990* (the PSS Act)

> the Military Superannuation and Benefits Scheme (MilitarySuper) established on 1 October 1991 by the *Military Superannuation and Benefits Act 1991* (the MilitarySuper Act)

> the Public Sector Superannuation accumulation plan (PSSap) established on 1 July 2005 by the *Superannuation Act 2005* (the PSSap Act), which also offers under its trust deed an account-based pension product called Commonwealth Superannuation Corporation retirement income (CSCri).

Exempt public sector schemes

Exempt public sector schemes are not regulated under the SIS Act.

CSC administers five exempt public sector and military schemes:

> the scheme established under the *Superannuation Act 1922* (the 1922 Act)

> the Defence Forces Retirement Benefits Scheme (DFRB) established in 1948 by the *Defence Forces Retirement Benefits Act 1948* (the DFRB Act)

> the Defence Force Retirement and Death Benefits Scheme (DFRDB) established by the *Defence Force Retirement and Death Benefits Act 1973* (the DFRDB Act)

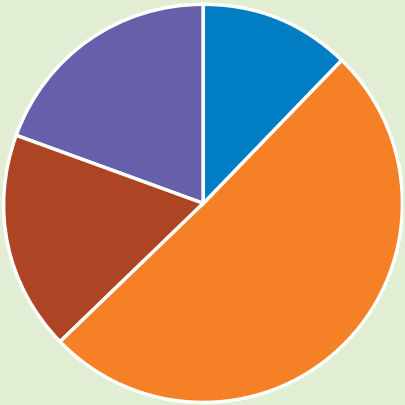
> the Papua New Guinea Scheme (PNG) constituted under the *Superannuation (Papua New Guinea) Ordinance 1951* and administered in accordance with section 38 of the *Papua New Guinea (Staffing Assistance) Act 1973* (the PNG Act)

> the *Defence Force (Superannuation) (Productivity Benefit) Determination* (DFSPB), issued under the *Defence Act 1903*. It is paid for by the Department of Defence and has accrued on behalf of ADF members since 1 January 1988.

2013–14 highlights

Funds under management

Chart H1: CSC Funds under management

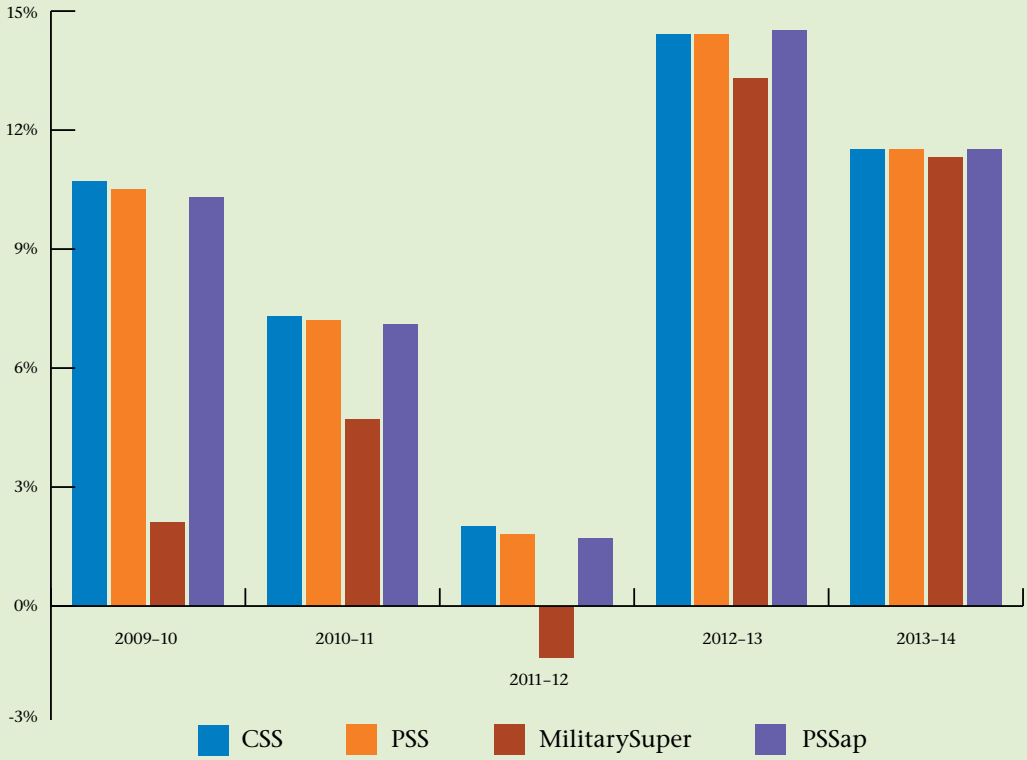


$32.7 billion at 30 June 2014

- CSS $4 billion (12.4%)
- PSS $16.6 billion (50.9%)
- MilitarySuper $5.8 billion (17.6%)
- PSSap $6.3 billion (19.1%)

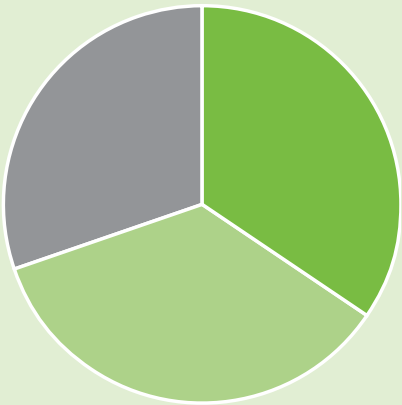
Default investment performance

Chart H2: Default Fund annual investment returns for 5 years to 30 June 2014



Scheme membership

Chart H3: CSC scheme members and pensioners



717,018 at 30 June 2014

- Contributors 248,959 (35%)
- Preservers and deferred 252,785 (35%)
- Pensioners 215,274 (30%)

Chart H4: Members & pensioners by scheme as at 30 June 2013 and 30 June 2014

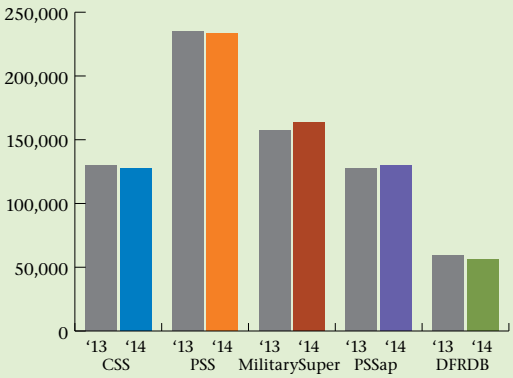


Chart H5: Contributors as at 30 June 2013 and 30 June 2014

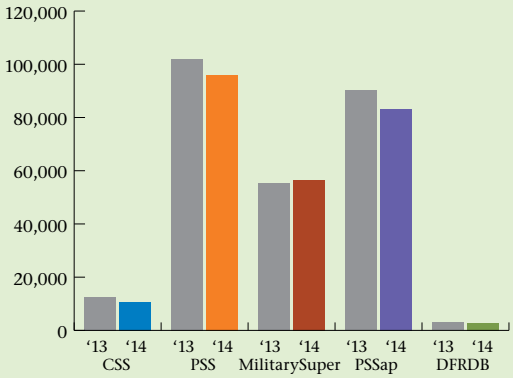


Chart H6: Preservers and deferred benefit members as at 30 June 2013 and 30 June 2014

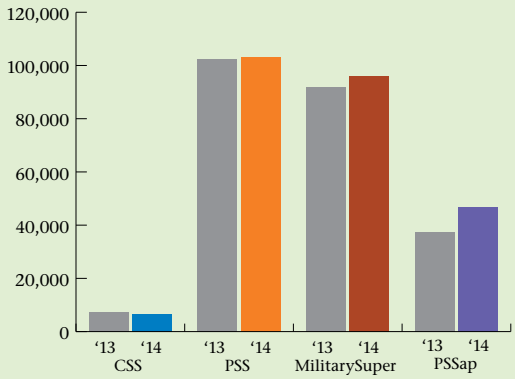
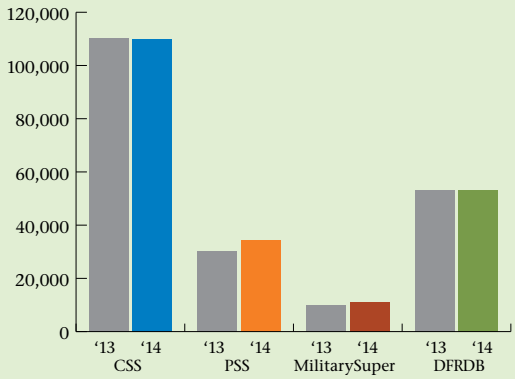


Chart H7: Pensioners as at 30 June 2013 and 30 June 2014



Chairman's introduction

I write this introduction reflecting on the 2013–14 financial year having commenced my term as Chairman on 1 July 2014.

In 2013–14, there were strong investment returns, a change of government, a National Commission of Audit, and an ongoing program of staff reductions in many federal government departments.

CSC achieved strong investment returns for its members in 2013–14. More than 90% of our members are in default (balanced) investment options, and these posted returns over 11.0% in 2013–14. This was well in excess of the investment objective which is a real return of the CPI plus 3.5% per annum.

Investments

The feature of investment markets in 2013–14 was strong domestic and international listed equities. The Australian All Ordinaries Accumulation Index returned over 17% in the year. Central bank intervention continued to support strong gains in offshore markets during the year.

Performance after fees and taxes over one, three and five years for each default option at 30 June 2014 was:

	1 year (%)	3 years (%) pa	5 years (%) pa
CSS	11.5	9.1	9.1
PSS	11.5	9.1	9.0
MilitarySuper	11.3	7.6	5.9
PSSap	11.5	9.1	8.9

2013–14 achievements

Other than strong investment outcomes, significant achievements in 2013–14 included:

> the implementation of a personal financial advisory service with experienced financial planners

> the introduction of a PSSap membership for CSS and PSS members who want to make salary sacrifice contributions or rollover into PSSap

> the full security review of CSC's information technology functions

> ongoing discussions with government in respect of PSSap scheme administration

> the introduction of social media as an additional communication channel for PSSap members.

Priorities ahead

The focus of our attention will continue to be the ongoing achievement of our investment targets, and the provision of competitive and helpful services to our members. In 2015 CSC will also implement the Australian Government's decision to integrate ComSuper (one of CSC's scheme administrators) into CSC on 1 July 2015. That will involve considerable change at ComSuper, but being part of CSC as a large diversified organisation will provide great opportunity for many staff.

Other significant priorities in the coming year include:

> rationalising contractual arrangements for PSSap scheme administration

> continuing to improve our financial advisory and education functions

> enhancements to the PSSap ancillary and account-based pension products

> preparing for the closure of MilitarySuper to new entrants and the commencement of ADF Super in 2016 (as announced in the 2014 May Federal Budget).

Board changes

Tony Hyams, AM completed his term as Chairman on 30 June 2014. He was also Chair of the predecessor boards of ARIA and MilitarySuper. I thank Mr Hyams for positioning CSC as a leading superannuation provider for its members and congratulate him on his many achievements as the first Chairman of CSC.

Gabriel Szondy concluded his term as a director on 30 June 2014. His deep knowledge of and experience in accounting, finance and investment matters have been great assets for CSC. His work at CSC has been greatly appreciated.

His Excellency General the Honourable Sir Peter Cosgrove, AK, MC (Retd) resigned as a director of CSC on 31 January 2014 to take up his appointment as Governor General. As one of the inaugural appointments to the CSC board as a nominee of the Chief of the Defence Force, Sir Peter made a significant contribution as a CSC director.

Air Vice Marshal Margaret Staib, AM, CSC commenced on 2 May 2014 as a nominee of the Chief of the Defence Force (following Sir Peter's resignation). Air Vice Marshal Staib is CEO of Airservices Australia having served in the Royal Australian Air Force for over three decades. She is Chair of the CSC MilitarySuper Reconsideration Committee and Defence Force Case Assessment Panel (DFCAP).

The Hon. Chris Ellison was appointed in late June 2014 and commenced on 1 July 2014 having been appointed by the Minister of Finance as an employer representative director. Mr Ellison was a former Federal Minister for over 10 years and has had experience in both the law and more recently in the private sector.

I thank all the Board members and staff of CSC for their diligence and dedication in 2013–14, and look forward to working with them during 2014–15.

Patricia Cross
Chairman

Report from the Chief Executive Officer

People

CSC has a workforce of over 75 people employed in offices in Sydney and Canberra. We have a diverse skill base including investment professionals, finance, operations and treasury staff, lawyers, and communication, education and product personnel.

Each staff member has a set of performance objectives linked to the key strategic and operational objectives, and a related personal development plan. Performance is reviewed regularly, and in a formal way each six months. Remuneration reviews are undertaken on the basis of the Financial Institutions Remuneration Group annual surveys.

Another staff satisfaction survey was conducted in late 2013, with a very positive outcome of over 90%.

Our values (see box), developed through a staff consultation process, are standards we expect in CSC, and aim to uphold in all aspects of our work.

CSC values

Respect:

We respect each other and work together to achieve our objectives. This means that:

> I behave courteously and respectfully towards my colleagues, with a sense of empathy
> I am committed to my personal development plan and support others to achieve theirs.

Trust:

We make sure trust is at the core of everything we do. This means that:

> I treat CSC and members' assets and information with the highest standard of care
> I always give our members and partners clear, concise and accurate information.

Integrity:

We have the courage to do what we say we will do. This means that:

> I only make commitments I know I can honour
> I am thoughtful when making decisions and accountable for results.

Relationship:

We respect our relationships and seek quality partners that align with our values. This means that:

> I show respect and empathy to all those I deal with
> I seek out and listen to the opinion of others.

Adaptability:

We seek continual improvement and are open to and embrace change. This means that:

> I approach issues with an open mind, appropriately challenge the status quo and look for ways to be innovative
> I am prepared to engage in discussion and express my ideas and opinions.

Strategy, milestones and operational objectives

As part of the 2012–15 Strategic Plan, the CSC Board set milestones for the financial year related to investment performance, stakeholder engagement, member service delivery (including the implementation of a financial advice service for members) and organisation sustainability.

For each milestone, a set of quarterly targets are set. Performance in relation to each of these is reported quarterly to the Board, as is the confidence level for achieving the milestone at the end of the year. For the four quarters of the 2013–14 financial year, 77% of the targets have been achieved.

CSC also has 11 operational objectives dealing with matters such as compliance, unit pricing, health and safety standards, risk management and regulatory filings. We report quarterly to the Board on performance in relation to each of those objectives.

Investment performance

CSC exceeded its long term real investment return objective (the CPI plus 3.5%) for the default options in each of the four funded schemes for which it is responsible – CSS, PSS, MilitarySuper and PSSap (MySuper Balanced is the default option in PSSap).

Investment performance in the CSC default options for the period to 30 June 2014 was:

	1 year (%)	3 years (%) pa
CSS	11.5	9.1
PSS	11.5	9.1
MilitarySuper	11.3	7.6
PSSap	11.5	9.1

This outcome, in a 2013–14 investment market with strong equity performance, is consistent with the investment strategy adopted by CSC and is discussed in detail in the investment commentary in this report.

Work focus to June 2015

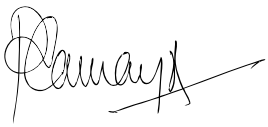
There are four main components of CSC's work in this period:

(a) Achieving the June 2015 milestones set by the Board. These include realising investment performance objectives, improving our retirement income and salary sacrifice options in PSSap, and continuing CSC's personnel development programs.

(b) Implementing the government's policy decision to merge ComSuper into CSC on 1 July 2015. This policy was announced in the 2014 May Federal Budget.

(c) Ensuring CSC continues to implement improvements to its governance, reporting, risk, technology and compliance functions and practices to remain at best standard in the superannuation industry.

(d) Working with government on the development and establishment of ADF Super which is to commence in 2016.



Peter Carrigy-Ryan
Chief Executive Officer

2

CSC Board

Background

The GAGSS Act established CSC as a single trustee body on 1 July 2011 responsible for the super schemes covered in this report.

CSC's objectives and functions under the governing legislation are to:

> manage and invest each Fund
> receive payments from employers per the relevant scheme legislation or trust deed
> receive payments from the Australian Government per the relevant scheme legislation or trust deed
> pay superannuation benefits to or in respect of members
> provide information about scheme benefits or potential benefits
> provide advice to the Minister for Finance on proposed changes to the scheme legislation or trust deeds
> be responsible for the general administration of scheme legislation and trust deeds.

CSC is a holder of a Registrable Superannuation Entity (RSE) licence and an Australian Financial Services (AFS) licence, meaning it is regulated by the Australian Securities and Investments Commission under the *Corporations Act 2001* and the Australian Prudential Regulation Authority under the SIS Act. CSC must uphold the conditions of both licences and comply with financial services law.

CSC is also bound by provisions of the various acts and deeds that establish and govern its schemes. The regulated schemes must be managed and invested in accordance with the CSS Act, the PSS Act, the MilitarySuper Act and the PSSap Act, together with the relevant trust deeds under these Acts.

The unregulated schemes must be administered in accordance with the 1922 Act, the DFRB Act, the DFRDB Act and the PNG Act, as relevant.

The Board

Function

The function of the CSC Board is to ensure that CSC performs its functions in a proper, efficient and effective manner. The Board has the power to do all things necessary for, or in connection with the performance of its functions.

Composition

The Board consists of an independent Chairman and 10 other directors. Of the 10 other directors, three directors are nominated by the President of the Australian Council of Trade Unions (ACTU) and two directors are nominated by the Chief of the Defence Force. The Minister for Finance (the Minister) chooses the remaining five directors in consultation with the Defence Minister.

The Chairman of the Board is appointed by the Minister after consultation with the Defence Minister. The Minister must obtain the Board's agreement to a person whom the Minister proposes to appoint as the Chairman. All directors must meet the fitness and propriety standards under the SIS Act.

Responsibilities

The Board is responsible for the sound and prudent management of the CSC schemes. Directors and CSC employees are required to comply with the Board's governance policy framework. The framework includes policies such as Code of Conduct, Conflicts Management, Fit and Proper, Board Renewal and Board Performance Evaluation.

Delegated authority

CSC may delegate its powers under scheme legislation. The Board has delegated authority for many activities, corporate and investment matters, and scheme administration.

Delegations are regularly reviewed to ensure currency. Employees exercising delegations are accountable to the CEO who is responsible to the Board. Even if within delegated powers, matters that are sensitive or extraordinary would typically be referred by the CEO to the Board.

The CSC Board from 1 July 2014

Mrs Patricia Cross

Appointed 1 July 2014 to 30 June 2017

> **Chairman of the Board**
> **Chairman of the Board Governance Committee**
> **Chairman of the Remuneration and HR Committee**

Mrs Cross is a director of Macquarie Group Limited (since 2013), Macquarie Bank Limited (since 2013), Aviva plc (since 2013) and is a founding director of the Grattan Institute (since 2007). Having begun her career in public service with Congressman John Rousselot (1979–1981), Mrs Cross went on to gain extensive international financial services experience with Chase Manhattan Bank and Chase Investment Bank (1981–1987), Banque Nationale de Paris (1987–1988) and National Australia Bank (1988–1996). Since 1996 she has served as a public company director for Suncorp-Metway Limited (1996-2000), AMP Limited (2000–2003), Wesfarmers Ltd (2003–2010), Qantas Airways Limited (2004–2013) and National Australia Bank (2005–2013). She was also Chairman of Qantas Superannuation Limited (2002–2005) and Deputy Chairman of the Transport Accident Commission of Victoria (1997–2001).

Mrs Cross has held a number of honorary government positions, including with the Financial Sector Advisory Council, Companies and Securities Advisory Committee, Panel of Experts to Australia as a Financial Centre Forum and Sydney APEC Business Advisory Council. She is an Australian Indigenous Education Foundation Ambassador, and has previously served on a wide range of not for profit boards, including the Murdoch Children's Research Institute (2002–2011). In 2001, Mrs Cross received the Australian Centenary Medal for service to Australian society through the finance industry. Mrs Cross has a BSc (Hons) from Georgetown University.

Mr Anthony (Tony) Cole, AO

Reappointed 1 July 2013 to 30 June 2016

> **Director since 1 July 2011**
> **Member of the Board Governance Committee**
> **Member of the Remuneration and HR Committee**

Mr Cole is a former Asia Pacific business leader of the global consulting, outsourcing and investment company, Mercer (1996–2011). He stood down from all management and board roles at Mercer in 2011, but continues to work with Mercer on a part time basis in a limited role. Before joining Mercer he was an executive director of the Life Investment and Superannuation Association of Australia (1994–1996). Mr Cole has also held a number of senior federal government appointments including Secretary to the Treasury (1990–1993).

Mr Cole is a member of the Advisory Board of the Northern Territory Treasury Corporation (since 1995), a director of the Board of Australian Ethical Investments Limited (since 2012), a panel member of the Fairwork Minimum Pay Group (since 2013) and was formerly the Chairman of the Advisory Board of the Melbourne Institute of Applied Economic and Social Research (2002–2012).

Mr Cole has a Bachelor of Economics from Sydney University. In 1995 he was appointed an Officer in the Order of Australia (AO) for services to government and industry. He was made a life member of the Investment Management Consultants Association in 2012.

The Hon. Chris Ellison

Appointed 1 July 2014 to 30 June 2017

> **Member of the Board Governance Committee**
> **Member of the Remuneration and HR Committee**

The Hon. Chris Ellison is a director of Doric Construction Group (since 2011), Chairman of Australia's North West Tourism Board (since 2011), an advisory director of Tropical Forests Corporation (since 2009), Governor of the University of Notre Dame in Western Australia (since 2009), Chair of Taylors College Academic Board, UWA (since 2010), a member of Trinity College, Perth (since 2010). He is also a member of the WA Law Society and Chair of the SAS Regiment Resources Fund fundraising committee.

He was a Cabinet Minister in the Howard Government and in the Ministry for over 10 years (1997–2007). He held a number of portfolios including Justice and Customs and he remains Australia's longest serving Justice Minister. He has also held a legal practising certificate for over 30 years.

Mr Peter Feltham

Reappointed 1 July 2013 to 30 June 2015

- **Director since 1 July 2011**
- **Nominee of the President of the ACTU**
- **Member of the Audit and Risk Management Committee**
- **Member of the APS Reconsideration Advisory Committee**

Mr Feltham was a trustee of the predecessor organisations ARIA and the PSS and CSS Boards (2005– 2011). He is a senior industrial officer with the Community and Public Sector Union (CPSU), and responsible for superannuation policy within the CPSU. He has worked for the CPSU and its predecessor organisations for more than 25 years in a range of capacities at the state and national level as both an employee and official. Previous to this, Mr Feltham worked for 10 years in the federal public service. He has also been a director of a credit union and has been a Justice of the Peace since 1999.

Ms Nadine Flood

Reappointed 1 July 2014 to 30 June 2017

- **Director since 1 July 2011**
- **Nominee of the President of the ACTU**
- **Member of the Audit and Risk Management Committee**

Ms Flood is the National Secretary of the CPSU (since 2010), a director of Shared Advantage Pty Ltd (since 2011), a director of ACTU Member Connect (since 2011), a Board member for the Centre for Policy Development (since 2010), a member of the ACTU Growth and Campaign Committee (since 2010), a member of ACTU Executive (since 2009), a member of UNI World Executive (Global Union Federation) (since 2011), a member of UNI-APRO Executive Committee (since 2011), a member of the ALP National Policy Forum (since 2013), a member of the Department of Human Services Council on Strategy and Innovation (since 2013) and a member of the L20 Steering Committee (since 2013). Ms Flood has a Bachelor of Economics degree from Macquarie University.

Ms Lyn Gearing

Reappointed 13 September 2013 to 12 September 2016

- **Director since 13 September 2011**
- **Member of the Audit and Risk Management Committee**

Ms Gearing has many years of experience in superannuation, funds management, corporate finance and management consulting. She is currently a director of the Garvan Research Foundation (since 2005). Ms Gearing was a non executive director of Queensland Investment Corporation (2008–2013), IMB Limited (2003–2012) and Hancock Natural Resources Australasia Limited (2003–2011).

Ms Gearing was also the Chief Executive of State Super (STC, FTC) from 1997 to 2002.

Ms Gearing has a Bachelor of Commerce degree, a Diploma in Valuations and a Certificate in Business Studies (Real Estate). She is a fellow of the Australian Institute of Company Directors and the Association of Superannuation Funds of Australia.

Ms Winsome Hall

Reappointed 1 July 2013 to 30 June 2016

- **Director since 1 July 2011**
- **Nominee of the President of the ACTU**
- **Member of the Board Governance Committee**
- **Member of the Remuneration and HR Committee**

Ms Hall was a trustee of the predecessor organisations ARIA and the CSS and PSS Boards (1996–2011). She is Chair of Zurich Australia Superannuation Pty Ltd (since 2010) and is an independent non-executive director of three commercialisation funds as a nominee of Australian Super-Uniseed (since 2005), Medical Research Commercialisation Fund (since 2007) and Trans Tasman Commercialisation Fund (since 2008).

Ms Hall has previously been a non-executive director of various financial sector companies including Colonial First State Private Capital Limited (2001–2008), State Super Financial Services (2006–2009) and the Financial Industry Complaints Scheme (2004–2008). She has also been a member of the Financial Complaints Scheme Panel, best practice advisor to the Association of Superannuation Funds Australia, Senior Advisor, Prime Minister and Cabinet, and Secretary of the ACT Branch of the CPSU. Ms Hall has a Bachelor of Arts degree from the Australian National University.

Mr John McCullagh

Reappointed 1 July 2013 to 30 June 2016

- **Director since 2011**
- **Nominee of the Chief of the Defence Force**
- **Member of the Audit and Risk Management Committee**
- **Chairman of the APS Reconsideration Advisory Committee**
- **Deputy Chairman of the MilitarySuper Reconsideration Committee**
- **Deputy Chairman of the Defence Force Case Assessment Panel**

Mr McCullagh is a director of the Board of the Yowani Country Club Limited (since 2011). He formerly held the position of CEO to the Military Superannuation and Benefits Board (2004–2008) and was a member of the transition team established to implement the government's reforms affecting Australian Government superannuation schemes (2009–2011). Mr McCullagh attended the University of Adelaide, Graduate School of Management, the Public Service Commission Advanced Executive Program, has a Diploma of Financial Services, and is a fellow of the Australian Institute of Company Directors.

Ms Peggy O'Neal

Reappointed 1 July 2014 to 30 June 2017

- **Director since 1 July 2011**
- **Member of the Board Governance Committee**
- **Member of the Remuneration and HR Committee**
- **Member of the APS Reconsideration Advisory Committee**

Ms O'Neal is a former partner of law firm Herbert Smith Freehills (1995–2009 and then a consultant, 2009–2011) specialising in superannuation and financial services law. She continues to act as a consultant to Lander & Rogers, Melbourne (since 2011). Ms O'Neal also serves as a director of NAB subsidiaries (all superannuation fund trustee companies), MLC Nominees (since 2011), NULIS Nominees (since 2011) and PFS Nominees (since 2011). She is an independent member of the Audit and Compliance Committee of UniSuper Ltd (since 2009), an independent member of the External Compliance Committee for Vanguard Investments Australia (since 2009) and is the President of the Richmond Football Club (since 2013, having been a director from 2005). She is also a director of Women's Housing Limited (since 2013).

Ms O'Neal is a fellow of the Australian Institute of Company Directors and an emeritus member of the Law Council of Australia Superannuation Committee. She has a Bachelor of Arts degree from Virginia Polytechnic Institute and State University, and a Juris Doctor, University of Virginia, having requalified to practice law in Australia at the University of Melbourne. She has also completed the ASFA Diploma in Superannuation Management.

Air Vice Marshal Margaret Staib, AM, CSC

Appointed 2 May 2014 to 1 May 2017

- **Nominee of the Chief of Defence Force**
- **Chair of the MilitarySuper Reconsideration Committee**
- **Chair of the Defence Force Case Assessment Panel**

Air Vice Marshal Staib is a member of the Royal Australian Air Force Active Reserve (since 2012), following a distinguished career over three decades in the permanent Air Force. Her military service included holding the position of Commander Joint Logistics and Commandant of the Australian Defence Force Academy. Air Vice Marshal Staib is the Chief Executive Officer, Airservices Australia (since 2012). She is a member of the Industry Advisory Board for the Centre for Aeronautical and Aviation Leadership of Embry-Riddle Aeronautical University. She is also a Certified Practicing Logistician and a Fellow of the Chartered Institute of Logistics and Transport.

Air Vice Marshal Staib holds a Bachelor of Business Studies, Master of Business Logistics and Master of Arts in Strategic Studies. She has received the United States Meritorious Service Medal, the Outstanding Contribution to Supply Chain Management in Australia Award and was appointed in 2009 as a member in the Military Division of the Order of Australia. In 2000 Air Vice Marshal Staib's contribution and leadership in the field of ADF Aviation Inventory Management was recognised when she was awarded the Conspicuous Service Cross.

Dr Michael John Vertigan, AC

Reappointed 1 July 2013 to 30 June 2016

> **Director since 1 July 2011**
> **Chairman of the Audit and Risk Management Committee**

Dr Vertigan has experience in the public, higher education, philanthropy and business sectors. He is the former Chairman of the AGEST Superannuation Fund (2004–2008) and former Secretary of the Victorian (1993–1998) and Tasmanian (1989–1993) Departments of Treasury and Finance and has held a number of academic appointments.

Dr Vertigan holds a number of other appointments to government and private sector bodies including Chairman of the Australian Maritime College Board (since 2012), director of Aurora Energy (since 2010) and member of the Standing Committee on Energy and Resources Board Appointments Panel (since 2008). He is an independent member of the Tasmanian Government GBE Director Appointments (since 2008), Chair of the Panel of Experts for the NBN Cost Benefit Analysis and Review of Regulation (since 2013) and a member of the Australian Treasury Advisory Council (since 2014).

Dr Vertigan has a Bachelor of Economics (Hons) from the University of Tasmania and a PhD from the University of California (Berkeley). Dr Vertigan was made a Companion of the Order of Australia in 2004. He is a fellow of the Australian Institute of Company Directors (since 1998) and of the Institute of Public Administration of Australia (since 1994).

Committees

The Board has established committees to assist it in carrying out its responsibilities. Committee members are appointed by the Board. Each committee has its own documented and Board-approved terms of reference, which are reviewed from time to time.

The Board has three standing committees: the Audit and Risk Management Committee; the Remuneration and HR Committee; and the Board Governance Committee.

Table 1: Standing Board committees

Committee	Purpose	Membership
Audit and Risk Management Committee	To assist the Board in discharging its responsibilities by providing an objective non-executive review of the financial reporting and risk management framework. Functions include: > integrity of financial reports > significant financial and accounting issues and policies > regulatory requirements and compliance > assurances on internal control and compliance systems > operational risk and risk management framework > audit effectiveness, independence, scope and planning > overseeing CSC's risk profile upon events of change.	In 2013–14: > Gabriel Szondy (Chairman) > Peter Feltham > Nadine Flood > Lyn Gearing > John McCullagh > Michael Vertigan. In 2014–15: > Michael Vertigan (Chairman) > Peter Feltham > Nadine Flood > Lyn Gearing > John McCullagh.
Board Governance Committee	To assist the Board by advising and making recommendations on issues relevant to the corporate governance of CSC and the identification, education and evaluation of directors. Functions include: > review of Board governance policies and procedures > review of the skills of the Board and its committees > review performance and re-appointment of directors > identifying and recommending potential new directors > succession planning for the Chair, Board and the CEO > overseeing induction and ongoing education for directors > evaluation processes for Board, committees and directors.	In 2013–14: > Tony Hyams (Chairman) > Tony Cole > Sir Peter Cosgrove (until 31 January 2014) > Winsome Hall > Peggy O'Neal. In 2014–15: > Patricia Cross (Chairman) > Tony Cole > Chris Ellison > Winsome Hall > Peggy O'Neal.

Table 1 continued on next page.

Committee	Purpose	Membership
Remuneration and HR Committee	To assist the Board by advising and making recommendations on issues relevant to its Remuneration Policy and human resource obligations. Functions include: > review and recommendations on the Remuneration Policy > recommendations on certain remuneration > compliance with relevant law and regulations > setting and monitoring CEO key performance objectives.	In 2013–14: > Mr Tony Hyams (Chairman) > Mr Tony Cole > Sir Peter Cosgrove (until 31 January 2014) > Ms Winsome Hall > Ms Peggy O'Neal. In 2014–15: > Patricia Cross (Chairman) > Tony Cole > Chris Ellison > Winsome Hall > Peggy O'Neal.

Table 2: Board and standing Board committee meeting attendance in 2013–14

	Board meetings (8)		Audit and Risk Management (ARM) Committee meetings (6)		Board Governance Committee meetings (5)		Remuneration and HR Committee meetings (4)	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Tony Hyams (term ended 30 June 2014)	8	8	N/A	N/A	5	5	4	4
Tony Cole	8	8	N/A	N/A	5	5	4	4
Sir Peter Cosgrove (resigned 31 January 2014)	3	4	N/A	N/A	2	3	1	3
Peter Feltham	8	8	6	6	N/A	N/A	N/A	N/A
Nadine Flood	6	8	6	6	N/A	N/A	N/A	N/A
Lyn Gearing	8	8	6	6	N/A	N/A	N/A	N/A
Winsome Hall	8	8	N/A	N/A	5	5	4	4
John McCullagh	8	8	4	6	N/A	N/A	N/A	N/A
Peggy O'Neal	8	8	N/A	N/A	5	5	4	4
Margaret Staib (commenced 2 May 2014)	0	2	N/A	N/A	N/A	N/A	N/A	N/A
Gabriel Szondy (term ended 30 June 2014)	6	8	5	6	N/A	N/A	N/A	N/A
Michael Vertigan	8	8	6	6	N/A	N/A	N/A	N/A

The Board has also established three reconsideration committees, pursuant to scheme legislation, which reconsider certain decisions made under scheme legislation on the application of affected members. These committees are:

> the APS (Australian Public Sector schemes) Reconsideration Advisory Committee
> the MSB (MilitarySuper) Reconsideration Committee
> the Defence Force Case Assessment Panel (DFCAP).

More information is provided in the **Super schemes** section of this report.

The Board may establish other committees from time to time.

Governance

The Board aspires to achieve best practice and to be a leader in governance policy and practice.

The Board's governance framework includes the following policies:

> Board Charter
> Board Performance Evaluation
> Board Renewal Policy
> Code of Conduct
> Fit and Proper Policy
> Governance Statement
> Outsourcing Policy
> Conflicts Management Framework and Policy
> Whistleblower Protection Policy.

Policies are available at **csc.gov.au**

Board performance review

The performance of the Board is formally evaluated each year, covering the Board as a whole, the Chairman, individual directors and the Board committees. An evaluation of the Board may examine a range of matters including performance relative to objectives, fulfilment of responsibilities, structure and skills, strategic direction and planning, policy development and monitoring and supervision.

An internal performance evaluation conducted by the Board in August 2013 showed that the Board continues to operate well and encourages a culture of continuous improvement. All directors participate in professional development activities. Education sessions were run for directors during the year and there is a standing Board agenda item for open discussion and meeting evaluation. Directors can also comment about the means by which Board papers are submitted and how the conduct of Board meetings can be improved in open Board meeting discussions and through formal meeting evaluations.

Board remuneration

The Remuneration Tribunal, established under the *Remuneration Tribunal Act 1973*, determines the remuneration of directors including the Chairman and members of the Audit and Risk Management Committee and the reconsideration committees. Remuneration is disclosed in CSC's annual financial statements included in this report.

3

Organisation

Accountability

The governing legislation establishes accountability arrangements for CSC, including the tabling in Parliament of an annual report and audited financial statements.

CSC appeared before the Senate Finance and Public Administration Legislation Committee in October 2013 and February and May 2014. CSC responds to questions on notice as required.

For the purposes of the Portfolio Budget Statements, CSC has a single outcome which is to provide retirement benefits for past, present and future Australian Government employees and members of the ADF, through investment and administration of government superannuation Funds and schemes. CSC has one key program objective, which is to maximise members' superannuation. This objective has four key performance indicators:

> a long-term nominal investment performance target of a real return of 3.5% over a prospective three year horizon, achieved within Board approved risk parameters

> compliance with relevant law

> meet obligations as an RSE (Registrable Superannuation Entity) licence and AFSL (Australian Financial Services licence) holder

> administration quality as reflected in the satisfaction level of members, beneficiaries and employers with the service provided through ComSuper, as CSC's delegate, to standards set by CSC.

Management

Senior executive

CSC's senior executive supports and advises the Board. Led by the CEO, the senior executive comprises seven positions. The CEO is responsible for the management of CSC, including provision of advice to the Board, implementation of Board decisions and the ongoing management of the Board's functions and responsibilities. The Chief Investment Officer (the CIO) is responsible for leading the investment team to provide advice to the Board and to execute the investment strategy approved by the Board.

Other positions are responsible for finance and risk, human resources and business services, technology, legal and regulatory, member and employer services, and investment operations.

These positions oversee a range of matters including the management of relationships with major service providers such as the custodian and scheme administrators, coordination of advice from external advisers and ensuring compliance with all relevant legislation and law.

Financial management

During the period of this report, finances were managed in accordance with the CAC Act, CSC's governing legislation and relevant scheme legislation. A Board approved budget is in place and the Board has delegated authority to make and implement certain financial decisions to individual staff.

CSC's revenue and expenses were within budget for 2013–14, resulting in a surplus of $853,000. CSC's business expenses were $7.8 million, of which $5.9 million was met by an administration fee paid by employer agencies. An expenses balance of $1.9 million was met from the investment assets of the four regulated Funds.

Corporate governance

CSC's governance framework supports the achievement of the Board's strategies and objectives.

Risk management

CSC has a comprehensive Risk Management Strategy which describes CSC's strategy for managing risk and the key elements of its risk management framework. CSC's Strategy meets APRA's requirements under Prudential Standard SPS 220 and is supported by CSC's Risk Appetite Statement. Both the Strategy and Statement are reviewed at least annually and updated as required.

Compliance

A detailed compliance program underpins CSC's Risk Management Strategy, satisfying the requirements of CSC's AFS licence. Staff and service providers must submit positive certification that they are compliant with all relevant legislative requirements, contractual provisions, regulatory policy and service standards, as well as any relevant licence conditions. Any instance of non-compliance must be reported.

The Audit and Risk Management Committee oversees compliance reporting, including remediation if a breach has occurred. CSC has a Breach and Compliance Policy that describes CSC's requirement for compliance and breach reporting and which is provided to CSC's service providers.

Director indemnity

Anything done, or omitted to be done, in good faith by a director or a delegate of the Board, in the performance of functions under relevant CSC legislation will not subject that person to any action, liability, claim or demand. CSC may, however, be subject to an action, liability, claim or demand. In addition to the legislative indemnity, CSC holds trustee liability and comprehensive crime insurance which complies with the *Corporations Act 2001* and has given a deed of indemnity, insurance and access to each director.

Fraud control

CSC has a Fraud Control Plan in place which was reviewed during the year and meets the Commonwealth Fraud Control Guidelines. There were no instances of fraud in 2013–14.

Internal audit

The Audit and Risk Management Committee agrees an annual internal audit plan. In drawing up the plan, the Committee takes into account previously identified risks, the results and recommendations of previous internal and external audits, legislative and regulatory changes and requirements, and anticipated business changes. Audits can be initiated at any time by the Board or the Audit and Risk Management Committee to address changes to business priorities or to CSC's risk profile.

People

CSC strives to remain a capable, efficient and sustainable organisation. Attracting and retaining high quality people is a key way we achieve this objective.

Our people, collectively, have extensive experience within superannuation and the financial services industry more broadly.

Table 3: CSC people at 30 June 2014

	Male	Female	Total
CSC Board	6 (55%)	5 (45%)	11
Senior Executive	2 (29%)	5 (71%)	7
Other employees	36 (51%)	35 (49%)	71

Note: 56 employees are located in Canberra, 20 in Sydney and one in both Melbourne and Brisbane; 10 are part time (three male and seven female) and the remaining are full time; at 30 June 2013 CSC had 65 employees (seven in the Senior Executive and 58 other employees).

CSC's organisational structure is shown in **Appendix 2**.

Culture and values

CSC is committed to building a high performance organisational culture. We seek to recruit and retain people that reflect and live the organisation's values of respect, trust, integrity, relationship and adaptability.

Employee engagement

CSC conducted an employee engagement survey in November 2013 with the assistance of an independent consultant. We believe engagement surveys are a critical communication and employee feedback tool. This was the second consecutive year we ran an engagement survey and the results were again very positive: 85% of people completed the survey, with an overall employee engagement score of 95% (compared to 82% of employees and a score of 89% in 2012).

Detailed findings included:

> 96% of people are proud to work for CSC

> 95% would recommend CSC as a great place to work

> 98% are committed to CSC's goals.

Employee feedback sessions were also held in Canberra and Sydney, while individual feedback sessions were run for each member of the Senior Executive.

People development

Our people drive their own personal and professional development, with the support and approval of their manager, within a pre-determined budget, and for the purpose of helping CSC to achieve its mission statement and objectives.

During the year, each member of the Senior Executive undertook a 360 degree assessment to further improve performance and development.

Workshops on identifying individual strengths were also run for all employees in 2013–14. These provided a framework for individuals to identify their unique strengths and take a strengths-based approach to their work.

Managers are required, as part of their own performance objectives, to hold regular one-on-one coaching sessions with their employees. This provides a framework for people to speak regularly with their manager about their individual strengths, motivations, job satisfaction and career development, and to receive feedback and coaching on their individual performance.

Remuneration

CSC remunerates its people in accordance with its Board-approved Remuneration Policy.

Individual market-based adjustments are determined by reference to the market survey compiled by FIRG (Financial Institutions Remuneration Group), a not-for-profit association of over 100 banking and financial services organisations, who anonymously share remuneration data in the interest of establishing market levels and trends. CSC uses FIRG survey data to determine whether staff are paid at market levels or require salary adjustments. An increase in remuneration will only be considered where staff members achieve no less than a minimum performance rating.

Bonuses are calculated using a set methodology, which includes a component relating to a person's adherence to CSC's Values.

In 2013–14, CSC paid a total of $2,458,009 to 60 employees in performance bonuses. Bonuses were paid in August 2013, for performance achieved in 2012–13. The median performance bonus paid was $17,787.

Work health and safety

CSC's duty of care is to take all reasonably practicable steps to protect the health and safety of its staff at their place of work and third parties, pursuant to the *Safety, Rehabilitation and Compensation Act 1988* and the *Work Health and Safety Act 2011*.

CSC staff members are covered by workers' compensation provided by Comcare.

During the 2013–14 financial year, there were:

> no dangerous incidents under section 37 of the *Work Health and Safety Act 2011*

> no workplace inspections carried out by Comcare

> no remedial provisional improvement notices issued.

Consultants

CSC engages consultants from time to time. During 2013–14, 13 new consultancy contracts were entered in to, involving total expenditure of $191,779 during the year. In addition, nine ongoing consultancy contracts were active during 2013–14, involving total expenditure of $284,212 during the year.

4

Investments

Background

CSC manages and invests four Funds:

> the CSS Fund
> the PSS Fund
> the MilitarySuper Fund
> the PSSap Fund.

The impact of investment performance on a member's benefit differs across the schemes. For PSS contributors, investment returns do not affect their final benefit. Performance has a greater impact on contributor and deferred benefit members in CSS and preservers in PSS because in those circumstances it does directly influence a member's final benefit.

Investment returns also affect the Australian Government's financial outlays on members' benefits in some circumstances, such as in the case of PSS contributors.

For MilitarySuper, investment performance directly affects the member benefit for all members and a small part of the employer benefit for contributing members. Benefits in PSSap and CSCri are directly affected by investment performance.

CSC does not invest the money of the 1922, DFRB, DFRDB or the PNG schemes.

Investment approach

Part of CSC's mission is to achieve consistent long-term returns within a structured risk framework. To achieve this, CSC manages and invests each Fund so as to achieve its stated investment objective, having regard to strictly-defined risk limits. Each Fund is also managed in a way that allows for the payment of monies to meet scheme member benefit payments, achieves equity among all members, and exercises reasonable care and prudence to maintain and grow the Funds.

CSC jointly invests the Funds in one pooled investment trust, providing economies of scale benefits to members in each regulated scheme.

Investment options in each Fund gain exposure to various asset classes, and professional external investment managers are responsible for the management of the investments. A target asset allocation and asset allocation ranges are set for each option.

Investment strategy

CSC's investment strategy is focused on the provision of financial adequacy in retirement for all scheme members. The level of risk taking is measured and focused on maximising the probability of achieving targeted return objectives for each investment option. This approach should manifest in a different pattern of returns to other super funds: CSC investment portfolios should deliver greater wealth preservation through periods of negative equity market returns. The cost of this is that CSC's investment portfolio returns will lag other funds through periods of strong positive equity market returns. Note that through these periods, CSC member returns should be well in excess of their targeted objectives. Over the full investment horizon, as more capital is preserved in weak markets and most of the returns are captured in strong markets, the cumulative return should be very competitive and the volatility of returns should be reduced.

Investment governance

CSC's investment governance is focused on managing risk and is driven by our primary objective to achieve stated investment objectives within strictly defined risk limits. The CSC Board has agreed and established a comprehensive investment governance framework, which includes a clear statement of Board and Executive responsibilities.

The CSC Board

Sound and prudent management of the assets of the schemes is the responsibility of the Board. It sets, reviews and oversees the investment strategy, mission statement and core investment beliefs; approves and monitors investment strategies for each investment option; agrees the budget; and determines appropriate delegations.

To approve CSC's investment strategy, regard is had to factors such as CSC's size as measured by funds under management and scheme membership, perceived competitive advantages, member demographics and the broader investment environment.

To approve an investment strategy for an individual investment option, the Board considers the objective in terms of return and risk measures and the investment horizon.

Management of investment activities is delegated by the Board to relevant staff. Reports are made to the Board on approved investment policies. Reports are also presented and discussed at every Board meeting on liquidity, risk, manager and portfolio activity, portfolio structure, capital allocation and the risk budget.

CSC's investment team

CSC's investment team advises the Board on investments, implements Board-approved strategies and manages all investments within Board-approved delegations. Led by the Chief Investment Officer (CIO), the team manages the investments in a manner consistent with the Board's investment strategy, decisions on asset allocation, and detailed investment policies.

The team performs two major functions:

> Formulating investment strategy, option design, risk budget deployment and monitoring the evolving risks and opportunities in the Fund as well as the broader financial markets

> Identifying the most efficient implementation channels for investment strategies, with 'efficiency' defined as the highest prospective, net return per unit of risk.

Both functions are well resourced with specialist senior investment managers who report directly to the CIO and are supported by investment analysts.

CSC's operations team

Implementing investment decisions and attributing performance is the responsibility of the operations team, led by the General Manager Operations. The CIO and General Manager Operations report independently to the CEO.

For CSS and PSS, performance is attributed in accordance with CSC's Earning Rate Policy, effective since 28 June 2007. It is published on the CSS and PSS websites.

For MilitarySuper and PSSap, a member's interest is valued in units. Super contributions and other amounts are used to purchase units which are invested in accordance with an individual member's investment option selection.

Net earnings are allocated to a member's account through changes in the unit price for each relevant investment option. Unit prices fluctuate in line with the performance of investment markets. The unit price for each option reflects the total value of assets in that option, less taxes and expenses, divided by the number of units issued. Asset values are based on the latest available market value at the end of each business day and unit prices are published on the MilitarySuper and PSSap websites. Units are sold directly from a member's account to cover any fees payable.

A buy and sell spread is applied to all investment options in the PSSap Fund to reflect the costs associated with the purchase or sale of assets within an option.

Investment managers

Under scheme legislation (outlined in the CSC Board section of this report), CSC is required to invest through external investment managers. On the recommendation of the Executive, the Board approves the appointment of managers as 'investment grade managers' that may be funded by CSC.

Investment managers are identified for their specific expertise and invest according to individual mandates set by CSC which are designed to address CSC's specific portfolio requirements. These mandates provide CSC's directions on investment types to be held, the maximum and minimum holdings for each investment type and target rates of return and risk limits.

Investment managers are paid a fee generally based, in part, on the value of assets managed on behalf of CSC, but importantly, where possible, on the basis of their performance both in terms of returns and risk taking.

Fees reflect investment costs applicable to each particular asset class category and the investment style employed by each manager.

Some managers may be paid a performance fee for exceeding a pre-determined benchmark or hurdle rate of return, within specified risk limits. The performance fee is generally a share of any excess risk-adjusted performance above an agreed benchmark return.

Environmental, social and governance factors

CSC is responsible for ensuring that member Funds are not exposed to undue risk because of poor governance. We actively pursue principles of good governance in our own operations and seek them in the companies in which we invest.

Poor environmental, social and governance (ESG) performance in an investment can indicate poor corporate management and may lead to a decline in investment value. CSC has implemented a number of investment governance practices, including:

> casting proxy votes in Australian and international companies in which we invest

> publicly communicating our ESG policy and practices

> governance research and engagement through Regnan, which provides governance research and engagement services to CSC and its other institutional investors.

CSC is also a signatory of the United Nations Principles for Responsible Investment, which provides a framework for institutional investors to align investment activities with the broader interests of society while maximising long-term returns for their beneficiaries.

The six Principles are:

> We will incorporate ESG issues into investment analysis and decision-making processes.

> We will be active owners and incorporate ESG issues into our ownership policies and practices.

> We will seek appropriate disclosure on ESG issues by the entities in which we invest.

> We will promote acceptance and implementation of the Principles within the investment industry.

> We will work together to enhance our effectiveness in implementing the Principles.

> We will each report on our activities and progress towards implementing the Principles.

Investment options

Table 4: Investment options at 30 June 2014

Investment option (scheme)	Objective	Risk		Minimum suggested timeframe	Target asset allocation (ranges)
		Band	Label		
Cash (CSS, PSS, MilitarySuper, PSSap and CSCri)	To preserve capital and earn a pre-tax return in line with that of the UBS Australia bank bill index by investing 100% in cash assets	One	Very low	1 year	Cash 100% (100%)
Income Focused (MilitarySuper, PSSap and CSCri)	To outperform the CPI by 2% per annum over 10 years	Three	Low to medium	5 years	Cash 26% (10–100%) Fixed interest 25% (10–100%) Equities 14% (0–40%) Property 15% (0–35%) Infrastructure 10% (0–35%) Other 10% (0–70%)
Default Fund (CSS/PSS) **Balanced** (MilitarySuper) **MySuper Balanced** and **Balanced** (PSSap) **Balanced** (CSCri)	To outperform the CPI by 3.5% per annum over 10 years	Five	Medium to high	10 years	Cash 3% (0–65%) Fixed interest 15% (0–65%) Equities 53% (15–75%) Property 13% (5–25%) Infrastructure 2% (0–20%) Other 14% (0–30%)
Aggressive (MilitarySuper, PSSap and CSCri)	To outperform the CPI by 4.5% per annum over 10 years	Six	High	15 years	Cash 2% (0–35%) Equities 71% (20–95%) Property 15% (0–50%) Infrastructure 2% (0–50%) Other 10% (0–70%)

Note: investment risk bands and labels (used by CSC's standard risk measure) are explained in the **Investment Options and Risk booklet**, which is part of each scheme **Product Disclosure Statement**.

Market commentary

The Australian economy enjoyed its 23rd consecutive year of positive economic growth in 2013–14, with growth underpinned by strong export growth and a pick-up in housing construction.

The strong rise in exports reflected a significant increase in mining export volumes, which benefited from the earlier large investment in mining export capacity. This more than offset the dampening impact of a decline in our terms of trade. A robust pick-up in housing construction also helped to underpin economic growth, with the housing sector responding to a sustained increase in housing prices and record low interest rates. Private consumption contributed only modestly to economic growth while business investment fell, in line with a winding back of mining investment.

Australia's gross domestic product (GDP) increased by 3.2% in the last year, a little above the economy's trend growth rate. Despite this, the rate of unemployment edged up modestly from 5.7% to 6.0%. Inflation remained well contained despite rising to the top end of the Reserve Bank's 2%–3% target band. This, together with a very resilient Australian dollar saw the Reserve Bank maintain its stimulatory monetary policy stance. The official cash rate was reduced from 2.75% to 2.5% at the beginning of the financial year and stayed at this record low level for the rest of the year.

Global monetary policymakers have underpinned a modest recovery in growth all around the world by maintaining interest rates at record low rates. This, in turn, has underwritten in reflation in risk-asset prices, most noteably, in listed equity markets.

Global economic data for 2013–14 was somewhat mixed. In the US, the economic recovery continued to broaden, despite the negative impact of a very severe winter.

The two sectors in which the recovery was most noticeable were housing and the labour market, with the unemployment rate declining from 7.6% at the beginning of the financial year to 6.1% at the end of it. As a result of the ongoing economic recovery, the US Federal Reserve embarked on a policy of gradually reducing the extent of monetary stimulus applied within the economy.

European countries generally continued to struggle with weak economic conditions, high unemployment rates and very low inflation rates. However, the European Central Bank was very successful in its attempt to ease liquidity conditions and reduce the level of government bond yields, particularly in peripheral European countries.

In China, the economy continued its transition from investment-led to consumption-led growth. This was associated with a somewhat lower rate of economic growth, which is to be expected as the economy matures. In Japan, the shift towards greater monetary policy stimulus was only partially successful in raising the level of economic growth and inflation.

Australian shares rose by a strong 17% over the year, as measured by the S&P/ASX 300 Accumulation Index. This followed an increase of 22% in the previous financial year. In the latest year, the gains were widespread across most sectors, with the exception of consumer staples and to a lesser extent, healthcare.

Global shares, as measured by the MSCI World ex Australia Accumulation Index, rose by a very strong 24% in hedged Australian dollar terms. This followed a similar sized increase in the previous financial year. Global shares rose by 20% in unhedged terms, with the return tempered somewhat by a small increase in the value of the Australian dollar.

Other asset classes could not quite match the gains achieved by listed equity markets in 2013–14. The best performing sectors within

this group included global high yield bonds, which provided investors with a return of 15% and emerging market hard currency bonds which increased by 14%. Other bond market returns were more modest, with government bonds performing in line with their long-run historical average return of 6%–7%.

After an initial decline in the first part of the year, the Australian dollar strengthened in the second half to finish slightly higher on a trade weighted index (TWI) basis. Against individual currencies, the Australian dollar rose against the Japanese yen, US dollar and a basket of emerging currencies, but declined against the British pound, NZ dollar and Euro.

Performance

Default option commentary

CSS & PSS

After extremely strong gains in 2012–13, both the CSS Default Fund and PSS Default Fund posted another strong net return (after fees and tax) of 11.5% over the year to 30 June 2014. Performance was again buoyed by very strong listed share market returns and investor appetite for high yielding assets. The environment for positive financial market returns was buoyed by continued economic recovery, particularly in the US, and significant monetary policy stimulus provided by the major developed world central banks.

In the three years to 30 June 2014, the CSS Default Fund achieved an average net return of 9.1% per annum. This compares with a five year average net return of 9.1% per annum and a seven year average net return of 3.6% per annum. In the three years to 30 June 2014, the PSS Default Fund achieved an average net return of 9.1% per annum, compared to a five-year average net return of 9.0% per annum and a seven year average net return of 3.5% per annum.

MilitarySuper

MilitarySuper's Balanced Option achieved a net return (after fees and tax) of 11.3% in the year to 30 June 2014. Returns benefited from the strong pick-up in listed equity markets and were only slightly constrained by the negative impact from some legacy assets. Over 10 years to 30 June 2014, MilitarySuper's Balanced Option achieved a net return of 5.6% per annum.

PSSap

The MySuper Balanced Option also benefited from the large increase in listed equity market returns in 2013–14. In the year ended 30 June 2014 it achieved a strong net return (after fees and tax) of 11.5%. This compared to a three year average net return of 9.1% per annum, a five year average net return of 8.9% per annum, and a seven year net return of 3.6% per annum.

Investment performance

Investment performance for each option is calculated after fees and taxes. Performance is calculated based on the actual value of investment option assets as at the end of the quoted performance period (which is 1 July 2013 to 30 June 2014 for this report) and is indicative only of the performance that a member achieves on their investment. The following performance figures are based on final valuations as at 30 June 2014. Past performance is no indication of future performance.

Earning rates (for CSS and PSS) and unit prices (for MilitarySuper and PSSap) are needed for daily member transactions and will determine the actual performance a member achieves based on the timing of their individual transactions. The earning rates and unit prices are determined based on the best available information at the time they are declared. Valuations are fed into the calculations for earning rates and unit prices as soon as practical after they are received.

Using earning rates or unit prices to calculate an investment performance figure for the 1 July 2013 to 30 June 2014 period will provide similar but not identical rates to the investment performance figures published below.

Table 5: CSS investment performance to 30 June 2014

Options	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Default Fund	11.5	9.1	9.1	6.8
Cash Investment Option	2.1	2.9	3.3	N/A

Note: the cash option commenced in December 2004.

Table 6: PSS investment performance to 30 June 2014

Options	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Default Fund	11.5	9.1	9.0	6.8
Cash Investment Option	2.1	3.0	3.3	N/A

Note: the cash option commenced in December 2004.

Table 7: MilitarySuper investment performance to 30 June 2014

Options	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Cash	2.2	3.0	3.4	4.2
Income Focused	6.0	4.9	4.1	4.5
Balanced (default)	11.3	7.6	5.9	5.6
Aggressive	12.6	8.1	6.2	5.2

Note: names of some investment options changed on 1 July 2013.

Table 8: PSSap investment performance to 30 June 2014

Options	1 year (%)	3 years (%) pa	5 years (%) pa
Cash	2.1	3.0	3.3
Income Focused	5.9	6.5	6.9
MySuper Balanced (default)	11.5	9.1	8.9
Balanced	11.5	N/A	N/A
Aggressive	13.2	10.0	10.0

Note: names of some investment options changed and the Balanced option commenced on 1 July 2013.

Table 9: CSCri investment performance to 30 June 2014

Options	1 year (%)	Since inception (%) pa
Cash	2.5	2.5
Income Focused (default)	6.8	5.2
Balanced	12.9	11.8
Aggressive	14.7	17.3

Note: the date of inception of the Cash, Income Focused and Balanced options was 7 May 2013 and 25 June 2013 for the Aggressive Option.

5

Super schemes

Overview of the schemes

CSS

CSS is a public sector scheme established on 1 July 1976 by the CSS Act. It closed to new members on 30 June 1990. CSS is a hybrid scheme (part accumulation and defined benefit) where benefits derive from a member and employer component.

The member component is the accumulation part. It consists of member contributions and Fund earnings. The employer component is the defined benefit part. It comprises two parts; the first is unfunded and generally paid as a lifetime non-commutable indexed pension (lifetime pensions are paid by the Australian Government). The second part is the employer productivity contributions, made-up of contributions and Fund earnings.

PSS

PSS is a public sector scheme established on 1 July 1990 by the PSS Act. It closed to new members on 30 June 2005. PSS is a defined benefit scheme where benefits generally derive from a member and employer component.

The member component consists of member contributions and Fund earnings. The employer components comprise two parts; the first being employer productivity contributions plus Fund earnings, with the second part being the unfunded 'benefit balance', which is determined at the time a member exits relevant public sector employment.

Members on retirement can convert 50% or more of their final benefit to a lifetime non-commutable indexed pension paid by the Australian Government.

MilitarySuper

MilitarySuper was established on 1 October 1991 by the MilitarySuper Act. The scheme will close to new members on 30 June 2016. New ADF entrants can then join ADF Super which will commence on 1 July 2016. (This was announced in the 2014 May Federal Budget.)

MilitarySuper is a hybrid scheme (part accumulation and defined benefit).

Benefits derive from a member and employer component. The member component is the accumulation part. It consists of member contributions, any amounts notionally brought over from DFRDB, plus Fund earnings on those amounts. The employer component is the defined benefit part. It is based on a member's period of membership and final average salary. It is unfunded except for the portion relating to the employer 3% productivity contributions paid each fortnight to the Fund by the Department of Defence. Unfunded benefits are paid by the Australian Government.

PSSap

PSSap is a public sector accumulation scheme established on 1 July 2005 by the PSSap Act. It is an accumulation plan. Members and employers pay money into the Fund, with investment earnings credited to a member's account after fees, taxes and charges have been deducted. PSSap is open to eligible employees of participating employers under choice of fund legislation. Employers contribute 15.4% per annum on behalf of their employees. Under its trust deed, PSSap also offers an account-based pension product known as CSCri (Commonwealth Superannuation Corporation retirement income) to public sector scheme members. CSCri has been available since April 2013.

DFRB

DFRB is a closed military scheme with no contributing members. Established in 1948 by the DFRB Act, this scheme closed to new contributors on 30 September 1972. It continues to provide for the benefit entitlements of members who ceased to be contributors before 1 October 1972 and for reversionary benefits to eligible spouses and children. Contributing members on 30 September 1972 transferred to DFRDB on 1 October 1972.

DFRDB

DFRDB is a closed unfunded defined benefit military scheme. Established by the DFRDB Act, the scheme closed to new ADF entrants on 1 October 1991 when MilitarySuper was established.

DFRDB provides superannuation for ADF members who became contributors on or after 1 October 1972 and for contributors of DFRB on 30 September 1972 who compulsorily transferred to DFRDB on 1 October 1972.

DFSPB

DFRDB members are also entitled to a productivity benefit under the *Defence Force (Superannuation) (Productivity Benefit) Determination (DFSPB)*, issued under the *Defence Act 1903*. It is paid by the Department of Defence when a member's DFRDB benefits are paid.

PNG

PNG is a closed public sector scheme with no contributing members. Constituted under the *Superannuation (Papua New Guinea) Ordinance 1951*, PNG provided retirement benefits for employees of the administration of the Territory of Papua and New Guinea through the establishment of the Papua and New Guinea Superannuation Fund. Since 1 July 1976, the scheme has been administered in accordance with section 38 of the PNG Act.

1922 scheme

The 1922 scheme, which was established under the 1922 Act, is a closed public sector scheme with no contributing members. Contributing members transferred to CSS when it opened on 1 July 1976. The 1922 Act continues to provide for payment of pensions, deferred benefit entitlements and any reversionary pensions that become payable.

Members and benefits

CSC's schemes generally consist of two types of members: contributors, who are employed by a participating scheme employer (usually an Australian Government department or agency) or are members of the ADF; and deferred benefit members or preservers who do not contribute to their scheme because they no longer work for a participating employer or are no longer ADF members. These members maintain an account within their scheme and under scheme rules can generally become contributors again if they join a participating employer or rejoin the ADF.

Pensioners are former scheme members who have exited their scheme and receive a pension paid by the Australian Government. Eligible pensioners from the military schemes may become contributors again if they re-enter the ADF for a period of more than 12 months.

Public sector scheme members who join CSCri are referred to as CSCri members.

Depending on scheme rules, scheme membership may also include former spouses following a family law split, who are known as associates; spouses and eligible children of deceased pensioners or members; and members who under scheme rules can hold a benefit in a second scheme (MilitarySuper or PSSap), who are known in their second scheme as Ancillary members.

CSS

Membership

Chart 1: CSS members & pensioners over 5 years

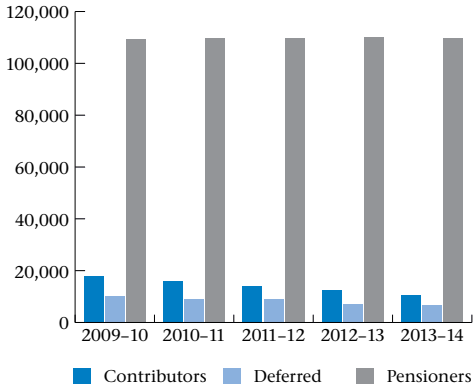


Table 10: CSS membership by type & pensioners

	30 June 2013	30 June 2014
Contributors	12,410	10,550
Deferred	7,187	6,702
Pensioners	110,276	109,821
Total	**129,873**	**127,073**

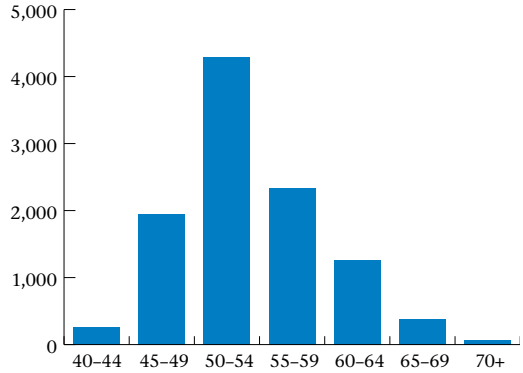
Contributors

Table 11: CSS contributors

	Male	Female	Total
At 30 June 2013	7,975	4,435	**12,410**
At 30 June 2014	6,793	3,757	**10,550**

Note: rejoins are deferred members who became contributors and exits are contributors who became deferred or left CSS.

Chart 2: CSS contributor age profile at 30 June 2014



Years of service

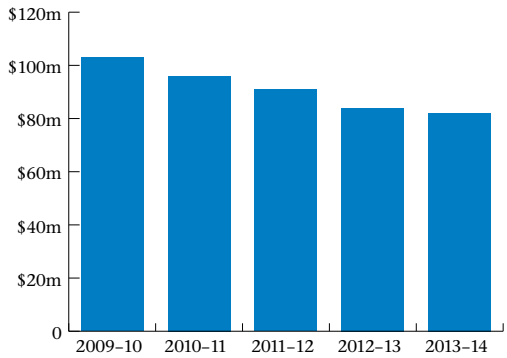
More than 90% of CSS contributors had over 20 years of service at 30 June 2014.

Member contributions

Contributors can make basic and supplementary contributions, both of which are made from after-tax income.

Contributors can also make voluntary payments into PSSap (refer to the PSSap part for details).

Chart 3: CSS member contributions

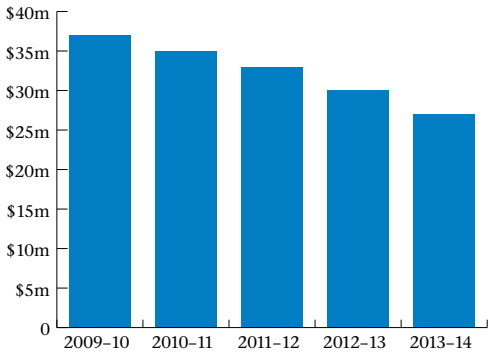


Note: this table shows basic and supplementary contributions.

Employer contributions

Employers pay a fortnightly contribution, which is the productivity component. It is based on the member's super salary.

Chart 4: CSS employer contributions



Deferred benefit members

On leaving the employment of a CSS participating employer, members can keep their super in CSS for future payment. This is called a 'deferred benefit'. A deferred benefit account can be 'reactivated' if the member recommences work with a participating employer.

Table 12: CSS deferred benefit members

	Male	Female	Total
At 30 June 2013	5,003	2,184	**7,187**
At 30 June 2014	4,461	2,241	**6,702**

Pensioners

Members who exit at retirement are generally entitled to a CPI-indexed pension paid for life.

Information on 1922 scheme pensioners is provided later in this section.

Table 13: CSS pensioners by type

	2012–13	2013–14
Age retirement	58,967	59,366
Involuntary retirement	14,550	14,592
Invalidity	12,297	11,649
Spouse	24,423	24,178
Child/other	39	36
Total	**110,276**	**109,821**

Benefit payments

Benefits in CSS are paid in most cases when a member exits the scheme at retirement. Generally benefits cannot be paid until minimum retirement age is reached.

Table 14: CSS average yearly pension amount

	30 June 2013	30 June 2014
Average amount ($)	31,611	33,010

Note: this table shows the weighted average yearly pension; pension indexation increases were 0.6% in July 2013 and 1.6% in January 2014; CSS pensions are paid by the Australian Government.

Chart 5: CSS pension payments over 5 years

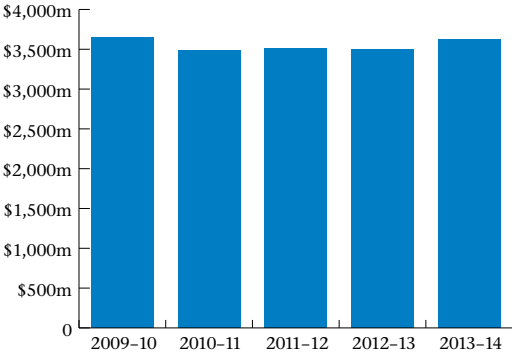
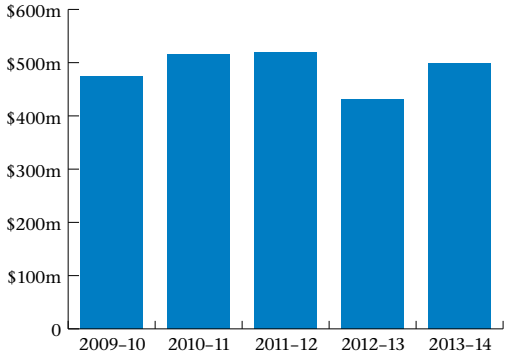


Chart 6: CSS lump sum payments over 5 years



Note: lump sums are paid from the CSS Fund.

Invalidity benefits

CSS provides partial invalidity, full invalidity and death benefits.

Death and invalidity

Benefits are based on the entitlement the individual member would have received if they had worked to their maximum retirement age (generally age 65), subject to any pre-existing medical conditions being assessed.

Table 15: Full invalidity pensions in CSS

	2012–13	2013–14
Full invalidity pensioners	38	44

Partial invalidity

A benefit is paid as a partial invalidity pension, which is a form of income maintenance, when a member's salary is permanently reduced because of a medical condition.

Table 16: Partial invalidity applications in CSS

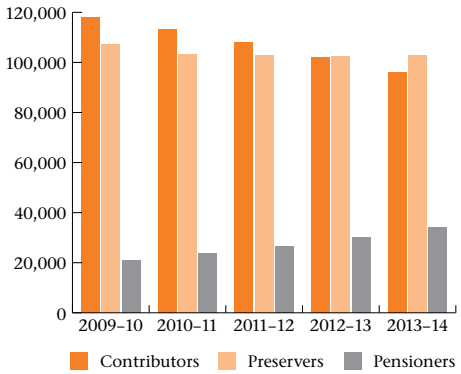
	2012–13	2013–14
New applications	15	4

Note: this table shows assessed applications including retrospective applications.

PSS

Membership

Chart 7: PSS members & pensioners over 5 years



Note: figures are at 30 June of each year.

Table 17: PSS membership by type & pensioners

	30 June 2013	30 June 2014
Contributors	101,889	96,051
Preservers	102,564	102,965
Pensioners	30,311	34,320
Total	**234,764**	**233, 336**

Contributors

Table 18: PSS contributors

	Male	Female	Total
At 30 June 2013	42,860	59,029	**101,889**
At 30 June 2014	40,314	55,737	**96,051**

Chart 8: PSS contributor age profile at 30 June 2014

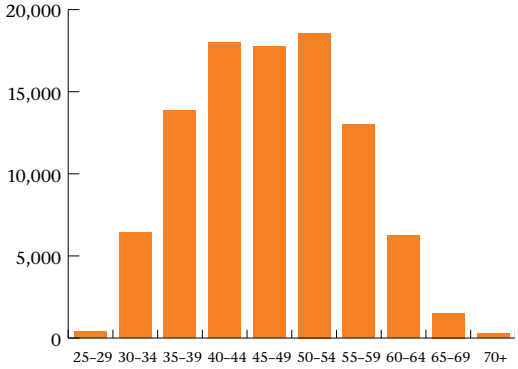


Table 19: PSS years of service at 30 June 2014

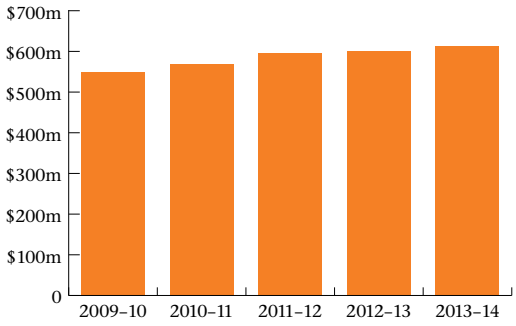
Years of service	Percentage (%)
Under 4	1.6
5-9	14.7
10-14	39.7
15-19	18.3
Over 20	25.7

Member contributions

Contributors can contribute up to 10% of their salary for super purposes. Contributions are made from after-tax income.

Contributors can also make voluntary payments into PSSap (refer to the **PSSap section** for details).

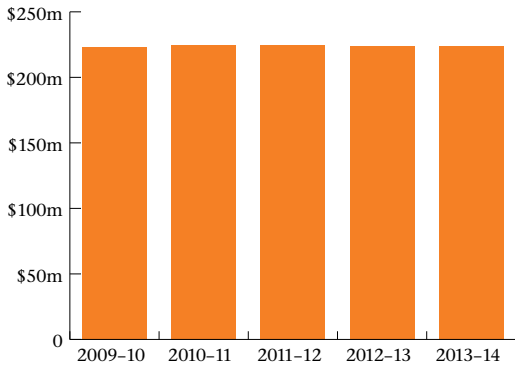
Chart 9: PSS member contributions over 5 years



Employer contributions

Employers pay a fortnightly contribution, which is the productivity component. It is based on the member's super salary.

Chart 10: PSS employer contributions over 5 years



Preservers

On leaving the employment of a PSS participating employer, members can keep their super in PSS for future payment. This is called a 'preserved benefit'. A preserved benefit account can be 'reactivated' if the member recommences work with a participating employer.

Preserved benefit members can also transfer eligible monies from their PSS account into PSSap without exiting PSS.

Table 20: PSS preservers

	Male	Female	Total
At 30 June 2013	41,535	61,029	**102,564**
At 30 June 2014	41,443	61,522	**102,965**

Pensioners

Members who exit PSS at retirement are generally entitled to a CPI-indexed pension paid for life.

Table 21: PSS pensioners by type

	2012–13	2013–14
Age retirement	14,608	16,584
Involuntary retirement	11,479	13,208
Invalidity	3,009	3,182
Spouse	1,130	1,261
Child/other	85	85
Total	**30,311**	**34,320**

Benefit payments

Benefits in PSS are paid in most cases when a member exits the scheme at retirement. Generally benefits cannot be paid until minimum retirement age is reached.

Table 22: PSS average yearly pension amount

	30 June 2013	30 June 2014
Average amount ($)	23,577	24,833

Note: this table shows the weighted average yearly pension; pension indexation increases were 0.6% in July 2013 and 1.6% in January 2014; PSS pensions are paid by the Australian Government.

Chart 11: PSS pension payments over 5 years

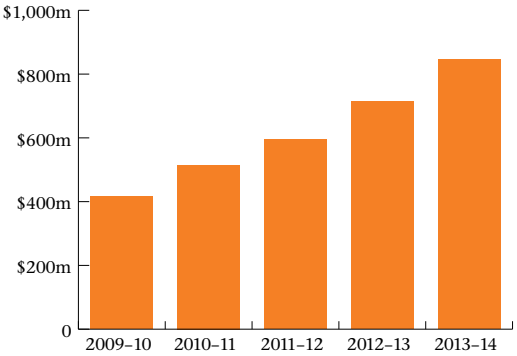
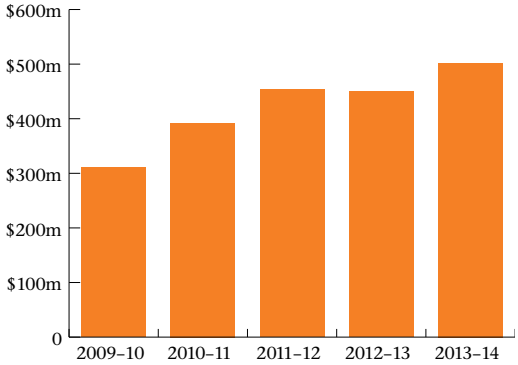


Chart 12: PSS lump sum payments over 5 years



Note: lump sums are paid from the PSS Fund.

Invalidity benefits

PSS provides partial invalidity, full invalidity and death benefits, and contributors can purchase additional death and invalidity cover, subject to those members meeting underwriting requirements.

Death and invalidity

Benefits are based on the entitlement the individual member would have received if they had worked to age 60, subject to any pre-existing medical conditions being assessed. Benefits for contributors after reaching age 60 are based on the age retirement pension that would have been payable to them.

Table 23: Full invalidity pensions in PSS

	2012–13	2013–14
Full invalidity pensioners	231	213

Partial invalidity

A benefit is paid as a partial invalidity pension, which is a form of income maintenance, when a member's salary is permanently reduced because of a medical condition.

Table 24: Partial invalidity applications in PSS

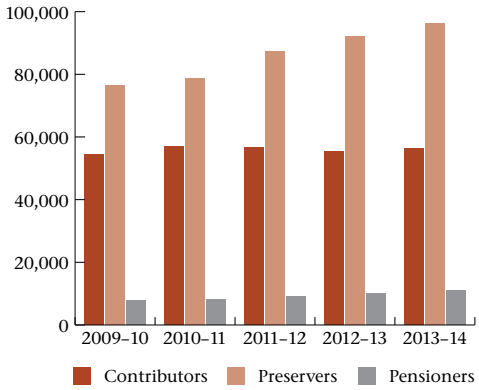
	2012–13	2013–14
New applications	100	76

Note: this table shows assessed applications including retrospective applications.

MilitarySuper

Membership

Chart 13: MilitarySuper members & pensioners over 5 years



Note: figures are at 30 June of each year; Ancillary members are not included.

Table 25: MilitarySuper membership by type & pensioners

	30 June 2013	30 June 2014
Contributors	55,395	56,470
Preservers	92,025	96,161
Pensioners	9,937	10,975
Total	**157,357**	**163,606**

Chart 14: MilitarySuper contributors over 5 years

Note: figures are at 30 June of each year.

Table 26: MilitarySuper contributors

	Male	Female	Total
At 30 June 2013	47,133	8,262	**55,395**
At 30 June 2014	47,711	8,759	**56,470**

Chart 15: MilitarySuper contributor age profile at 30 June 2014

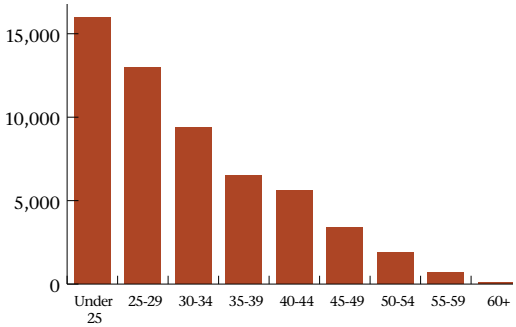


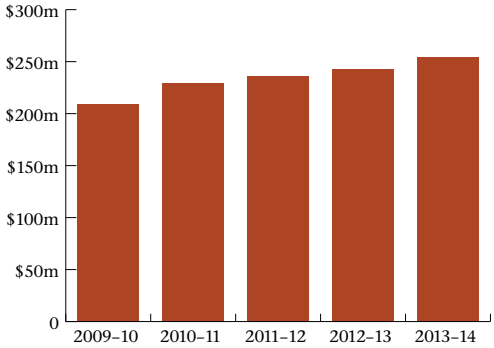
Table 27: MilitarySuper years of service at 30 June 2014

Years of service	Percentage (%)
Under 4	35.5
5-9	25.2
10-14	15.8
15-19	9.7
Over 20	13.8

Member contributions

The basic contribution rate is 5% of salary, including higher duties and the qualification and skills element of certain environmental allowances. Members can contribute up to 10% of their super salary. Ancillary contributions are also accepted into the Fund, including both pre- and post-tax contributions such as additional personal, salary sacrifice and spouse contributions.

Chart 16: MilitarySuper member contributions over 5 years

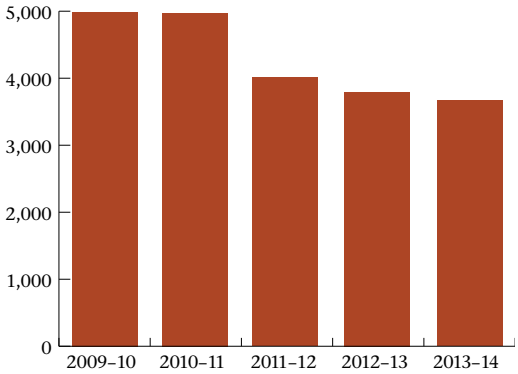


Note: this chart shows basic and Ancillary contributions.

Ancillary contributions

Ancillary contributions can be made by contributing MilitarySuper and DFRDB members to build a separate superannuation benefit called an Ancillary benefit. It accrues as a separate accumulation interest, fluctuating in line with the relevant investment returns. Ancillary contributions do not impact the member's employer benefit in MilitarySuper or DFRDB.

Chart 17: MilitarySuper Ancillary contributors over 5 years



Preservers

MilitarySuper members often leave the ADF before their minimum compulsory retirement age, usually to join the civilian workforce. In this case, some or all of a member's super benefit will be preserved in the scheme until they permanently retire from the workforce.

Table 28: MilitarySuper preservers

	Male	Female	Total
At 30 June 2013	75,848	16,177	**92,025**
At 30 June 2014	79,442	16,719	**96,161**

Pensioners

Members who exit at retirement are generally entitled to a CPI-indexed pension paid for life.

Table 29: MilitarySuper pensioners by type

	2012–13	2013–14
Retirement	1,912	2,199
Redundancy	2,073	2,088
Invalidity	5,503	6,202
Reversionary	449	486
Total	**9,937**	**10,975**

Benefit payments

Members who exit the scheme are entitled to receive a member-financed benefit regardless of their reason for leaving the ADF. Exiting members are also entitled to an employer-financed benefit, the amount of which varies based on the reason for their scheme exit. The employer-financed benefit is generally preserved until the member reaches their minimum preservation age.

Table 30: MilitarySuper average yearly pension amount

	30 June 2013	30 June 2014
Average amount ($)	26,582	28,553

Note: this table shows the weighted average yearly pension; pension indexation increases were 0.6% in July 2013 and 1.6% in January 2014; MilitarySuper pensions are paid by the Australian Government.

Chart 18: MilitarySuper pension payments over 5 years

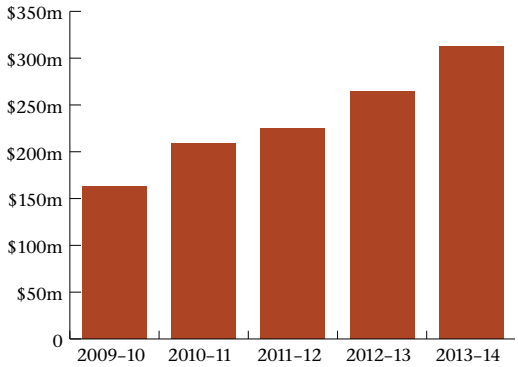
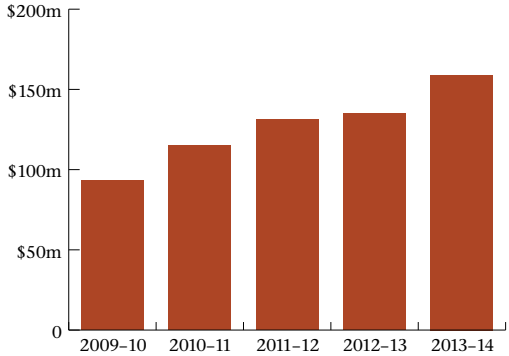


Chart 19: MilitarySuper lump sum payments over 5 years



Note: lump sums are paid from the MilitarySuper Fund and by the Australian Government.

Invalidity benefits

MilitarySuper provides partial invalidity, full invalidity and death benefits.

If a member becomes disabled and unable to continue their ADF service, invalidity benefits can help them to resettle into civilian employment.

Invalidity classifications

There are three levels of invalidity classifications:

> Class A: Significant incapacity

> Class B: Moderate incapacity

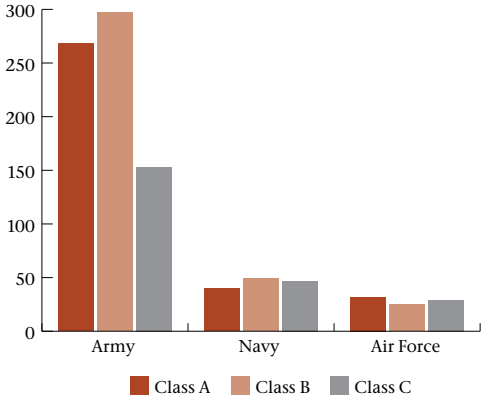
> Class C: Low incapacity (no entitlement to an invalidity pension).

Table 31: Initial invalidity classifications in MilitarySuper

	2012–13	2013–14
Initial classifications	754	940
Pensions granted	581	710
Pensions not granted	173	237

Note: figures in the table vary slightly to invalidity exits quoted elsewhere due to some cases relating to members discharged in the previous financial year; these figures do not include members who were medically discharged under Rule 32 with no invalidity pension payable having been deemed by a delegate of the Board to have been retired on a pre-existing condition within two years of enlistment.

Chart 20: Invalidity classifications in MilitarySuper



Invalidity classification review

Members classified Class A or Class B are not guaranteed an invalidity benefit for their lifetime and may be subject to periodic medical reviews by CSC or its delegate until the member reaches age 55. Members can also initiate a classification level review.

Members classified Class C at retirement are not subject to periodic reviews but can request the initial classification be reconsidered. Their request must be made within 30 days of when the initial classification was determined.

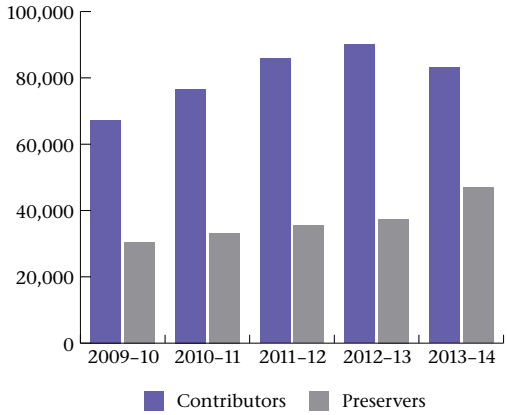
Table 32: Invalidity entitlement reviews in MilitarySuper

	2012–13	2013–14
Entitlements examined	188	142
Review with medical exam	182	91

PSSap

Membership

Chart 21: PSSap members over 5 years



Note: figures are at 30 June of each year and Ancillary members are not included.

Table 33: PSSap membership by type

	30 June 2013	30 June 2014
Contributors	90,146	83,155
Preservers	37,482	46,957
Total	**127,628**	**130,112**

Table 34: CSCri membership

	30 June 2013	30 June 2014
CSCri members	6	181

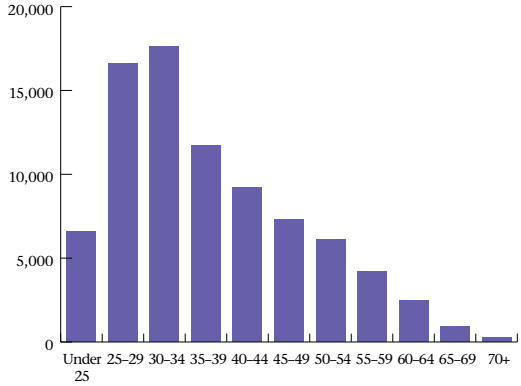
Contributors

Table 35: PSSap contributors over three years

	Male	Female	Total
At 30 June 2012	36,958	48,874	**85,832**
At 30 June 2013	38,798	51,348	**90,146**
At 30 June 2014	36,035	47,120	**83,155**

Note: figures are at 30 June of each year.

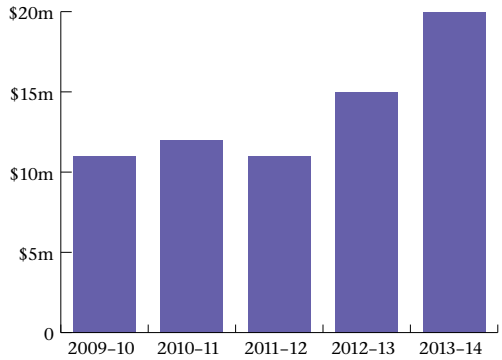
Chart 22: PSSap contributor age profile at 30 June 2014



Member contributions

PSSap contributors can make before- and after- tax voluntary contributions.

Chart 23: PSSap member contributions over 5 years



Ancillary contributions

Ancillary contributions can be made by contributing CSS and PSS members who also join PSSap to build a separate superannuation benefit. Their benefit in PSSap fluctuates in line with the investment returns of the Fund and does not impact their CSS or PSS benefit in any way.

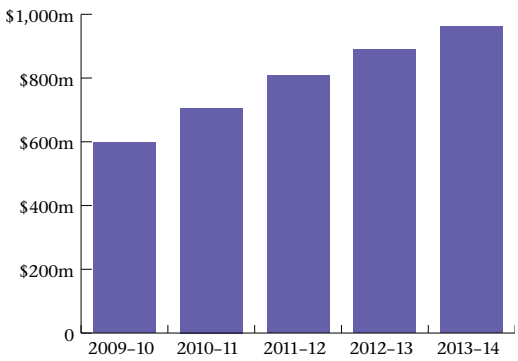
Ancillary memberships have been available since 1 July 2014. In 2013–14, almost $35 million in Ancillary contributions (in the form of salary sacrifice, personal (after tax) contributions and super transfers) were made.

At 30 June 2014, there were 813 Ancillary members of PSSap (167 from CSS and 646 from PSS).

Employer contributions

PSSap contributors receive 15.4% employer contributions.

Chart 24: PSSap employer contributions



Preservers

Members can leave their super in PSSap for future payment. This is called a 'preserved benefit'. A preserved benefit account can be 'reactivated' if the member recommences work with a participating employer.

Table 36: PSSap preservers

	Male	Female	Total
At 30 June 2013	14,615	22,867	37,482
At 30 June 2014	18,416	28,541	46,957

Benefit payments

Superannuation benefits in PSSap are paid out of the Fund for the purpose of retirement, or if a member wishes to consolidate funds into another super fund.

Table 37: PSSap withdrawals

	2012–13	2013–14
Total withdrawals ($)	167.387m	239.793m

CSCri roll ins

Public sector scheme members may roll lump sum amounts into CSCri for the purpose of receiving regular income payments from their super savings in retirement or in the transition to retirement.

Table 38: CSCri roll ins

	2012–13	2013–14
Total roll ins ($)	166.105m	273.211m

Note: CSCri began in April 2013.

Insurance benefits

Eligible PSSap members receive an automatic level of death, total and permanent disability (TPD) and income protection cover, and can apply to vary, increase, decrease or opt out of their cover. Cover is provided by the Insurer, AIA Australia Limited (ABN 79 004 837 861, AFSL 230043). Insurance arrangements changed from 1 July 2013 to meet MySuper requirements.

Death and TPD

Cover provides a lump sum payment on death or TPD. The level of cover changes automatically based on a member's age, unless the member has fixed cover in place, which remains the same until the cover ceases or until the member advises that they wish to opt out of that level of cover.

Members can choose death and TPD cover or death only cover.

Table 39: TPD claims in PSSap

	2012–13	2013–14
TPD claims assessed	59	95

Income protection cover

Cover provides an income stream paid monthly in arrears, which covers (by default, subject to meeting certain conditions) up to 75% of an eligible member's base salary for up to two years when that member is unable to return to work due to disability caused by sickness or injury.

Table 40: Income protection claims in PSSap

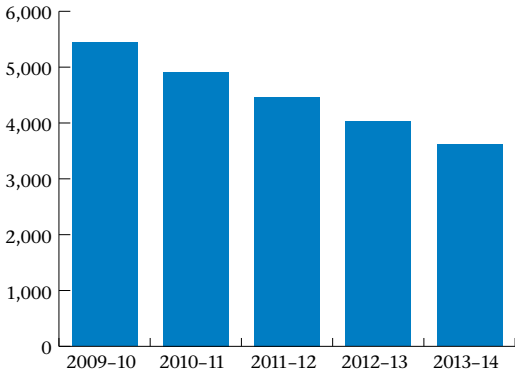
	2012–13	2013–14
IP claims assessed	140	180

1922 scheme

This scheme solely comprises pensioners. On 1 July 1976 contributors under the 1922 Act were compulsorily transferred to CSS and 1922 scheme closed to new contributors.

Pensioners

Chart 25: 1922 scheme pensioners over 5 years



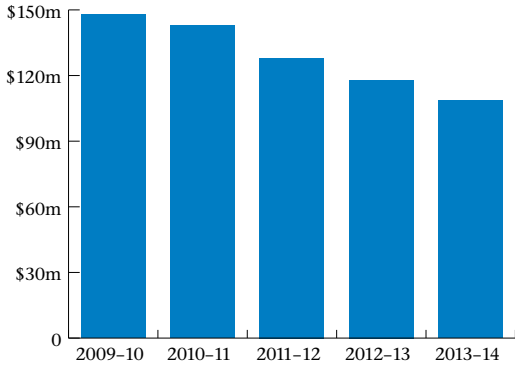
Note: figures are at 30 June of each year.

Table 41: 1922 scheme pensioners by type

	2012–13	2013–14
Retirement/ redundancy	78	73
Invalidity	793	721
Reversionary	3,158	2,822
Total	**4,029**	**3,616**

Pension payments

Chart 26: 1922 scheme pension payments over 5 years



Note: pension indexation increases were 0.6% in July 2013 and 1.6% in January 2014; 1922 scheme pensions are paid by the Australian Government.

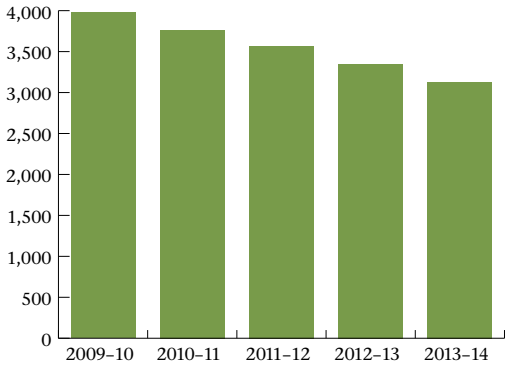
DFRB and DFRDB

Membership

DFRB

This scheme solely comprises pensioners. It closed to new contributors on 30 September 1972.

Chart 27: DFRB pensioners over 5 years



Note: figures are at 30 June of each year.

DFRDB

This scheme closed on 1 October 1991 when MilitarySuper commenced.

Chart 28: DFRDB members & pensioners over 5 years

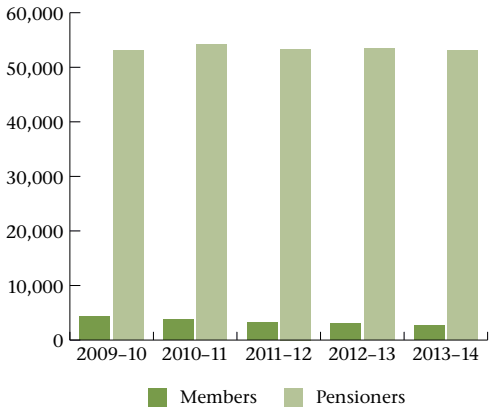


Table 42: DFRDB membership by type & pensioners

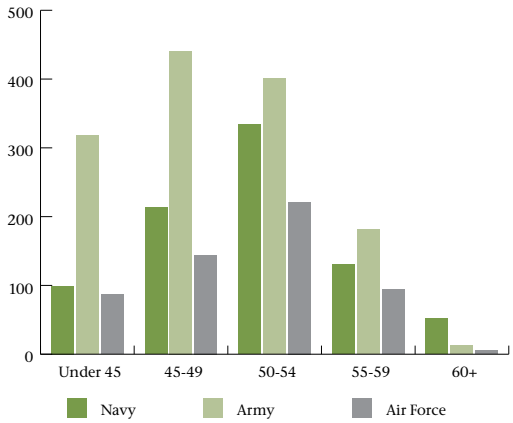
	30 June 2013	30 June 2014
Contributors	2,968	2,733
Preservers	1	0
Pensioners	53,204	53,057
Total	**56,173**	**55,790**

Note: pensioners who re-enter for less than 12 months do not contribute to DFRDB, continue to receive a pension and are not eligible for invalidity; pensioners who re-enter for greater than 12 months become contributors, their pension is suspended and they are eligible for invalidity.

Table 43: DFRDB contributors

	Male	Female	Total
At 30 June 2013	2,859	109	**2,968**
At 30 June 2014	2,627	106	**2,733**

Chart 29: DFRDB contributor age profile at 30 June 2014



Years of service

Almost all DFRDB contributors had more than 20 years of service at 30 June 2014.

Member contributions

DFRDB members contribute 5.5% of their fortnightly salary for super purposes until they reach 40 years of effective service, at which time they can no longer contribute.

Contributors can also make voluntary payments into MilitarySuper, known as ancillary contributions (refer to the MilitarySuper part for details).

Chart 30: DFRDB member contributions

Pensioners

Table 44: DFRB pensioners by type

	2012–13	2013–14
Retirement	691	606
Redundancy	1	1
Invalidity	624	598
Reversionary	2,027	1,924
Total	**3,343**	**3,129**

Table 45: DFRDB pensioners by type

	2012–13	2013–14
Retirement	42,632	42,267
Redundancy	981	979
Invalidity	2,506	2,502
Reversionary	7,085	7,309
Total	**53,204**	**53,057**

Note: pensioners who re-enter the ADF for less than 12 months do not contribute to DFRDB, continue to receive a pension and are not eligible for invalidity; pensioners who re-enter for greater than 12 months become contributors, their pension is suspended until they again leave the ADF and they are eligible for invalidity.

Benefit payments

Table 46: DFRB average pension amount

	30 June 2013	30 June 2014
Average amount ($)	16,698	17,053

Note: pension indexation increases were 0.6% in July 2013 and 1.6% in January 2014; DFRB pensions are paid by the Australian Government.

Table 47: DFRDB average pension amount

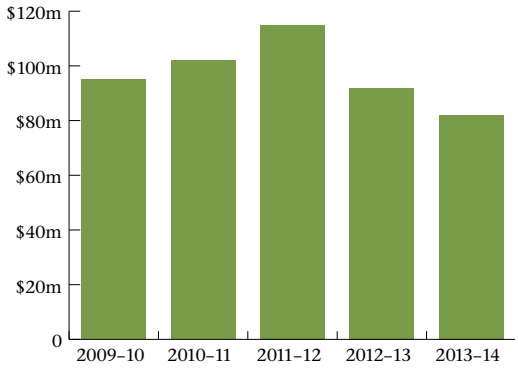
	30 June 2013	30 June 2014
Average amount ($)	25,143	25,791

Note: pension indexation increases were 0.6% in July 2013 and 1.6% in January 2014; DFRDB pensions are paid by the Australian Government.

DFRDB lump sum payments

Personnel retiring from the ADF can commute part of their DFRDB benefit to receive early payment of their retirement pension as a lump sum. In this case, their retirement pension is permanently reduced irrespective of how long they live. Retiring members can receive a maximum commutation lump sum of up to five times the value of their annual pension.

Chart 31: DFRDB lump sum payments



DFRDB invalidity benefits

DFRDB provides partial invalidity, full invalidity and death benefits.

If a member becomes disabled and unable to continue their ADF service, invalidity benefits can help them to resettle into civilian employment.

Invalidity classifications

There are three levels of invalidity classifications:

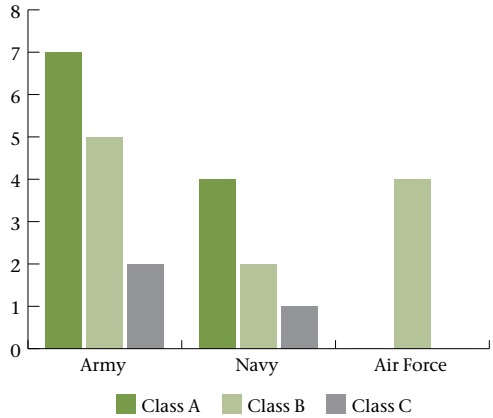
> Class A: Significant incapacity
> Class B: Moderate incapacity
> Class C: Low incapacity (no entitlement to an invalidity pension).

Table 48: Initial invalidity classifications in DFRDB

	2012–13	2013–14
Initial classifications	29	25
Pensions granted	14	25
Pensions not granted	15	0

Note: these figures may vary slightly to invalidity exits quoted elsewhere due to some cases relating to members discharged in the previous financial year.

Chart 32: Invalidity classifications by service in DFRDB



Invalidity classification review

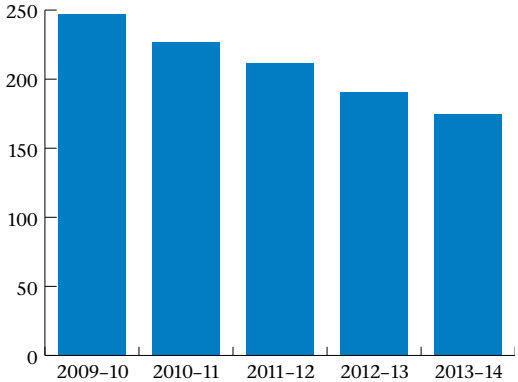
Periodic medical reviews of DFRDB invalidity recipients are no longer conducted. However, if an invalidity recipient believes their retiring impairment has deteriorated, they can initiate a review of their invalidity classification level. Recipients classified as Class C must make their reconsideration request within 30 days of when the initial classification was determined. The reconsideration process for DFRDB is outlined later in this section of the report.

PNG

This scheme solely comprises pensioners. The Papua New Guinea Superannuation Fund closed to new contributors on 30 June 1976.

Pensioners

Chart 33: PNG pensioners over 5 years



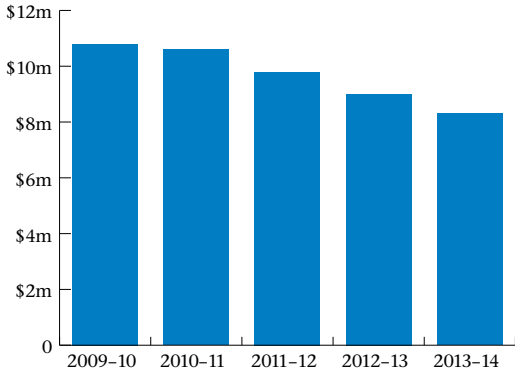
Note: figures are at 30 June of each year.

Table 49: PNG pensioners by type

	2012–13	2013–14
Retirement/ redundancy	34	32
Invalidity	11	9
Reversionary	146	134
Total	**191**	**175**

Pension payments

Chart 34: PNG pension payments over 5 years



Note: pension indexation increases were 0.6% in July 2013 and 1.6% in January 2014; PNG pensions are paid by the Australian Government.

Services and administration

Part of CSC's mission is to provide information and services that are relevant, reliable and helpful to members. Our services are designed to give our members the information, education and financial advice they need to make informed decisions about their superannuation, including:

> general information over the phone and online
> secure management of their account online
> education and general advice at a public or workplace seminar, online webinar or one-on-one information session
> personal financial advice from a qualified financial planner from Industry Fund Services (IFS).

Superannuation services

Personal financial advice

CSC partners with experienced financial planners from IFS to make a comprehensive personal financial advice service available to CSC scheme members.

IFS is responsible for the advice provided on a fee-for-service basis to CSC scheme members. All IFS advisers are licensed financial planners and authorised representatives of IFS. At 30 June 2014, there were six IFS advisers based in Canberra, Sydney, Melbourne and Brisbane, dedicated to CSC scheme members.

The services offered to CSC scheme members include face-to-face and phone-based personal financial advice. In 2013–14, IFS planners met with almost 3,000 CSC scheme members.

Scheme information

CSC scheme members can attend public and workplace seminars, as well as online webinars on their super scheme. Members can also attend sessions on specific topics such as their annual statement, the online calculator for defined benefit schemes known as i-Estimator, and redundancy. Seminars and webinars are presented by authorised representatives of CSC.

Chart 35: Workshops and seminars on public sector schemes

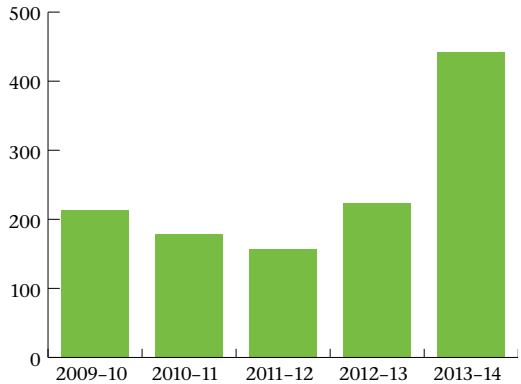


Chart 36: Seminars on military schemes

Members of the military schemes can attend free one-on-one information sessions at locations around Australia. General information is provided on a range of topics, from scheme benefits to contribution and investment options.

Chart 37: One-on-one information sessions for military scheme members

Contact centres

Members can call, email and write to their scheme contact centre to:

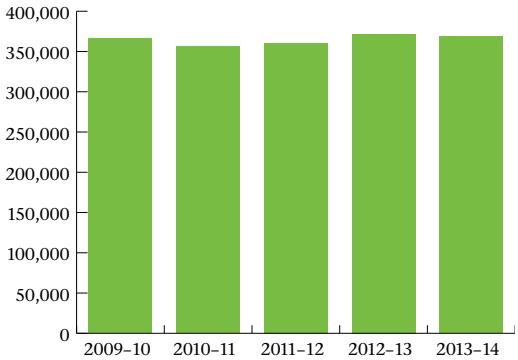
> obtain general information about their scheme and superannuation

> receive information about their account or pension

> update their account records or pension payment details

> request a benefit estimate.

Chart 38: Member enquiries to contact centres



Scheme administration

CSC's legislatively mandated scheme administrator is ComSuper. ComSuper is established by section 4 of the *ComSuper Act 2011* and was a prescribed agency under section 5 of the *Financial Management and Accountability Act 1997* (FMA Act) for the period of this report. The CSC Board delegates certain powers to ComSuper, enabling it to perform its role of scheme administrator which includes:

> calculation and payment of benefits

> member communications and responding to enquiries

> maintenance of accounts for contributors, preservers and pensioners.

ComSuper administers all CSC's schemes and outsources PSSap scheme administration to Pillar, a New South Wales statutory corporation.

Service levels and performance

CSC has service level agreements (SLAs) with ComSuper for the administration of the public sector and the military schemes. The SLAs set out the services to be provided and standards to be met by the administrators and reflect a shared understanding of the tasks that each party is to perform. The administrators report their performance monthly.

A new SLA for the military schemes commenced on 1 July 2014.

Public sector scheme performance

CSS and PSS

In 2013–14, 88% (118 out of 134) of the SLA standards were met or exceeded. Although this represented a fall from the previous year, these results were attained in an environment of unusually high service demand and project activity. Member benefit applications, benefit estimate requests and call demand in 2013–14 were higher than historical averages, reflecting the restructuring and resizing efforts across the APS during the year.

Table 50: Performance of CSS key functions

	Annual SLA standards achieved
Payment of benefits	10 of 11 (91%)
Member enquiries (eg telephone calls, benefit estimates, email and written enquiries)	7 of 7 (100%)
Account maintenance	4 of 4 (100%)

Table 51: Performance of PSS key functions

	Annual SLA standards achieved
Payment of benefits	9 of 12 (75%)
Member enquiries (eg telephone calls, benefit estimates, email and written enquiries)	6 of 6 (100%)
Account maintenance	4 of 4 (100%)

PSSap

In 2013–14, 84% of the SLA standards were achieved compared to 62% in the previous year.

Table 52: Performance of PSSap key functions

	Annual SLA standards achieved
Payment of benefits	5 of 6 (83%)
Communications (eg enquiries, online service complaints, reconsideration)	10 of 12 (83%)
Member service (eg account maintenance, investment changes, family law, member statements)	16 of 20 (80%)
Insurance	6 of 12 (50%)

Military scheme performance

In 2013–14, 87% (170 out of 196) of the SLA standards were met or exceeded (compared to 88% in the previous year). Service demand was high compared to previous years, especially in the area of invalidity casework. This was largely driven by the ADF's drawdown from a range of overseas deployments and the restructuring of the ADF workforce. In a year where this complex invalidity work increased by almost 300% from previous years, performance against the relevant standards was below expectations.

Table 53: Performance of MilitarySuper key functions

	Annual SLA standards achieved
Payment of benefits	15 of 18 (83%)
Member communications (eg enquiries, one-on-one information sessions and seminars, member statements)	14 of 14 (100%)
Account maintenance	12 of 12 (100%)

Table 54: Performance of DFRDB key functions

	Annual SLA standards achieved
Payment of benefits	10 of 14 (71%)
Member communications (eg enquiries, one-on-one information sessions and seminars, member statements)	14 of 14 (100%)
Account maintenance	5 of 5 (100%)

Review of decisions

Decisions of CSC and its delegates are subject to both internal review (the reconsideration process) and external review (review by other bodies).

A formal complaints process is also in place.

Internal review (regulated schemes)

A person affected by a decision of CSC or a delegate may apply in writing to have it reconsidered. Reconsideration requests are treated as complaints for the purposes of section 101 of the SIS Act. If a member of a regulated scheme is dissatisfied with a decision, they may request the Superannuation Complaints Tribunal (the SCT) to review the decision in accordance with the *Superannuation (Resolution of Complaints) Act 1993* (the SRC Act).

Public sector schemes

Reconsideration requests generally relate to decisions made in respect of spouse eligibility, limited benefits membership for re-entered PSS members, applications to change benefit choices, invalidity claims and distribution of death benefits. Following the completion of any internal reconsideration investigations, cases are prepared for review by the APS Reconsideration Advisory Committee.

The role of the Committee is to:

> examine decisions taken by CSC and its delegates under the provisions of the CSS, PSS, PSSap and PNG legislation and the 1922 Act which are the subject of requests for reconsideration

> in accordance with a request for reconsideration affirm or vary the decision, or set the decision aside and substitute another decision for it.

The APS Reconsideration Advisory Committee comprises at least two CSC directors, one of whom acts as a Chairman, and two independent members appointed by the CSC Board. A quorum of the Committee is three members, one of whom must be a CSC director.

During the year, the Committee comprised Mr John McCullagh (Chairman and CSC director), Mr Peter Feltham (CSC director), Ms Peggy O'Neal (CSC director), Ms Libby D'Abbs (independent member) and Mr Stevan Matheson (independent member).

The Committee met on seven occasions in 2013–14.

Table 55: Cases with the APS Reconsideration Advisory Committee

	2012–13	2013–14
Carried over	18	14
Received	30	18
Finalised	34	13
Carried forward	14	19

Reconsideration cases were finalised by the Committee in an average of 3.3 months for CSS cases, 3.5 months for PSS cases and 4.5 months for PSSap cases.

MilitarySuper

Most MilitarySuper reconsideration requests relate to invalidity classifications and the related amount of invalidity benefit which is payable, and to subsequent invalidity classification reviews. Other common reconsideration subjects are late elections, recovery of overpayments, early access to superannuation on hardship grounds and spouse entitlements.

Following the completion of any internal reconsideration investigations, cases are prepared for review by the MilitarySuper Reconsideration Committee.

The role of the Committee is to:

- examine and report on matters referred to it by the Board of CSC in respect of decisions of the Board and its delegates under the MilitarySuper Rules (the Rules) relating to members' entitlements and benefits
- reconsider decisions of the Board and its delegates under the Rules relating to members' entitlements and benefits
- in accordance with a request of the Board, either:
  - make recommendations to the Board in relation to the decision
    or
  - affirm or vary the decision, or set the decision aside and substitute another decision for it.

The Committee membership mirrors the membership of the Defence Force Case Assessment Panel (DFCAP), which is the reconsideration committee for the unregulated military schemes (DFCAP is outlined below).

During the year, membership of the military scheme reconsideration committees comprised His Excellency General the Honourable Sir Peter Cosgrove, AK, MC (Retd) (CSC director and Chairman of both committees until he resigned from the CSC Board on 31 January 2014), Air Vice Marshal Margaret Staib (CSC director from 2 May 2014 and Chair of both committees from 12 June 2014), Mr John McCullagh (CSC director, Chairman of both committees from 31 January 2014 to 12 June 2014 and Deputy Chairman before and after that period), Group Captain David Richardson (Air Force nominee until 1 November 2013), Group Captain Wayne Knight (Air Force nominee from 1 November 2013), Colonel Natasha Fox (Army nominee), Commander Steve Cornish (Navy nominee until 5 February 2014), Commander David Thorley (Navy nominee from 5 February 2014) and Brigadier Peter Bray (retirement pensioner).

The Committee met on 11 occasions in 2013–14.

Table 56: Cases with the MilitarySuper Reconsideration Committee

	2012–13	2013–14
Requests on hand	38	77
Requests received	135	95
Requests resolved	96	109
Carried forward	77	63

Reconsideration cases were finalised by the Committee in an average of 6.2 months in 2013–14, compared to 4.3 months in 2012–13.

Internal review (unregulated schemes)

Unregulated public sector schemes

People who are dissatisfied with decisions made by delegates under either the 1922 Act or the PNG Act or the *Papua New Guinea (Staffing Assistance) (Superannuation) Regulations 1973* can have their matter reviewed by CSC. During the year, no requests for reconsideration were received for the 1922 scheme or PNG.

Unregulated military schemes

A person affected by a decision of CSC or a delegate may apply in writing to have it reconsidered. Most requests in relation to the DFRB and DFRDB focus on invalidity classifications and the related amount of invalidity benefit which is payable, and on subsequent invalidity classification reviews. Other common reconsideration subjects are late elections to contribute, recovery of overpayments, early access to superannuation on hardship grounds and spouse entitlements.

Following the completion of any internal reconsideration investigations, cases are prepared for review by DFCAP (the Defence Force Case Assessment Panel). Its role is to:

> make recommendations to the CSC Board in relation to a decision
or
> affirm or vary the decision, or set the decision aside and substitute another decision for it.

DFCAP comprises:

(a) a Chairman (who must be one of the Chief of Defence Force nominated directors of CSC)

(b) a person nominated, in writing, by the Chief of the Air Force

(c) a person nominated, in writing, by the Chief of the Army

(d) a person nominated, in writing, by the Chief of the Navy

(e) two other persons as determined by CSC (one of them being a retirement pensioner in accordance with the Rules).

Membership of DFCAP during the year mirrored the membership of the MilitarySuper Reconsideration Committee (the individual members are outlined above in this section).

DFCAP met on 11 occasions in 2013–14.

Table 57: Cases with the Defence Force Case Assessment Panel

	2012–13	2013–14
Requests on hand	18	14
Requests received	26	15
Requests resolved	30	13
Carried forward	14	16

In 2013–14, reconsideration cases were finalised by DFCAP in an average of 5.3 months for DFRDB and nine months for DFRB.

External review

Certain CSC decisions are subject to external review by bodies such as the SCT (the Superannuation Complaints Tribunal), the Administrative Appeals Tribunal (AAT), the Federal Court, the Commonwealth Ombudsman and the Australian Human Rights Commission.

Superannuation Complaints Tribunal

A member of a CSC regulated scheme dissatisfied with a decision may request the SCT to review the decision in accordance with the SRC Act. Decisions must first have been the subject of internal consideration, with the complainant either remaining unsatisfied with the outcome of the complaint or having not received a response within the appropriate timeframe. CSC decisions include any decision taken by CSC or its delegates.

Table 58: Complaints lodged with the SCT

	2012–13	2013–14
Carried over	81	71
Lodged	47	54
Completed	57	61
Carried forward	71	64

Note: table amended to include PSSap complaints for 2012–13.

Administrative Appeals Tribunal

Decisions made by CSC or its delegates in relation to the unregulated schemes can be the subject of a complaint to the AAT, established under the *Administrative Appeals Tribunal (AAT) Act 1975* (the AAT Act). AAT applications are processed according to the procedures and practices of the AAT set out in the AAT Act and the practice directions issued by the AAT President. No matters were referred to this tribunal in 2013–14 in relation to the 1922 scheme or the PNG. There were, however, some matters referred for the unregulated military schemes, as shown in **Table 59**.

Table 59: Complaints lodged with the AAT

	2012–13	2013–14
Carried over	8	2
Applications for review	4	4
Matters resolved	10	3
– Affirmed	3	1
– Dismissed or withdrawn	7	2
– Conceded by CSC or resolved by mediation	0	0
– Set aside or varied	0	0
Carried forward	2	3

Note: complaints relate to DFRB and DFRDB only.

Federal Court

Decisions of the SCT are reviewable by the Federal Court under section 46 of the SRC Act. Appeals, on the grounds of an error of law, must be initiated within 28 days of notification of the SCT decision. Under section 44 of the AAT Act, a party to a proceeding before the AAT may also appeal to the Federal Court on a question of law arising from any decision of the AAT in that proceeding.

In 2013–14, one matter was appealed to the Federal Court.

Judicial Review

The *Administrative Decisions (Judicial Review) Act 1977* (AD (JR) Act) provides another review mechanism for a person aggrieved by an administrative decision taken under Commonwealth legislation.

Under the AD (JR) Act the person can seek on specified grounds an order for review of the decision in the Federal Court. In 2013–14, no orders for review were sought.

Commonwealth Ombudsman

Enquiries can also be made to the Commonwealth Ombudsman. In 2013–14, two Ombudsman enquiries were received in relation to CSC's super schemes.

Member complaints

CSC has formal procedures in place to resolve member complaints. CSC handles complaints relating to investment, policy and governance. ComSuper and Pillar handle complaints relating to scheme administration including the maintenance of member accounts, recording of contributions, estimating and paying member benefits and issuing member statements.

These procedures comply with the Association of Superannuation Funds of Australia (ASFA) Best Practice Guide and reflect the guiding principles of Standards of Australia AS ISO 10002-2006 (Customer Satisfaction – guidelines for complaints handling in organisations).

Table 60: Complaints received

	2012–13	2013–14
CSS	70	52
PSS	127	106
MilitarySuper	56	66
PSSap	247	144
DFRB/DFRDB	19	21

Ministerial representations

Members of the public and members of parliament can raise matters of concern with the government of the day. Matters are addressed by the relevant minister's office. If the matter is non-political, the minister's office may ask the relevant department or agency to prepare a ministerial brief and/or ministerial correspondence which addresses the concerns on behalf of the minister's office.

Table 61: Ministerial representations received

	2012–13	2013–14
CSS	5	2
PSS	3	0
MilitarySuper	5	9
PSSap	6	1
DFRB/DFRDB	1	5

6

CSS financial statements

COMMONWEALTH SUPERANNUATION SCHEME (ABN 19415776361)

REPORT BY THE INDEPENDENT APPROVED AUDITOR TO THE MINISTER FOR FINANCE AND MEMBERS OF THE SCHEME

I have audited the financial statements of the Commonwealth Superannuation Scheme for the year ended 30 June 2014, comprising the Statement of Net Assets, the Statement of Changes in Net Assets, a Summary of Principal Accounting Policies and other explanatory notes.

Trustee's Responsibility for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the form agreed with the Minister for Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of the Commonwealth Superannuation Scheme and the Minister for Finance.

My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee's, as well as evaluating the overall presentation of the financial statements.

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

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Auditor's Opinion

In my opinion:

(i) the financial statements are in the form as agreed by the Minister for Finance;

(ii) the financial statements present fairly, in all material respects, in accordance with the Australian Accounting Standards, the net assets of the Commonwealth Superannuation Scheme as at 30 June 2014 and the changes in net assets for the year ended 30 June 2014;

(iii) the financial statements are based on proper accounts and records; and

(iv) the receipt of money into the Scheme, and the payment of money out of the Scheme and the investment of money standing to the credit of the Scheme during the year have been in accordance with the Trust Deed.

AUSTRALIAN NATIONAL AUDIT OFFICE

Carla Jago
Executive Director

Delegate of the Auditor-General
Canberra

11 September 2014

Commonwealth Superannuation Scheme (ABN 19 415 776 361)

Statement by the Trustee of the Commonwealth Superannuation Scheme ('Scheme')

The Board of Directors hereby states that in its opinion:

(a) the attached financial statements give a true and fair view of the matters required by Australian Accounting Standards, including AAS 25 *'Financial Reporting by Superannuation Plans'*, and Schedule 1 of the *Finance Minister's Orders (Financial statements for reporting periods ending on or after 1 July 2011)(as amended)* to the extent that the latter is not inconsistent with AAS 25;

(b) the attached financial statements give a true and fair view of the net assets of the Scheme as at 30 June 2014 and the changes in net assets of the Scheme for the year ended 30 June 2014;

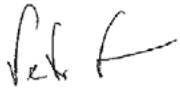
(c) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;

(d) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with subsection 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(e) the financial statements have been prepared based on properly maintained financial records; and

(f) the operations of the CSS Fund were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011,* the *Superannuation Act 1976* and the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, and the relevant requirements of the *Corporations Act 2001* and Regulations (to the extent applicable).

Signed at Sydney this 11th day of September 2014 in accordance with a resolution of directors of the Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Scheme.



Patricia Cross
Chairman

Peter Feltham
Director

Commonwealth Superannuation Scheme
Statement of Changes in Net Assets
For the Year Ended 30 June 2014

	Note	2014 $'000	2013 $'000
Net assets available to pay benefits at the beginning of the financial year		**4 208 572**	4 170 066
Net investment revenue			
Interest		**1 188**	1 169
Changes in net market values	5c	**422 840**	503 250
		424 028	504 419
Contribution revenue			
Member contributions	6a	**81 617**	83 805
Employer contributions	6a	**27 357**	29 757
Government co-contributions	6a	**105**	343
Low income superannuation contributions	6a	**11**	-
Net appropriation from Consolidated Revenue Fund	6b	**3 542 485**	3 469 307
		3 651 575	3 583 212
Total revenue		**4 075 603**	4 087 631
Benefits paid	6b	**(4 230 647)**	(4 044 082)
Transfers to the Public Sector Superannuation Scheme	9	**(97)**	(404)
Total expenses		**(4 230 744)**	(4 044 486)
Change in net assets before income tax		**(155 141)**	43 145
Income tax expense	7a	**(4 282)**	(4 639)
Change in net assets after income tax		**(159 423)**	38 506
Net assets available to pay benefits at the end of the financial year		**4 049 149**	4 208 572

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Statement of Net Assets
As at 30 June 2014

	Note	2014 $'000	2013 $'000
Investments			
Pooled superannuation trust	4	**4 063 050**	4 179 872
Total investments		**4 063 050**	4 179 872
Other assets			
Cash and cash equivalents		**7 909**	43 696
Sundry debtors	8	**432**	392
Total other assets		**8 341**	44 088
Total assets		**4 071 391**	4 223 960
Benefits payable		**18 002**	10 529
Amounts due to other superannuation schemes	9	**97**	404
Current tax liabilities	7b	**4 133**	4 439
Deferred tax liabilities	7c	**10**	16
Total liabilities		**22 242**	15 388
Net assets available to pay benefits at the end of the financial year		**4 049 149**	4 208 572

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

1. DESCRIPTION OF THE SCHEME

The Commonwealth Superannuation Scheme ('Scheme') is a hybrid accumulation-defined benefits scheme which provides benefits to its members under the *Superannuation Act 1976* (as subsequently amended). The Trustee of the Scheme is Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243).

Monies paid to the Trustee for the purposes of the Scheme are held in the CSS Fund. The CSS Fund comprises contributions made by members and employers, income arising from investments, and unrealised and realised changes in market value of investments held within the CSS Fund. The Trustee pays member benefits and taxes relating to the CSS Fund out of the CSS Fund. The Trustee pays the direct and incidental costs of management of the CSS Fund and the investment of its money from the assets of the ARIA Investments Trust that are referable to the CSS Fund (Note 6(c)).

Administration of member records, contributions receipts and benefit payments is conducted on behalf of the Trustee by ComSuper.

The principal place of business and registered office of the Trustee is Level 8, 121 Marcus Clarke Street, Canberra ACT 2601.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The financial report of the Scheme is a general purpose financial report which has been prepared in accordance with Schedule 1 of the *Finance Minister's Orders (Financial statements for reporting periods ending on or after 1 July 2011)(as amended)*, Accounting Standards and Interpretations and the *Superannuation Industry (Supervision) Act 1993*. Accounting Standards include Australian Accounting Standards and International Financial Reporting Standards ('IFRS') to the extent that they are not inconsistent with AAS 25 '*Financial Reporting by Superannuation Plans'*. For the purposes of preparing financial statements, the Scheme is a not-for-profit entity.

The financial statements have been prepared on the basis required by the Defined Benefit Plan provisions of AAS 25, which provides specific measurement requirements for assets, liabilities and for accrued benefits. A Defined Benefit Plan refers to a superannuation plan where the amounts to be paid to members on retirement are determined at least in part by a formula based on years of membership and salary levels. The Trustee adopted the provisions of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and notes thereto.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(a) Statement of Compliance (continued)

The financial statements of the Scheme were authorised for issue by the Directors on 11 September 2014.

Australian Accounting Standards require disclosure of Australian Accounting Standards that have not been applied for Standards that have been issued but are not yet effective. The Trustee expects to adopt the Standards disclosed below upon their application date to the extent that they are not inconsistent with AAS 25 *'Financial Reporting by Superannuation Plans'* (noting however that AASB 1056 *'Superannuation Entities'* replaces AAS 25 *'Financial Reporting by Superannuation Plans'*). The following Standards expected to be relevant to the Scheme were in issue but not yet effective at the date of authorisation of the financial report.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', **AASB 2010-7** 'Amendments to Australian Accounting Standards arising from AASB 9,' **AASB 2012-6** 'Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures'	1 January 2017	30 June 2018
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (AASB 132)'	1 January 2014	30 June 2015
AASB 1031 'Materiality'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' Part B Materiality	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' Part C Financial Instruments	1 January 2015	30 June 2016
AASB 1056 'Superannuation Entities'	1 July 2016	30 June 2017

AASB 1056 *'Superannuation Entities'* was issued on 5 June 2014. It replaces AAS 25 *'Financial Reporting by Superannuation Plans'* with effect for annual reporting periods beginning on or after 1 July 2016 but can be applied earlier.

The Directors are yet to fully consider the impact of the new Standard, however it is expected to significantly impact the recognition of items in, and the presentation, of the financial statements.

With the exception of AASB 1056 *'Superannuation Entities'*, it is anticipated that adoption of these Standards will not have a material financial impact on the financial report of the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(a) Statement of Compliance (continued)

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

Standard / Interpretation	Effective for annual reporting periods
AASB 10 'Consolidated Financial Statements' and **AASB 2011-7** 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	beginning on or after 1 January 2013
AASB 13 'Fair Value Measurement' and **2011-8** 'Amendments to Australian Accounting Standards arising from AASB 13'	beginning on or after 1 January 2013
AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities (AASB 7 & 132)'	beginning on or after 1 January 2013
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	beginning on or after 1 January 2013
AASB 12 'Disclosure of Interests in Other Entities' and **AASB 2011-7** 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	beginning on or after 1 January 2013
AASB 1048 'Interpretation of standards' (2013)	ending on or after 20 December 2013
AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments' Part A - Conceptual Framework	ending on or after 20 December 2013
AASB CF 2013-1 'Amendments to the Australian Conceptual Framework'	ending on or after 20 December 2013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

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

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

(c) Use of judgements and estimates

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented in these financial statements for the year ended 30 June 2013.

(a) Assets

Assets are included in the Statement of Net Assets at net market value as at reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market value of investments includes a deduction for selling costs which would be expected to be incurred if the investments were sold.

Financial assets (being investments in a pooled superannuation trust, cash at bank and sundry debtors) are recognised on the date the Scheme becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. From this date, any gains and losses from changes in net market value are recorded.

Net market value means the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal. If the price used is the selling or redemption price a deduction for selling costs has already been included. Otherwise, as selling costs are generally immaterial, net market value approximates fair value unless otherwise stated.

Net market values have been determined as follows:

(i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the net market value of the underlying investments.

(ii) Sundry debtors are recognised at the amounts receivable. All amounts are unsecured and are subject to normal credit terms.

(b) Cash and Cash Equivalents

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

(c) Foreign Currency Translation

The Scheme does not undertake transactions denominated in foreign currencies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Payables

Payables (being benefits payable, sundry payables and amounts due to other superannuation schemes) are recognised at their nominal value which is equivalent to net market value.

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

Sundry payables and amounts due to other schemes
Sundry payables represent liabilities for goods and services provided during the financial period and which are unpaid at reporting date. All amounts are unsecured. Creditors are subject to normal credit terms. Amounts due to other superannuation schemes are recognised in the year the election to transfer is received, valued at the amount of contributions plus earnings accrued (Note 9).

(e) Operational risk reserve

The superannuation industry wide Stronger Super reforms require trustees of all superannuation funds to establish and maintain an operational risk reserve (ORR) from 1 July 2013. The purpose of the reserve is to provide adequate financial resources to address losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Fund. The transferred assets underlying the ORR are held in a separate cash option of the ARIA Investments Trust and income earned on these assets is recognised in the reserve.

(f) Derivatives

The Scheme does not directly enter into derivative financial instruments.

(g) Revenue

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Revenue (continued)

Investment revenue
Interest revenue is recognised on an accrual basis.

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

Contribution Revenue
Employer and member contributions, transfers from other funds, superannuation co-contributions and low income superannuation contributions from the Commonwealth Government are recognised on a cash basis.

(h) Expenses

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

(i) Income Tax

Income tax on the change in net assets for the year comprises current and deferred tax. Income tax is recognised in the Statement of Changes in Net Assets except to the extent that it relates to items recognised directly in members' funds.

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Income Tax (continued)

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

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

Current and deferred tax for the period
Current and deferred tax for the period is recognised as an expense or benefit in the Statement of Changes in Net Assets.

(j) Superannuation Contributions (Surcharge) Tax

Surcharge liabilities are calculated by the Australian Taxation Office (ATO) and recorded against Scheme member accounts. The liability for surcharge is not payable until the member receives a lump sum, transfers their contributions or receives a death benefit. The amount assessed by the ATO is fully recoverable from the member from their benefit or by voluntary member payment, therefore no surcharge expense is recognised in the Scheme (Note 12).

No estimate has been made for the balance of any tax payable in respect of surchargeable contributions received by the Scheme during the year on transfer of member entitlements from other superannuation funds as the Trustee is unable to determine the amount until receipt of applicable assessments in the following period.

The superannuation surcharge was abolished with effect from 1 July 2005 by the passing of the *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005*.

(k) Scheme Liability for Accrued Benefits

The liability for accrued benefits is the value of the Scheme's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Scheme up to the date of measurement. The present value is determined by reference to expected future salary levels and by application of a current, market-determined, risk-adjusted discount rate and appropriate actuarial assumptions.

The liability for accrued benefits is not included in the Statement of Net Assets, however it is disclosed at Note 15.

The liability for accrued benefits is measured by an independent actuary on at least a triennial basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Goods and Services Tax ('GST')

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

Receivables and payables are recognised inclusive of GST.

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

4. INVESTMENTS

	2014	2013
	$'000	$'000
Pooled Superannuation Trust - ARIA Investments Trust	**4 063 050**	4 179 872
	4 063 050	4 179 872

5. CHANGES IN NET MARKET VALUES

	2014	2013
	$'000	$'000
(a) Investments held at 30 June:		
Pooled Superannuation Trust - ARIA Investments Trust	**388 000**	471 378
	388 000	471 378
(b) Investments realised during the year:		
Pooled Superannuation Trust - ARIA Investments Trust	**34 840**	31 872
	34 840	31 872
(c) Total changes in net market values of investments	**422 840**	503 250

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS

(a) Contributions

Member Contributions
Members contribute to the Scheme at optional rates from 5% of salary, or they may opt to make nil contributions. The contribution rates were the same in the prior year.

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

Transferring Superannuation Benefits From Other Funds
Money invested in other superannuation funds can be transferred to the Scheme.

Government Co-Contributions
For the financial years ended 30 June 2014 and 30 June 2013, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

Low Income Superannuation Contributions
The low income super contribution (LISC) is a Commonwealth Government superannuation payment of up to $500. LISC payments into the Scheme commenced during the financial year ended 30 June 2014 in respect of the 2012-13 financial year, and are recognised as revenue when received.

(b) Benefits

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

Of the total benefits payable at 30 June 2014, $0.264 million (2013: $0.191 million) is payable by the Consolidated Revenue Fund. The Commonwealth Government is the corresponding debtor for this amount in accordance with the funding arrangements described above.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS

(b) Benefits (continued)

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

	2014	2013
	$'000	$'000
Gross Appropriation from Consolidated Revenue Fund	**4 230 370**	4 043 593
less: Transfers from CSS Fund to Consolidated Revenue Fund	**(687 885)**	(574 286)
Net Appropriation	**3 542 485**	3 469 307
Consolidated Revenue Fund		
Lump-sum benefits	**498 506**	430 281
Pensions	**3 731 864**	3 613 312
	4 230 370	4 043 593
CSS Fund		
Lump-sum benefits	**277**	489
Total benefits paid	**4 230 647**	4 044 082

(c) Costs of Administration

Costs of and incidental to the management of the Scheme and the investment of its money are charged against the assets of ARIA Investments Trust ('AIT') that are referable to the Scheme. Transactions in respect of these costs have been brought to account in the financial statements of AIT. The costs of member administration are met by ComSuper.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS (continued)

(c) Costs of Administration (continued)

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

	2014	2013
	$'000	$'000
Investment		
Investment manager fees	**4 206**	4 876
Custodian fees	**686**	1 201
Investment consultant and other service provider fees	**527**	837
Other	**231**	187
Total direct investment expenses	**5 650**	7 101
Regulatory fees	**1 390**	1 574
General administration	**3 365**	2 996
Total costs	**10 405**	11 671

In accordance with the *ComSuper Act 2011* , ComSuper provides administrative services to the Trustee in relation to the Scheme. The expenses of ComSuper are met by government appropriation and a share of the administrative fees paid to ComSuper by employing agencies. The remaining share of administrative fees is paid to the Trustee to meet costs other than those incurred in managing and investing Scheme assets. Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee and ComSuper.

Sponsoring employers contributed the following to Scheme administration costs:

	2014	2013
	$'000	$'000
Trustee costs	**1 195**	1 219
ComSuper costs	**12 577**	12 847
Total	**13 772**	14 066

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

7. INCOME TAX

	2014 $'000	2013 $'000
(a) Income tax recognised in the Statement of Changes in Net Assets		
Tax expense comprises:		
Current tax expense	**4 288**	4 649
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	**(6)**	(10)
Total tax expense	**4 282**	4 639

The prima facie income tax expense on the benefits accrued as a result of operations before income tax reconciles to the income tax expense in the Statement of Changes in Net Assets as follows:

Increase / (decrease) in net assets for the year before income tax	**(155 141)**	43 145
Income tax expense / (benefit) calculated at 15%	**(23 271)**	6 472
Add (less) permanent differences - items not assessable or deductible		
Member contributions, Government co-contributions and low income superannuation contributions	**(12 245)**	(12 561)
Benefits paid	**634 597**	606 612
Appropriation from Consolidated Revenue Fund	**(531 373)**	(520 396)
Investment revenue already taxed	**(63 426)**	(75 488)
Total tax expense	**4 282**	4 639

(b) Current tax liabilities		
Current tax payables:		
Provision for current year income tax	**4 133**	4 439
	4 133	4 439

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

7. INCOME TAX (continued)

(c) Deferred tax balances

	2014	2013
	$'000	$'000
Deferred tax liabilities comprise:		
Temporary differences	**10**	16
	10	16

Taxable and deductible temporary differences arise from the following:

2014	**Opening balance**	**Charged to income**	**Acquisition / disposal**	**Closing balance**
	$'000	**$'000**	**$'000**	**$'000**
Gross deferred tax liabilities:				
Interest receivable	**16**	**(6)**	-	**10**
	16	**(6)**	**-**	**10**
Net deferred tax liabilities / (assets)	**16**	**(6)**	**-**	**10**

2013	Opening balance	Charged to income	Acquisition/ disposal	Closing balance
	$'000	$'000	$'000	$'000
Gross deferred tax liabilities:				
Interest receivable	26	(10)	-	16
	26	(10)	-	16
Net deferred tax liabilities / (assets)	26	(10)	-	16

8. SUNDRY DEBTORS

	2014	2013
	$'000	$'000
Receivable from the ARIA Investments Trust	**68**	-
Interest receivable	**65**	107
Surcharge tax	**35**	94
Amount to be appropriated from Consolidated Revenue Fund	**264**	191
Total	**432**	392

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

9. TRANSFERS FROM THE COMMONWEALTH SUPERANNUATION SCHEME TO THE PUBLIC SECTOR SUPERANNUATION SCHEME

Certain former contributors to the Commonwealth Superannuation Scheme (CSS) who rejoin as members of the CSS are entitled to elect to transfer to the Public Sector Superannuation Scheme ('PSS'). There were 2 elections to transfer made during the year ended 30 June 2014 (2013: 8 elections).

The value of contributions transferrable for members who elected to transfer from CSS to PSS is $97 371 at 30 June 2014 (2013: $404 409). This is payable to PSS.

10. OPERATIONAL RISK RESERVE

	2014	2013
	$'000	$'000
Opening balance	**-**	-
Transfers to reserve	**4 525**	-
Earnings on reserve	**47**	-
Closing balance	**4 572**	-

11. AUDITOR'S REMUNERATION

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

	2014	2013
	$	$
Financial statements	**57 960**	58 900
Regulatory returns	**13 800**	1 550
Prudential standards	**20 240**	1 550
Total	**92 000**	62 000

The audits were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the ARIA Investments Trust that are referable to the Fund.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

12. SUPERANNUATION CONTRIBUTIONS (SURCHARGE) TAX

The Superannuation Contributions (Surcharge) Tax applies to the surchargeable superannuation contributions of Scheme members whose adjusted taxable income exceeds the surcharge threshold. Surcharge liabilities are calculated by the Australian Taxation Office and recorded against Scheme member accounts. The surcharge liability may be paid by the member in full or in part during the period of Scheme membership. Any surcharge liability remaining at the end of the financial year incurs interest. Scheme rules provide for any outstanding surcharge liability to be recovered from a benefit payable to the member.

Transactions recorded during the reporting period were as follows:

	2014	2013
	$'000	$'000
Total surcharge liability outstanding at start of year	**48 238**	54 223
Changes in unpaid assessments	**(147)**	(3)
Interest on outstanding surcharge liabilities at year end	**1 466**	1 748
	49 557	55 968
Less: Amounts paid by members and Consolidated Revenue Fund	**(6 744)**	(7 730)
Total surcharge liability outstanding at end of year	**42 813**	48 238

The surcharge tax ceased on 1 July 2005. Assessments relating to periods prior to this date continue to be received by the Scheme.

No liability is recognised in the financial statements for the estimated value of the surcharge liability because the liability will be either met by the relevant members during their period of membership or will be recovered from benefits paid on exit from the Scheme.

13. UNALLOCATED INCOME

Monthly earnings are allocated to members each month-end, or for part of a month on contributions made during a month or where a member exits the Scheme during a month.

The closing balance represents approximately 1.06% (2013: 0.84%) of the members' funded entitlements as at 30 June 2014.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

13. UNALLOCATED INCOME (continued)

	2014 $'000	2013 $'000
Opening balance of unallocated income	**35 188**	7 167
Add: Earnings of fund for the year	**423 851**	504 244
Less: Earnings allocated	**(411 437)**	(476 223)
Less: Transfers to and earnings on operational risk reserve	**(4 572)**	-
Closing balance of unallocated income	**43 030**	35 188

Unallocated income primarily represents timing differences, including the difference between investment valuations applied in daily earnings rates and the confirmed investment values published in these financial statements.

14. VESTED BENEFITS

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

An actuarial estimate of vested benefits at 30 June 2014 is $68.7 billion (2013: $67.9 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2014 and elected the option which maximised their benefit entitlement.

The vested benefits have been calculated on the basis of current legislative arrangements for indexation of pension payments.

The vested benefits amount is made up of:

	2014 $billion	2013 $billion
Funded component	**4.1**	4.3
Unfunded component	**64.6**	63.6
	68.7	67.9

The net assets of the Scheme compared to the vested benefits are:

Funded component	**4.1**	4.3
Net assets plus funded benefits payable	**4.1**	4.3
Surplus / (deficiency)	**-**	-

The net assets of the Scheme includes $4,571,931 of assets backing the operational risk reserve.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

15. LIABILITY FOR ACCRUED BENEFITS

The amount of accrued benefits is the present value of expected future benefit payments that arise from membership of the Scheme up to the measurement date. The accrued benefits are comprised of a funded component (i.e. accumulated member contributions, and, where applicable, productivity contributions, plus interest) which will be met from the Scheme, and an unfunded component that, pursuant to the *Superannuation Act 1976* (as subsequently amended), will be funded from the Consolidated Revenue Fund at the time the superannuation benefits become payable.

The amount of accrued benefits in respect of the Scheme is calculated on a triennial basis. The most recent valuation of the accrued benefits was undertaken by Mercer Consulting (Australia) Pty Ltd as part of a comprehensive review as at 30 June 2011. A summary of the report is attached.

Accrued benefits as at 30 June were:

	2011 $billion	2008 $billion
Funded component	**4.6**	6.1
Unfunded component	**59.9**	59.2
	64.5	65.3

The net assets compared to the liability for accrued benefits as at 30 June are:

	2011 $billion	2008 $billion
Funded accrued benefits	**4.6**	6.1
Net assets plus funded benefits payable	**4.6**	6.1
Surplus / (deficiency)	**-**	-

The next actuarial review is due to be conducted during the financial year ending 30 June 2015, based on data at 30 June 2014.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS

(a) Financial instruments management

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

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

(b) Significant accounting policies

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

(c) Capital risk management

The RSE licence of the Trustee of the Scheme requires the Trustee to maintain a balance of at least $100 000 at all times in an administration reserve account in the AIT until the operational risk reserve target amount is met. This is required to be maintained in cash or cash equivalents. The Trustee of the Scheme was in compliance with this requirement throughout the year.

(d) Categories of financial instruments

The financial assets and liabilities of the Scheme are recognised at net market value as at the reporting date. Net market value approximates fair value less costs of realisation of investments. The cost of realisation of investments is minimal and therefore net market value that is carrying value approximates fair value. Changes in net market value are recognised in the Statement of Changes in Net Assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives

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

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

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

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

(f) Credit risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk (continued)

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within AIT exceeded 5% of net assets of that trust at 30 June 2014 or 30 June 2013.

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

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

	2014	2013
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**4 063 050**	4 179 872
Other financial assets		
Cash and cash equivalents	**7 909**	43 696
Sundry debtors	**432**	392
Total	**4 071 391**	4 223 960

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

(g) Liquidity risk

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk (continued)

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

The following tables summarise the maturity profile of the Scheme's financial liabilities. Vested benefits have been included in the less than three months column, as this is the amount that members could call upon as at reporting 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. The tables have been drawn up based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Scheme can be required to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months $'000	**3 months to 1 year $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**
30 June 2014					
Amounts due to other superannuation schemes	**97**	**-**	**-**	**-**	**97**
Benefits payable	**18 002**	**-**	**-**	**-**	**18 002**
Vested benefits	**68 655 000**	**-**	**-**	**-**	**68 655 000**
Total financial liabilities	**68 673 099**	**-**	**-**	**-**	**68 673 099**
30 June 2013					
Amounts due to other superannuation schemes	404	-	-	-	404
Benefits payable	10 529	-	-	-	10 529
Vested benefits	67 850 000	-	-	-	67 850 000
Total financial liabilities	67 860 933	-	-	-	67 860 933

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(h) Market risk

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

There has been no change to the Scheme's exposure to market risk or the manner in which it manages and measures that risk since the 2013 reporting period.

Foreign currency risk

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

The Scheme does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of the AIT, relating to emerging markets, may remain unhedged due to lack of suitable currency instruments for hedging.

Interest rate risk

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

The Scheme is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2014 and 30 June 2013 had a maturity profile of less than one month.

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

The following table illustrates the Scheme's sensitivity to a 0.6% p.a. (2013: 1.2%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of a reasonably possible change in interest rates. Had interest rates been lower or higher by 0.6% (2013: 1.2%) at reporting date, and all other variables were held constant, the financial result would have improved / (deteriorated) as demonstrated:

	Carrying amount $'000	Interest rate risk $' 000			
		Changes in net assets	Net assets available to pay benefits	Changes in net assets	Net assets available to pay benefits
2014		-0.6%		+0.6%	
Cash and cash equivalents	7 909	(47)	(47)	47	47
2013		-1.2%		+1.2%	
Cash and cash equivalents	43 696	(524)	(524)	524	524

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

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

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

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

The following table illustrates the Scheme's sensitivity to a reasonably possible change in the value of its investment in AIT, based on risk exposures at reporting date. The volatility factor of 6.7% (2013: 7%) represents the average annual volatility in the default option unit price of the Scheme's investment in the AIT. For the Cash Option and the investments backing the operational risk reserve a factor of 0.6% (2013: 1.2%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at the reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as follows:

	Change in price	Carrying amount $'000	Price risk $' 000			
			Changes in net assets	Net assets available to pay	Changes in net assets	Net assets available to pay benefits
2014						
Financial Assets						
ARIA Investments Trust:						
Default option	-/+6.7%	3 771 476	(252 689)	(252 689)	252 689	252 689
Cash option	-/+0.6%	287 070	(1 722)	(1 722)	1 722	1 722
Operational risk reserve	-/+0.6%	4 504	(27)	(27)	27	27
Total increase / (decrease)		4 063 050	(254 438)	(254 438)	254 438	254 438
2013						
Financial Assets						
ARIA Investments Trust:						
Default option	-/+7%	3 738 344	(261 684)	(261 684)	261 684	261 684
Cash option	-/+1.2%	441 528	(5 298)	(5 298)	5 298	5 298
Total increase / (decrease)		4 179 872	(266 982)	(266 983)	266 983	266 983

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

The Scheme's financial instruments are included in the Statement of Net Assets at net market value that approximates fair value. The net market value is determined per accounting policies in Note 3(a).

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

Level 1: net market value measurements are those derived from quoted prices in active markets.

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2014				
Financial Assets				
Pooled superannuation trust	-	**4 063 050**	-	**4 063 050**
2013				
Financial Assets				
Pooled superannuation trust	-	4 179 872	-	4 179 872

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

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

Reconciliation of Level 3 net market value measurements
There were no Level 3 financial assets or liabilities for the period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

17. RELATED PARTIES

(a) Trustee

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

(b) Key Management Personnel

The Directors of CSC throughout the year ended 30 June 2014 were:

Tony Cole
Peter Cosgrove (resigned 31 January 2014)
Peter Feltham
Nadine Flood
Lyn Gearing
Winsome Hall
Tony Hyams (Chairman - term ended 30 June 2014)
John McCullagh
Peggy O'Neal
Margaret Staib (commenced 2 May 2014)
Gabriel Szondy (term ended 30 June 2014)
Michael Vertigan

The Directors of CSC from 1 July 2014 to the date of this report were:

Tony Cole
Patricia Cross (Chairman - commenced 1 July 2014)
Christopher Ellison (commenced 1 July 2014)
Peter Feltham
Nadine Flood
Lyn Gearing
Winsome Hall
John McCullagh
Peggy O'Neal
Margaret Staib
Michael Vertigan

In addition to the Directors listed above, the following executives of the Trustee had authority and responsibility for planning, directing and controlling the activities of the Scheme throughout the year ended 30 June 2014:

Helen Ayres	Corporate Secretary
Peter Carrigy-Ryan	Chief Executive Officer
Leonie McCracken	General Manager, Operations
Bronwyn McNaughton	General Counsel
Christine Pearce	General Manager, Member & Employer Services
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance & Risk

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

17. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

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

	2014	2013
	$	$
Short-term employee benefits	**227 066**	223 299
Post-employment benefits	**23 582**	24 540
Other long-term benefits	**2 238**	3 744
	252 886	251 583

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

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

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

(d) Investing entities

Throughout the year ended 30 June 2014, the Scheme's only investment consisted of units in AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

17. RELATED PARTIES (continued)

(d) Investing entities (continued)

The Trustee pays costs of and incidental to the management of the Scheme and the investment of its money from the assets of the AIT that are referable to the Scheme (see Note 6(c)). No fees were charged for acting as Trustee during the year ended 30 June 2014 (2013: $nil).

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

	Net Market Value of Investment	Net Market Value of Investment	Share of Net Income after tax	Share of Net Income after tax
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**4 063 050**	4 179 872	**422 840**	503 250
	4 063 050	4 179 872	**422 840**	503 250

(e) Transactions with director-related entities

Margaret Staib is Chief Executive Officer and a director of Airservices Australia, which made employer superannuation contributions of $7,757,908 to the Scheme during the year ended 30 June 2014. The contributions were made at arm's length as part of a normal employer relationship on terms and conditions no more favourable than if the employer had not been a director-related entity.

18. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital or other expenditure commitments at 30 June 2014 (2013: $nil).

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

There were no other contingent liabilities or contingent assets for the Scheme at 30 June 2014 (2013: $nil).

19. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2014 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

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INFORMATION REQUIRED FOR PURPOSES OF AUSTRALIAN ACCOUNTING STANDARD AAS 25 RELATING TO THE ACTUARIAL VALUATION OF THE COMMONWEALTH SUPERANNUATION SCHEME AS AT 30 JUNE 2011

Purpose of Report
This statement has been prepared for the purposes of AAS 25 as at 30 June 2011 for the Commonwealth Superannuation Scheme (CSS) at the request of the Commonwealth Superannuation Corporation (CSC).

This extract summarises the actuarial valuation of the Scheme as at 30 June 2011 carried out by Mercer Consulting (Australia) Pty Limited under the advice of Martin Stevenson FIAA, FIA and Darren Wickham FIAA. It has been prepared for the purposes of inclusion with the Scheme Accounts and is in a form that complies with the Australian Accounting Standard AAS 25.

Accrued and Vested Benefits
AAS 25 requires the disclosure of Accrued and Vested benefits at the reporting date.

For the purpose of AAS 25 the following amounts have been determined:

Reporting Date	Accrued Benefits $billion	Vested Benefits $billion
30 June 2011	64.5	67.2

Accrued Benefits have been determined as the present value of expected future benefit payments that arise from membership of the CSS up to the reporting date.

Vested Benefits are benefits which the CSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the Scheme.

The method and assumptions used to determine Accrued and Vested Benefits are summarised in Attachment 1 to this statement.

Accrued Benefits have been calculated in a manner consistent with Guidance Note 454 and Professional Standard 402 issued by the Institute of Actuaries of Australia.

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AAS25 COMMONWEALTH SUPERANNUATION SCHEME AT 30 JUNE 2011
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Review of Actuarial Report
AAS 25 also requires the notes to the Scheme accounts to include a summary of the most recent actuarial report of the CSS. Attachment 2 to this Statement provides a summary of the report on the Long Term Cost of the Public Sector Superannuation Scheme (PSS) and the CSS carried out as at 30 June 2011. The summary contains the information required under AAS 25.

Martin A Stevenson
Fellow of the Institute of Actuaries of Australia
Partner, Mercer Consulting(Australia) Pty Ltd

13 July 2012

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Attachment 1 to AAS 25 Statement

Method of Determining Accrued and Vested Benefits

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the CSS up to the date of calculation. The expected future benefits were determined allowing for future salary growth to the date of exit.

The approach used to apportion benefits between past and future membership involves an "actual accrual" or "Projected Unit Credit Method" (or PUCM) approach.

This involves determining the total benefit using:

Accrued Multiple (calculated using membership to the date of the valuation)	×	Final Salary at future date

The method used to apportion benefits between past and future membership is unchanged from that used in the previous review as at 30 June 2008.

The past membership component of the member-financed lump sum benefits and of the productivity superannuation benefits is taken to be the accumulated amount of contributions and interest at the calculation date.

Vested Benefits are determined as the value of benefits which the CSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elect the benefit option which is most costly to the CSS.

Assumptions Used to Determine Accrued Benefits

The assumptions used to determine Accrued Benefits are the same as those used for the most recent actuarial investigation into the long term cost of the PSS and the CSS as at 30 June 2011. Therefore, the Accrued Benefit calculated for AAS 25 purposes is the same as that calculated for the purposes of the Long Term Cost Report.

The financial assumptions used to determine the Accrued Benefits along with those used for the recent actuarial investigation are shown in the table below:

Item	AAS 25	Long Term Cost Report
CPI Increases	2.5% per annum	2.5% per annum
Investment Return / Discount Rate	6.0% per annum	6.0% per annum
General Salary Increases	4.0% per annum	4.0% per annum

AAS25 COMMONWEALTH SUPERANNUATION SCHEME AT 30 JUNE 2011
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A summary of the other assumptions used is contained in Appendix B of the Long Term Cost Report of the PSS and the CSS.

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AAS25 COMMONWEALTH SUPERANNUATION SCHEME AT 30 JUNE 2011
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Attachment 2 to AAS 25 Statement

Summary of the Long Term Cost Report

The latest actuarial investigation into the long term cost of the PSS and CSS was conducted at 30 June 2011.

This attachment provides a summary of that report.

Membership Data

Data relating to the membership of the PSS and the CSS was provided by ComSuper, the Schemes' administrator, on behalf of CSC, for the purposes of this investigation.

The table below summarises the total membership of the CSS as at 30 June 2011.

CSS MEMBERSHIP as at 30 JUNE 2011			
	Male	**Females**	**Total**
Number of Contributors	10,264	5,652	15,916
Salaries	$1,082 m	$524 m	$1,606 m
Number of Preserved Members	6,481	2,629	9,110
Number of Age Pensioners	52,581	19,209	71,790
Number of Invalidity Pensioners	10,433	4,309	14,742
Number of Reversionary Pensioners	1,441	27,026	28,467

Assumptions

The key economic assumptions adopted for this review are shown in the table below. The assumptions adopted for the previous review (which was carried out as at 30 June 2008) are shown for comparison purposes.

Item	Assumption	2008 Investigation
CPI Increases	2.5% per annum	2.5% per annum
Investment Returns / Discount Rate	6.0% per annum (nominal) 3.5% per annum (real)	6.0% per annum (nominal) 3.5% per annum (real)
General Salary Increases	4.0% per annum (nominal) 1.5% per annum (real)	4.0% per annum (nominal) 1.5% per annum (real)

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The key economic assumptions are consistent between the 2008 investigation and the 2011 investigation.

The demographic assumptions at 2011 have been revised from those at 2008 to more closely reflect actual experience of the Scheme. These are set out in Appendix B of the Long Term Cost Report.

Of the changes in assumptions, the most significant were:

- An allowance for mortality improvements; and
- The extension of retirement assumptions to age 75.

Value of Assets

The PSS and CSS are partly funded to the extent that real assets are held in respect of member contributions and productivity superannuation contributions. The realisable value of the CSS assets as at 30 June 2011 was $4.6 billion.

Accrued Benefits

The value of accrued benefits as at 30 June 2011 was $64.5 billion.

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the CSS up to the date of calculation. The expected future benefits were determined allowing for future salary growth to the date of exit. Benefits were apportioned between past and future membership by multiplying the accrued multiple at the calculation date by the Final Salary at the date of exit.

The past membership component of the member-financed lump sum benefits and of productivity superannuation benefits is taken to be the accumulated amount of contributions and interest at the calculation date. An amount of $4.6 billion has been included in the Accrued Benefit in respect of the member financed benefits and productivity superannuation benefits.

The Accrued Benefit also includes an amount of $49.3 billion in respect of pensioners and preserved beneficiaries of the CSS.

Vested Benefits

Vested Benefits of the CSS were not calculated as a part of the Long Term Cost Report as at 30 June 2011 but were calculated separately.

The estimated value of the Vested Benefits of the CSS as at 30 June 2011 is $67.2 billion.

Vested Benefits are determined as the value of benefits which the CSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the CSS.

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Financial Condition
The CSS is a partially funded scheme. As a consequence, the value of Accrued Benefits and Vested Benefits is significantly more than the realisable value of Scheme assets at the same date.

However, the CSS operates under an underlying guarantee from the Commonwealth Government. Further, the investigation shows that the projected combined Commonwealth costs in respect of the PSS and CSS reduce as a percentage of projected Gross Domestic Product over the next 40 years.

Martin A Stevenson
Fellow of the Institute of Actuaries of Australia
Partner, Mercer Consulting (Australia) Pty Ltd

13 July 2012

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PSS financial statements

PUBLIC SECTOR SUPERANNUATION SCHEME (ABN 74172177893)

REPORT BY THE INDEPENDENT APPROVED AUDITOR TO THE MINISTER FOR FINANCE AND MEMBERS OF THE SCHEME

I have audited the financial statements of the Public Sector Superannuation Scheme for the year ended 30 June 2014 comprising the Statement of Net Assets, the Statement of Changes in Net Assets, a Summary of Principal Accounting Policies and other explanatory notes.

Trustee's Responsibility for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the form agreed with the Minister for Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of the Public Sector Superannuation Scheme and the Minister for Finance.

My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee's, as well as evaluating the overall presentation of the financial statements.

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

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession. The Auditor-General is mandated to perform the audit of the Public Sector Superannuation Scheme, pursuant to the *Superannuation Act 1996*. I am the delegate of the Auditor-General responsible for the conduct of this audit and I am a member of the Public Sector Superannuation Scheme. I have no involvement in any investment or any other decision made by the trustee of Public Sector Superannuation Scheme. A number of safeguards are in place in respect of my independence, including a quality review by an appropriately skilled auditor who is not a member of the Public Sector Superannuation Scheme.

Auditor's Opinion

In my opinion:

(i) the financial statements are in the form as agreed by the Minister for Finance;

(ii) the financial statements present fairly, in all material respects, in accordance with the Australian Accounting Standards, the net assets of the Public Sector Superannuation Scheme as at 30 June 2014 and the changes in net assets for the year ended 30 June 2014;

(iii) the financial statements are based on proper accounts and records; and

(iv) the receipt of money into the Fund, and the payment of money out of the Scheme and the investment of money standing to the credit of the Scheme during the year have been in accordance with the Trust Deed.

AUSTRALIAN NATIONAL AUDIT OFFICE

Carla Jago
Executive Director

Delegate of the Auditor-General
Canberra

11 September 2014

Public Sector Superannuation Scheme (ABN 74 172 177 893)

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

The Board of Directors hereby states that in its opinion:

(a) the attached financial statements give a true and fair view of the matters required by Australian Accounting Standards, including AAS 25 *'Financial Reporting by Superannuation Plans'*, and Schedule 1 of the *Finance Minister's Orders (Financial Statements for reporting periods ending on or after 1 July 2011) (as amended)* to the extent that the latter is not inconsistent with AAS 25;

(b) the attached financial statements give a true and fair view of the net assets of the Scheme as at 30 June 2014 and the changes in net assets of the Scheme for the year ended 30 June 2014;

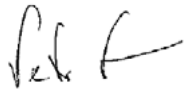
(c) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;

(d) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(e) the financial statements have been prepared based on properly maintained financial records; and

(f) the operations of the PSS Fund were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011*, the *Superannuation Act 1990*, the Trust Deed establishing the Scheme, the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, and the relevant requirements of the *Corporations Act 2001* and Regulations (to the extent applicable).

Signed at Sydney this 11th day of September 2014 in accordance with a resolution of directors of the Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Scheme.



Patricia Cross
Chairman

Peter Feltham
Director

Public Sector Superannuation Scheme
Statement of Changes in Net Assets
For the Year Ended 30 June 2014

	Note	2014 $'000	2013 $'000
Net assets available to pay benefits at the start of the financial year		**14 938 975**	12 925 005
Net investment revenue			
Interest		**1 003**	879
Changes in net market values	5c	**1 721 308**	1 862 509
		1 722 311	1 863 388
Contribution revenue			
Member contributions	6a	**612 778**	602 060
Employer contributions	6a	**224 016**	224 243
Government co-contributions	6a	**2 573**	7 996
Low income superannuation contributions	6a	**465**	-
Net appropriation from Consolidated Revenue Fund	6b	**442 820**	519 292
Transfers from the Commonwealth Super Scheme	9	**97**	404
		1 282 749	1 353 995
Other revenue			
Insurance proceeds		**1 464**	1 449
Insurance premiums		**2 256**	3 389
		3 720	4 838
Total revenue		**3 008 780**	3 222 221
Benefits paid	6b	**(1 349 186)**	(1 170 196)
Insurance expense		**(2 256)**	(3 389)
Total expenses		**(1 351 442)**	(1 173 585)
Change in net assets before income tax		**1 657 338**	2 048 636
Income tax expense	7a	**(33 797)**	(34 666)
Change in net assets after income tax		**1 623 541**	2 013 970
Net assets available to pay benefits at the end of the financial year		**16 562 516**	14 938 975

The attached notes form part of these financial statements.

Public Sector Superannuation Scheme
Statement of Net Assets
As at 30 June 2014

	Note	2014 $'000	2013 $'000
Investments			
Pooled superannuation trust	4	**16 587 308**	14 940 866
Total investments		**16 587 308**	14 940 866
Other assets			
Cash and cash equivalents		**22 158**	43 343
Sundry debtors	8	**4 385**	4 299
Total other assets		**26 543**	47 642
Total assets		**16 613 851**	14 988 508
Benefits payable		**16 665**	14 129
Sundry payables		**1 015**	955
Current tax liabilities	7b	**33 648**	34 438
Deferred tax liabilities	7c	**7**	11
Total liabilities		**51 335**	49 533
Net assets available to pay benefits at the end of the financial year		**16 562 516**	14 938 975

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

1. DESCRIPTION OF THE SCHEME

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

Monies paid to the Trustee for the purposes of the Scheme are held in the PSS Fund. The PSS Fund comprises contributions made by members and employers, income arising from investments, and unrealised and realised changes in market value of investments held within the PSS Fund. The Trustee pays member benefits and taxes relating to the PSS Fund out of the PSS Fund. The Trustee pays the direct and incidental costs of management of the PSS Fund and the investment of its money from the assets of the ARIA Investments Trust that are referable to the PSS Fund (Note 6(c)).

Administration of member records, contributions receipts and benefit payments is conducted on behalf of the Trustee by ComSuper.

The principal place of business and registered office of the Trustee is Level 8, 121 Marcus Clarke Street, Canberra ACT 2601.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of Scheme is a general purpose financial report which has been prepared in accordance with Schedule 1 of the *Finance Minister's Orders (Financial statements for reporting periods ending on or after 1 July 2011) (as amended)*, Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993* and provisions of the Trust Deed. Accounting Standards include Australian Accounting Standards and International Financial Reporting Standards ('IFRS') to the extent that they are not inconsistent with AAS 25 *'Financial Reporting by Superannuation Plans'*. For the purposes of preparing financial statements, the Scheme is a not-for-profit entity.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

On review of the provisions of the Trust Deed of the investment entity, the ARIA Investments Trust (AIT), the Trustee has determined that no one investor can be regarded to have power over the AIT. Hence, the financial statements of the Scheme are prepared on a stand-alone basis.

The financial statements have been prepared on the basis required by the Defined Benefit Plan provisions of AAS 25, which provides specific measurement requirements for assets, liabilities and for accrued benefits. A Defined Benefit Plan refers to a superannuation plan where the amounts to be paid to members on retirement are determined at least in part by a formula based on years of membership and salary levels. The Trustee adopted the provisions of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and notes thereto.

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

The financial statements of the Scheme were authorised for issue by the Trustee on 11 September 2014.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Australian Accounting Standards require disclosure of Australian Accounting Standards that have not been applied for Standards that have been issued but are not yet effective. The Trustee expects to adopt the Standards disclosed below upon their application date to the extent that they are not inconsistent with AAS 25 *'Financial Reporting by Superannuation Plans'* (noting however that AASB 1056 *'Superannuation Entities'* replaces AAS 25 *'Financial Reporting by Superannuation Plans'*). The following Standards expected to be relevant to the Scheme were in issue but not yet effective at the date of authorisation of the financial report.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', **AASB 2010-7** 'Amendments to Australian Accounting Standards arising from AASB 9', **AASB 2012-6** 'Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures'	1 January 2017	30 June 2018
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (AASB 132)'	1 January 2014	30 June 2015
AASB 1031 'Materiality'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' Part B Materiality	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' Part C Financial Instruments	1 January 2015	30 June 2016
AASB 1056 'Superannuation Entities'	1 July 2016	30 June 2017

AASB 1056 *'Superannuation Entities'* was issued on 5 June 2014. It replaces AAS 25 *'Financial Reporting by Superannuation Plans'* with effect for annual reporting periods beginning on or after 1 July 2016 but can be applied earlier.

The Directors are yet to fully consider the impact of the new Standard, however it is expected to significantly impact the recognition of items in, and the presentation of, the financial statements.

With the exception of AASB 1056 *'Superannuation Entities'*, it is anticipated that adoption of these Standards will not have a material financial impact on the financial report of the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

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

Standard / Interpretation	Effective for annual reporting periods
AASB 10 'Consolidated Financial Statements' and **AASB 2011-7** 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	beginning on or after 1 January 2013
AASB 13 'Fair Value Measurement' and 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	beginning on or after 1 January 2013
AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities (AASB 7 & 132)'	beginning on or after 1 January 2013
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	beginning on or after 1 January 2013
AASB 12 'Disclosure of Interests in Other Entities' and **AASB 2011-7** 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	beginning on or after 1 January 2013
AASB 1048 'Interpretation of standards' (2013)	ending on or after 20 December 2013
AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments' Part A - Conceptual Framework	ending on or after 20 December 2013
AASB CF 2013-1 'Amendments to the Australian Conceptual Framework'	ending on or after 20 December 2013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

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

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

(c) Use of judgements and estimates

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented in these financial statements for the year ended 30 June 2013.

(a) Assets

Assets are included in the Statement of Net Assets at net market value as at reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market value of investments includes a deduction for selling costs which would be expected to be incurred if the investments were sold.

Financial assets (being investments in a pooled superannuation trust, cash at bank and sundry debtors) are recognised on the date the Scheme becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. From this date, any gains and losses from changes in net market value are recorded.

Net market value means the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal. If the price used is the selling or redemption price a deduction for selling costs has already been included. Otherwise, as selling costs are generally immaterial, net market value approximates fair value unless otherwise stated.

Net market values have been determined as follows:

(i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the net market value of the underlying investments.

(ii) Sundry debtors are recognised at the amounts receivable. All amounts are unsecured and are subject to normal credit terms.

(b) Cash and cash equivalents

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

(c) Foreign Currency Translation

The Scheme does not undertake transactions denominated in foreign currencies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Payables

Payables (being benefits payable and sundry payables) are recognised at their nominal value which is equivalent to net market value.

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

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

(e) Operational risk reserve

The superannuation industry wide Stronger Super reforms require trustees of all superannuation funds to establish and maintain an operational risk reserve (ORR) from 1 July 2013. The purpose of the reserve is to provide adequate financial resources to address losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Fund. The transferred assets underlying the ORR are held in a separate cash option of the ARIA Investments Trust and income earned on these assets is recognised in the reserve.

(f) Derivatives

The Scheme does not directly enter into derivative financial instruments.

(g) Revenue

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

Investment revenue
Interest revenue is recognised on an accrual basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Revenue (continued)

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

Contribution Revenue
Employer and member contributions, transfers from funds other than the Commonwealth Superannuation Scheme (CSS), superannuation co-contributions and low income superannuation contributions from the Commonwealth Government are recognised on a cash basis. Transfers from CSS are recognised as income and as a receivable in the year in which the member elects to transfer (Note 9).

(h) Expenses

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

(i) Income Tax

Income tax on the change in net assets for the year comprises current and deferred tax. Income tax is recognised in the Statement of Changes in Net Assets except to the extent that it relates to items recognised directly in members' funds.

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Income Tax (continued)

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

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

Current and deferred tax for the period
Current and deferred tax for the period is recognised as an expense or benefit in the Statement of Changes in Net Assets.

(j) Superannuation Contributions (Surcharge) Tax

Surcharge liabilities are calculated by the Australian Taxation Office (ATO) and recorded against Scheme member accounts. The liability for surcharge is not payable until the member receives a lump sum, transfers their contributions or receives a death benefit. The amount assessed by the ATO is fully recoverable from the member from their benefit or by voluntary member payment, therefore no surcharge expense is recognised in the Scheme (Note 12).

No estimate has been made for the balance of any tax payable in respect of surchargeable contributions received by the Scheme during the year on transfer of member entitlements from other superannuation funds as the Trustee is unable to determine the amount until receipt of applicable assessments in the following period.

The superannuation surcharge was abolished with effect from 1 July 2005 by the passing of the *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005*.

(k) Scheme liability for accrued benefits

The liability for accrued benefits is the value of the Scheme's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Scheme up to date of measurement. The present value is determined by reference to expected future salary levels and by application of a current, market-determined, risk-adjusted discount rate and appropriate actuarial assumptions.

The liability for accrued benefits is not included in the Statement of Net Assets, but is reported at Note 15.

The liability for accrued benefits is measured by an independent actuary on at least a triennial basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Goods and Services Tax ('GST')

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

Receivables and payables are recognised inclusive of GST.

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

4. INVESTMENTS

	2014	2013
	$'000	$'000
Pooled Superannuation Trust - ARIA Investments Trust	**16 587 308**	14 940 866
	16 587 308	14 940 866

5. CHANGES IN NET MARKET VALUES

	2014	2013
	$'000	$'000
(a) Investments held at 30 June:		
Pooled Superannuation Trust - ARIA Investments Trust	**1 710 984**	1 859 903
	1 710 984	1 859 903
(b) Investments realised during the year:		
Pooled Superannuation Trust - ARIA Investments Trust	**10 324**	2 606
	10 324	2 606
(c) Total changes in net market values of investments	**1 721 308**	1 862 509

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS

(a) Contributions

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

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

Transferring Superannuation Benefits From Other Funds
Money invested in other superannuation funds can be rolled over to the Scheme.

Government Co-Contributions
For the financial years ended 30 June 2014 and 30 June 2013, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

Low Income Superannuation Contributions
The low income super contribution (LISC) is a Commonwealth Government superannuation payment of up to $500. LISC payments into the Scheme commenced during the financial year ended 30 June 2014 in respect of the 2012-13 financial year, and are recognised as revenue when received.

(b) Benefits

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

Of the total benefits payable as at 30 June 2014, $3.97 million (2013: $3.82 million) is payable by the Consolidated Revenue Fund. The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS (continued)

(b) Benefits (continued)

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

	2014	2013
	$'000	$'000
Gross Appropriation from Consolidated Revenue Fund	**1 335 599**	1 160 570
less: Transfers from PSS Fund to Consolidated Revenue Fund	**(892 779)**	(641 278)
Net Appropriation	**442 820**	519 292
Consolidated Revenue Fund		
Lump-sum benefits	**489 518**	445 920
Pensions	**846 081**	714 650
	1 335 599	1 160 570
PSS Fund		
Lump-sum benefits	**13 587**	9 626
Total benefits paid	**1 349 186**	1 170 196

(c) Costs of administration

Costs of and incidental to the management of the Scheme and the investment of its money are charged against the assets of the ARIA Investments Trust ('AIT') that are referable to the Scheme. Transactions in respect of these costs have been brought to account in the financial statements of AIT. The costs of member administration are met by ComSuper.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS (continued)

(c) Costs of administration (continued)

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

	2014 **$'000**	2013 $'000
Investment		
Investment manager fees	**16 089**	16 275
Custodian fees	**2 624**	4 009
Investment consultant and other service provider fees	**2 015**	2 792
Other	**882**	625
Total direct investment expenses	**21 610**	23 701
Regulatory fees	**4 072**	5 255
General administration	**14 466**	9 854
Total costs	**40 148**	38 810

In accordance with the *ComSuper Act 2011* , ComSuper provides administrative services to the Trustee in relation to the Scheme. The expenses of ComSuper are met by government appropriation and a share of the administrative fees paid to ComSuper by employing agencies. The remaining share of administrative fees is paid to the Trustee to meet costs other than those incurred in managing and investing the Scheme assets. Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee and ComSuper.

Sponsoring employers contributed the following to Scheme administration costs:

	2014 **$'000**	2013 $'000
Trustee costs	**2 086**	2 112
ComSuper costs	**27 473**	27 859
Total	**29 559**	29 971

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

7. INCOME TAX

(a) Income tax recognised in the Statement of Changes in Net Assets

	2014	2013
	$'000	$'000
Tax expense comprises:		
Current tax expense	**33 801**	34 680
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	**(4)**	(14)
Total tax expense	**33 797**	34 666

The prima facie income tax expense on the benefits accrued as a result of operations before income tax reconciles to the income tax expense in the Statement of Changes in Net Assets as follows:

Increase in net assets for the year before income tax	**1 657 338**	2 048 636
Income tax expense calculated at 15%	**248 601**	307 295
Add (less) permanent differences - items not assessable or deductible		
Member contributions, Government co-contributions and low income superannuation contributions	**(92 343)**	(90 671)
Insurance proceeds	**(220)**	(217)
Benefits paid	**202 378**	175 529
Appropriation from Consolidated Revenue Fund	**(66 423)**	(77 894)
Investment revenue already taxed	**(258 196)**	(279 376)
Total tax expense	**33 797**	34 666

(b) Current tax liabilities

Current tax payables:		
Provision for current year income tax	**33 648**	34 438
	33 648	34 438

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

7. INCOME TAX (continued)

	2014 **$'000**	2013 $'000
(c) Deferred tax balances		
Deferred tax liabilities comprise:		
Temporary differences	**7**	11
	7	11

Taxable and deductible temporary differences arise from the following:

2014	**Opening balance $'000**	**Charged to income $'000**	**Acquisition / disposal $'000**	**Closing balance $'000**
Gross deferred tax liabilities:				
Interest receivable	**11**	**(4)**	**-**	**7**
	11	**(4)**	**-**	**7**
Net deferred tax liabilities / (assets)	**11**	**(4)**	**-**	**7**

2013	Opening balance $'000	Charged to income $'000	Acquisition / disposal $'000	Closing balance $'000
Gross deferred tax liabilities:				
Interest receivable	25	(14)	-	11
	25	(14)	-	11
Net deferred tax liabilities / (assets)	25	(14)	-	11

8. SUNDRY DEBTORS

	2014 **$'000**	2013 $'000
Receivable from the ARIA Investments Trust	**275**	-
Interest receivable	**48**	75
Amounts due from the CSS Fund	**97**	404
Amount to be appropriated from Consolidated Revenue Fund	**3 965**	3 820
	4 385	4 299

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

9. TRANSFER TO THE PUBLIC SECTOR SUPERANNUATION SCHEME FROM THE COMMONWEALTH SUPERANNUATION SCHEME

Certain former contributors to the Commonwealth Superannuation Scheme (CSS) who again become members of the CSS are entitled to elect to transfer to the Public Sector Superannuation Scheme (PSS). There were 2 elections made during the year ended 30 June 2014 (2013: 8 elections).

The value of contributions transferrable for members who elected to transfer from CSS to PSS is $97 371 at 30 June 2014 (2013: $404 409). The transfer is receivable from CSS.

10. OPERATIONAL RISK RESERVE

	2014	2013
	$'000	$'000
Opening balance	**-**	-
Transfers to reserve	**17 319**	-
Earnings on reserve	**175**	-
Closing balance	**17 494**	-

11. AUDITOR'S REMUNERATION

	2014	2013
	$	$
Amounts paid or payable to the Australian National Audit Office for audit services:		
Financial statements	**57 960**	58 900
Regulatory returns	**13 800**	1 550
Prudential standards	**20 240**	1 550
Total	**92 000**	62 000

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

12. SUPERANNUATION CONTRIBUTIONS (SURCHARGE) TAX

The Superannuation Contributions (Surcharge) Tax applies to the surchargeable superannuation contributions of Scheme members whose adjusted taxable income exceeds the surcharge threshold. Surcharge liabilities are calculated by the Australian Taxation Office and recorded against Scheme member accounts. The surcharge liability may be paid by the member in full or in part during the period of Scheme membership. Any surcharge liability remaining at the end of the financial year incurs interest. Scheme rules provide for any outstanding surcharge liability to be recovered from a benefit payable to the member.

Transactions recorded during the reporting period were as follows:

	2014	2013
	$'000	$'000
Total surcharge liability outstanding at start of year	**36 717**	38 845
Changes in unpaid assessments	**(15)**	(15)
Interest on outstanding surcharge liabilities at end of year	**1 166**	1 332
	37 868	40 162
Less: Amounts paid by members and Consolidated Revenue Fund	**(3 883)**	(3 445)
Total surcharge liability outstanding at end of year	**33 985**	36 717

The surcharge tax ceased on 1 July 2005. Assessments relating to periods prior to this date continue to be received by the Scheme.

No liability is recognised in the financial statements for the estimated value of the surcharge liability because the liability will be either met by the relevant members during their period of membership or will be recovered from benefits paid on exit from the Scheme.

13. UNALLOCATED INCOME

Monthly earnings are allocated to members each month-end, or for part of a month on contributions made during a month or where a member exits the Scheme during a month.

The closing balance is approximately 0.70% (2013: 0.54%) of the members' funded entitlements as at 30 June 2014.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

13. UNALLOCATED INCOME (continued)

	2014 $'000	2013 $'000
Opening balance of unallocated income	**80 529**	(19 870)
Add: Earnings of Fund for the year	**1 722 115**	1 863 256
Less: Earnings allocation to members' accounts	**(1 668 945)**	(1 762 857)
Less: Transfers to and earnings on operational risk reserve	**(17 494)**	-
Closing balance of unallocated income	**116 205**	80 529

Unallocated income primarily represents timing differences, including the difference between investment valuations applied in daily earnings rates and the confirmed investment values published in these financial statements.

14. VESTED BENEFITS

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

The actuarial estimate of vested benefits at 30 June 2014 is $70.8 billion (2013: $65.1 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2014 and elected the option which maximised their benefit entitlement.

The vested benefits have been calculated on the basis of current legislative arrangements for indexation of pension payments.

	2014 $billion	2013 $billion
The vested benefits amount is made up of:		
Funded component	**16.6**	14.9
Unfunded component	**54.2**	50.2
	70.8	65.1

The net assets of the Scheme compared to the vested benefits are:

Funded component	**16.6**	14.9
Net assets plus funded benefits payable	**16.6**	14.9
Surplus / (deficiency)	**-**	**-**

The net assets of the Scheme includes $17,494,215 of assets backing the operational risk reserve.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

15. LIABILITY FOR ACCRUED BENEFITS

The amount of accrued benefits is the present value of expected future benefit payments that arise from membership of the Scheme up to the measurement date. The accrued benefits are comprised of a funded component (i.e. accumulated member contributions, and, where applicable, productivity contributions, plus interest) which will be met from the Scheme, and an unfunded component that, pursuant to the *Superannuation Act 1990* (as amended), will be funded from the Consolidated Revenue Fund at the time the superannuation benefits become payable.

The amount of accrued benefits in respect of the Scheme is calculated on a triennial basis. The most recent valuation of the accrued benefits was undertaken by Mercer Consulting (Australia) Pty Ltd as part of a comprehensive review as at 30 June 2011. A summary of the review is attached.

	2011 $billion	2008 $billion
Accrued benefits as at 30 June were:		
Funded component	**12.5**	11.4
Unfunded component	**33.1**	20.9
	45.6	52.3

The net assets compared to the liability for accrued benefits as at 30 June are:

Funded accrued benefits	**12.5**	11.4
Net assets plus funded benefits payable	**12.5**	11.4
Surplus / (deficiency)	**-**	-

The next actuarial review is due to be conducted during the financial year ending 30 June 2015 based on data at 30 June 2014.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS

(a) Financial instruments management

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

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

(b) Significant accounting policies

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

(c) Capital risk management

The RSE licence of the Trustee of the Scheme requires the Trustee to maintain a balance of at least $100 000 at all times in an administration reserve account in the AIT until the operational risk reserve target amount is met. This is required to be maintained in cash or cash equivalents. The Trustee of the Scheme was in compliance with this requirement throughout the year.

(d) Categories of financial instruments

The financial assets and liabilities of the Scheme are recognised at net market value as at the reporting date. Net market value approximates fair value less costs of realisation of investments. The cost of realisation of investments is minimal and therefore net market value that is carrying value approximates fair value. Changes in net market value are recognised in the Statement of Changes in Net Assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives

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

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

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

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

(f) Credit risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk (continued)

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within AIT exceeded 5% of net assets of that trust at 30 June 2014 or 30 June 2013.

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

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

	2014	2013
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA	**16 587 308**	14 940 866
Other financial assets		
Cash and cash equivalents	**22 158**	43 343
Sundry debtors	**4 385**	4 299
	16 613 851	14 988 508

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

(g) Liquidity risk

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk (continued)

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

The following tables summarise the maturity profile of the Scheme's financial liabilities. Vested benefits have been included in the less than three months column, as this is the amount that members could call upon as at reporting 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. The tables have been drawn up based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Scheme can be required to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
30 June 2014					
Benefits payable	**16 665**	**-**	**-**	**-**	**16 665**
Sundry payables	**1 015**	**-**	**-**	**-**	**1 015**
Vested benefits	**70 803 000**	**-**	**-**	**-**	**70 803 000**
Total financial liabilities	**70 820 680**	**-**	**-**	**-**	**70 820 680**
30 June 2013					
Benefits payable	14 129	-	-	-	14 129
Sundry payables	955	-	-	-	955
Vested benefits	65 148 000	-	-	-	65 148 000
Total financial liabilities	65 163 084	-	-	-	65 163 084

There has been no change to the Scheme's exposure to liquidity risk or the manner of management of the risk during the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(h) Market risk

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

There has been no change to the Scheme's exposure to market risk or the manner in which it manages and measures that risk since the 2013 reporting period.

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

The Scheme does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of the AIT, relating to emerging markets, remains unhedged due to lack of suitable currency instruments for hedging.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

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

The Scheme is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2014 and 30 June 2013 had a maturity profile of less than one month.

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

The following table illustrates the Scheme's sensitivity to a 0.6% p.a. (2013: 1.2%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of a reasonably possible change in interest rates. Had interest rates been lower or higher by 0.6% (2013: 1.2%) at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as demonstrated:

	Carrying amount $'000	Interest rate risk $' 000			
		Changes in net assets	Net assets available to pay benefits	Changes in net assets	Net assets available to pay benefits
2014		-0.6%		+0.6%	
Cash and cash equivalents	22 158	(133)	(133)	133	133
2013		-1.2%		+1.2%	
Cash and cash equivalents	43 343	(520)	(520)	520	520

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)
The Scheme's investment in AIT is exposed to market price risk in respect of the latter's holdings of equity securities, unit trusts and pooled superannuation trusts. As the investment in AIT is carried at net market value with changes in net market value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect the Scheme's net investment income.

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

The following table illustrates the Scheme's sensitivity to a reasonably possible change in the value of its investment in AIT, based on risk exposures at reporting date. The volatility factor of 6.7% (2013: 7%) represents the average annual volatility in the default option unit price of the Scheme's investment in the AIT. For the Cash Option and the investments backing the operational risk reserve a factor of 0.6% (2013: 1.2%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at the reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as follows:

	Change in price	Carrying amount $'000	Price risk $' 000			
			Changes in net assets	Net assets available to pay benefits	Changes in net assets	Net assets available to pay benefits
2014						
Financial Assets						
ARIA Investments Trust:						
Default Option	-/+6.7%	16 521 829	(1 106 963)	(1 106 963)	1 106 963	1 106 963
Cash option	-/+0.6%	48 260	(290)	(290)	290	290
Operational risk reserve	-/+0.6%	17 219	(103)	(103)	103	103
Total increase / (decrease)		16 587 308	(1 107 356)	(1 107 356)	1 107 356	1 107 356
2013						
Financial Assets						
ARIA Investments Trust:						
Default Option	-/+7%	14 879 143	(1 041 540)	(1 041 540)	1 041 540	1 041 540
Cash option	-/+1.2%	61 723	(741)	(741)	741	741
Total increase / (decrease)		14 940 866	(1 042 281)	(1 042 281)	1 042 281	1 042 281

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurement

The Scheme's financial instruments are included in the Statement of Net Assets at net market value that approximates fair value. The net market value is determined per accounting policies disclosed in Note 3(a).

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

Level 1: net market value measurements are those derived from quoted prices in active markets.

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2014 **Financial Assets** Pooled superannuation trust	**-**	**16 587 308**	-	**16 587 308**
2013 **Financial Assets** Pooled superannuation trust	-	14 940 866	-	14 940 866

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

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

Reconciliation of Level 3 net market value measurements
There were no Level 3 financial assets or liabilities for the period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

17. RELATED PARTIES

(a) Trustee

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

(b) Key Management Personnel

The Directors of CSC throughout the year ended 30 June 2014 were:

Tony Cole
Peter Cosgrove (resigned 31 January 2014)
Peter Feltham
Nadine Flood
Lyn Gearing
Winsome Hall
Tony Hyams (Chairman - term ended 30 June 2014)
John McCullagh
Peggy O'Neal
Margaret Staib (commenced 2 May 2014)
Gabriel Szondy (term ended 30 June 2014)
Michael Vertigan

The Directors of CSC from 1 July 2014 to the date of this report were:

Tony Cole
Patricia Cross (Chairman - commenced 1 July 2014)
Christopher Ellison (commenced 1 July 2014)
Peter Feltham
Nadine Flood
Lyn Gearing
Winsome Hall
John McCullagh
Peggy O'Neal
Margaret Staib
Michael Vertigan

In addition to the Directors listed above, the following executives of the Trustee had authority and responsibility for planning, directing and controlling the activities of the Scheme throughout the year ended 30 June 2014:

Helen Ayres	Corporate Secretary
Peter Carrigy-Ryan	Chief Executive Officer
Leonie McCracken	General Manager, Operations
Bronwyn McNaughton	General Counsel
Christine Pearce	General Manager, Member & Employer Services
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance & Risk

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

17. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

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

	2014	2013
	$	$
Short-term employee benefits	**866 208**	742 604
Post-employment benefits	**89 962**	81 611
Other long-term benefits	**8 539**	12 450
	964 709	836 665

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

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

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

(d) Investing entities

Throughout the year ended 30 June 2014, the Scheme's only investment consisted of units in AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

17. RELATED PARTIES (continued)

(d) Investing entities (continued)

The Trustee pays costs of and incidental to the management of the Scheme and the investment of its money from the assets of the AIT that are referable to the Scheme (Note 6(c)). No fees were charged for acting as Trustee during the year ended 30 June 2014 (2013: $nil).

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

	Net Market Value of Investment	Net Market Value of Investment	Share of Net Income after tax	Share of Net Income after tax
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**16 587 308**	14 940 866	**1 721 308**	1 862 509
	16 587 308	14 940 866	**1 721 308**	1 862 509

(e) Transactions with director-related entities

Margaret Staib is Chief Executive Officer and a director of Airservices Australia, which made employer superannuation contributions of $127,934 to the Scheme during the year ended 30 June 2014. The contributions were made at arm's length as part of a normal employer relationship on terms and conditions no more favourable than if the employer had not been a director-related entity.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

18. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital expenditure commitments as at 30 June 2014 (2013: $nil).

The Scheme had the following commitments for other expenditure as at 30 June 2014 :

	2014	2013
	$'000	$'000
Within 12 months	**1 774**	1 708
Greater than 12 months but less than 3 years	**2 687**	3 104
Greater than 3 years	**1 383**	2 740
	5 844	7 552

On 20 June 2013 the Trustee Board authorised the expenditure of $7.55 million from the Scheme's assets over 5 years on systems and resourcing for the Scheme's administrator, ComSuper, to enable members to roll out amounts they have previously rolled into the Scheme.

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

There were no other contingent liabilities or contingent assets for the Scheme at 30 June 2014 (2013: $nil).

19. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2014 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

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INFORMATION REQUIRED FOR PURPOSES OF AUSTRALIAN ACCOUNTING STANDARD AAS 25 RELATING TO THE ACTUARIAL VALUATION OF THE PUBLIC SECTOR SUPERANNUATION SCHEME AS AT 30 JUNE 2011

Purpose of Report

This statement has been prepared for the purposes of AAS 25 as at 30 June 2011 for the Public Sector Superannuation Scheme (PSS) at the request of the Commonwealth Superannuation Corporation (CSC).

This extract summarises the actuarial valuation of the Scheme as at 30 June 2011 carried out by Mercer Consulting (Australia) Pty Limited under the advice of Martin Stevenson FIAA, FIA and Darren Wickham FIAA. It has been prepared for the purposes of inclusion with the Scheme Accounts and is in a form that complies with the Australian Accounting Standard AAS 25.

Accrued and Vested Benefits

AAS 25 requires the disclosure of Accrued and Vested benefits at the reporting date.

For the purpose of AAS 25 the following amounts have been determined:

Reporting Date	Accrued Benefits $billion	Vested Benefits $billion
30 June 2011	45.6	54.1

Accrued Benefits have been determined as the present value of expected future benefit payments that arise from membership of the PSS up to the reporting date.

Vested Benefits are benefits which the PSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the Scheme.

The method and assumptions used to determine Accrued and Vested Benefits are summarised in Attachment 1 to this statement.

Accrued Benefits have been calculated in a manner consistent with Guidance Note 454 and Professional Standard 402 issued by the Institute of Actuaries of Australia.

CONSULTING. OUTSOURCING. INVESTMENTS.

MARSH & McLENNAN COMPANIES

AAS 25 PUBLIC SECTOR SUPERANNUATION SCHEME AS AT 30 JUNE 2011
Page 2

Review of Actuarial Report

AAS 25 also requires the notes to the Scheme accounts to include a summary of the most recent actuarial report of the PSS. Attachment 2 to this Statement provides a summary of the report on the Long Term Cost of the PSS and the Commonwealth Superannuation Scheme (CSS) carried out as at 30 June 2011. The summary contains the information required under AAS 25.

Martin A Stevenson
Fellow of the Institute of Actuaries of Australia
Partner, Mercer Consulting (Australia) Pty Limited

13 July 2012

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AAS 25 PUBLIC SECTOR SUPERANNUATION SCHEME AS AT 30 JUNE 2011
Page 3

Attachment 1 to AAS 25 Statement

Method of Determining Accrued and Vested Benefits

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the PSS up to the date of calculation. The expected future benefits were determined allowing for future salary growth to the date of exit.

The approach used to apportion benefits between past and future membership involves an "actual accrual" or "Projected Unit Credit Method" (or PUCM) approach.

This involves determining the total benefit using:

Accrued Multiple (calculated using membership to the date of the valuation)	×	Final Average Salary at future date

The method used to apportion benefits between past and future membership is unchanged from that used in the previous review as at 30 June 2008.

The past membership component of the member-financed lump sum benefits and of the productivity superannuation benefits is taken to be the accumulated amount of contributions and interest at the calculation date.

Vested Benefits are determined as the value of benefits which the PSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elect the benefit option which is most costly to the PSS.

Assumptions Used to Determine Accrued Benefits

The assumptions used to determine Accrued Benefits are the same as those used for the most recent actuarial investigation into the long term cost of the PSS and the CSS as at 30 June 2011. Therefore, the Accrued Benefit calculated for AAS 25 purposes is the same as that calculated for the purposes of the Long Term Cost Report.

The financial assumptions used to determine the Accrued Benefits along with those used for the recent actuarial investigation are shown in the table below:

Item	AAS 25	Long Term Cost Report
CPI Increases	2.5% per annum	2.5% per annum
Investment Return / Discount Rate	6.0% per annum	6.0% per annum
General Salary Increases	4.0% per annum	4.0% per annum

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AAS 25 PUBLIC SECTOR SUPERANNUATION SCHEME AS AT 30 JUNE 2011
Page 4

A summary of the other assumptions used is contained in Appendix B of the Long Term Cost Report of the PSS and the CSS.

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Attachment 2 to AAS 25 Statement

Summary of the Long Term Cost Report

The latest actuarial investigation into the long term cost of the PSS and CSS was conducted at 30 June 2011.

This attachment provides a summary of that report.

Membership Data

Data relating to the membership of the PSS and the CSS was provided by ComSuper, the Schemes' administrator, on behalf of CSC, for the purposes of this investigation.

The table below summarises the total membership of the PSS as at 30 June 2011.

PSS MEMBERSHIP as at 30 JUNE 2011			
	Male	**Females**	**Total**
Number of Contributors	47,638	65,586	113,224
Salaries	$4,267m	$5,190m	$9,457m
Number of Preserved Members	42,043	61,049	103,092
Number of Age Pensioners	9,961	10,325	20,286
Number of Invalidity Pensioners	1,150	1,432	2,582
Number of Reversionary Pensioners	329	724	1,053

Assumptions

The key economic assumptions adopted for this review are shown in the table below. The assumptions adopted for the previous review (which was carried out as at 30 June 2008) are shown for comparison purposes.

Item	Assumption	2008 Investigation
CPI Increases	2.5% per annum	2.5% per annum
Investment Returns / Discount Rate	6.0% per annum (nominal) 3.5% per annum (real)	6.0% per annum (nominal) 3.5% per annum (real)
General Salary Increases	4.0% per annum (nominal) 1.5% per annum (real)	4.0% per annum (nominal) 1.5% per annum (real)

AAS 25 PUBLIC SECTOR SUPERANNUATION SCHEME AS AT 30 JUNE 2011
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The key economic assumptions are consistent between the 2008 investigation and the 2011 investigation.

The demographic assumptions at 2011 have been revised from those at 2008 to more closely reflect actual experience of the Scheme. These are set out in Appendix B of the Long Term Cost Report.

Of the changes in assumptions, the most significant were:

- An increase in the assumed rate of PSS member contributions;
- An increase in the take-up of pension benefits by PSS members; and
- The extension of retirement assumptions to age 75.

Value of Assets

The PSS and CSS are partly funded to the extent that real assets are held in respect of member contributions and productivity superannuation contributions. The realisable value of the PSS assets as at 30 June 2011 was $12.5 billion.

Accrued Benefits

The value of accrued benefits as at 30 June 2011 was $45.6 billion.

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the PSS up to the date of calculation. The expected future benefits were determined allowing for future salary growth to the date of exit. Benefits were apportioned between past and future membership by multiplying the accrued multiple at the calculation date by the Final Average Salary at the date of exit.

The past membership component of the member-financed lump sum benefits and of productivity superannuation benefits is taken to be the accumulated amount of contributions and interest at the calculation date. An amount of $12.5 billion has been included in the Accrued Benefit in respect of the member financed benefits and productivity superannuation benefits.

The Accrued Benefit also includes an amount of $13.2 billion in respect of pensioners and preserved beneficiaries of the PSS.

Vested Benefits

Vested Benefits of the PSS were not calculated as a part of the Long Term Cost Report as at 30 June 2011 but were calculated separately.

The estimated value of the Vested Benefits of the PSS as at 30 June 2011 is $54.1 billion.

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AAS 25 PUBLIC SECTOR SUPERANNUATION SCHEME AS AT 30 JUNE 2011
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Vested Benefits are determined as the value of benefits which the PSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the PSS.

Financial Condition

The PSS is a partially funded scheme. As a consequence, the value of Accrued Benefits and Vested Benefits is significantly more than the realisable value of Scheme assets at the same date.

However, the PSS operates under an underlying guarantee from the Commonwealth Government. Further, the investigation shows that the projected combined Commonwealth costs in respect of the PSS and CSS reduce as a percentage of projected Gross Domestic Product over the next 40 years.

Martin A Stevenson
Fellow of the Institute of Actuaries of Australia
Partner, Mercer Consulting (Australia) Pty Ltd

13 July 2012

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MilitarySuper financial statements

REPORT BY THE INDEPENDENT APPROVED AUDITOR TO THE MINISTER FOR FINANCE AND MEMBERS OF THE MILITARY SUPERANNUATION AND BENEFITS FUND (ABN: 50925523120)

I have audited the financial statements of Military Superannuation and Benefits Fund for the year ended 30 June 2014 comprising the Statement of Changes in Net Assets, Statement of Net Assets a Summary of Significant Accounting Policies and other explanatory notes

Trustee's Responsibility for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the form agreed with the Minister for Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of Military Superannuation and Benefits Fund and the Minister for Finance.

My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee's, as well as evaluating the overall presentation of the financial statements.

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

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Auditor's Opinion

In my opinion:

(i) the financial statements are in the form as agreed by the Minister for Finance;

(ii) the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards, the net assets of Military Superannuation and Benefits Fund as at 30 June 2014 and the changes in net assets for the year ended 30 June 2014;

(iii) the financial statements are based and proper accounts and records; and

(iv) the receipt of money into the Fund, and the payment of money out of the Fund and the investment of money standing to the credit of the Fund during the year have been in accordance with the Trust Deed.

AUSTRALIAN NATIONAL AUDIT OFFICE

Carla Jago
Executive Director

Delegate of the Auditor-General

Canberra

11 September 2014

Military Superannuation and Benefits Fund (ABN 50 925 523 120)

Statement by the Trustee of the Military Superannuation and Benefits Fund ('Fund')

The Board of Directors hereby states that in its opinion:

(a) the attached financial statements give a true and fair view of the matters required by Australian Accounting Standards, including AAS 25 *'Financial Reporting by Superannuation Plans'*, and Schedule 1 of the *Finance Minister's Orders (Financial Statements for reporting periods ending on or after 1 July 2011)(as amended)* to the extent that the latter is not inconsistent with AAS 25;

(b) the attached financial statements give a true and fair view of the net assets of the Military Superannuation and Benefits Fund No. 1 (defined in Note 1) as at 30 June 2014 and the changes in net assets of the Fund for the year ended 30 June 2014;

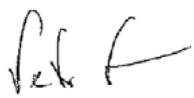
(c) at the date of this statement there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due;

(d) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(e) the financial statements have been prepared based on properly maintained financial records;

(f) the operations of the Military Superannuation and Benefits Scheme (Scheme) (defined at Note 1) were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011*, the *Military Superannuation and Benefits Act 1991*, the Trust Deed establishing the Fund, the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, and the relevant requirements of the *Corporations Act 2001* and Regulations (to the extent applicable).

Signed at Sydney this 11th day of September 2014 in accordance with a resolution of Directors of Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Fund.



Patricia Cross
Chairman

Peter Feltham
Director

Military Superannuation and Benefits Fund
Statement of Changes in Net Assets
For the Year Ended 30 June 2014

	Note	2014 $'000	2013 $'000
Net assets available to pay benefits at the start of the financial year		**4 887 825**	4 012 156
Net Investment revenue			
Interest		**736**	531
Changes in net market values	5c	**569 463**	535 538
		570 199	536 069
Contribution revenue			
Member contributions	6a	**254 399**	243 191
Employer contributions	6a	**164 676**	173 476
Government co-contributions	6a	**3 481**	8 840
Low income superannuation contributions	6a	**1 502**	-
Net appropriation from Consolidated Revenue Fund	6b	**378 912**	323 993
		802 970	749 500
Total revenue		**1 373 169**	1 285 569
Benefits paid	6b	**(470 968)**	(399 076)
Total expenses		**(470 968)**	(399,076)
Change in net assets before income tax		**902 201**	886 493
Income tax expense	7a	**(24 823)**	(10 824)
Change in net assets after income tax		**877 378**	875 669
Net assets available to pay benefits at the end of the financial year		**5 765 203**	4 887 825

The attached notes form part of these financial statements.

Military Superannuation and Benefits Fund
Statement of Net Assets
As at 30 June 2014

	Note	2014 $'000	2013 $'000
Investments			
Pooled superannuation trust	4	**5 759 942**	4 883 431
Total Investments		**5 759 942**	4 883 431
Other assets			
Cash and cash equivalents		**30 947**	26 346
Sundry debtors	8	**3 996**	3 348
Total other assets		**34 943**	29 694
Total assets		**5 794 885**	4 913 125
Benefits payable		**4 683**	4 214
Sundry payables		**218**	225
Current tax liabilities	7b	**24 771**	20 861
Deferred tax liabilities	7c	**10**	-
Total liabilities		**29 682**	25 300
Net assets available to pay benefits at the end of the financial year		**5 765 203**	4 887 825

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

1. DESCRIPTION OF THE SCHEME AND THE FUND

The Military Superannuation and Benefits Scheme ('Scheme') (ABN 50 925 523 120) is a hybrid accumulation-defined benefits scheme which provides benefits to its members under the *Military Superannuation and Benefits Act 1991* . The Trustee of the Scheme is Commonwealth Superannuation Corporation (CSC) (ABN 48 880 817 243).

The Scheme is operated for the purpose of providing members of the Australian Defence Force (and their dependants or beneficiaries) with lump sum and pension benefits upon retirement, termination of service, death or disablement. For the purposes of the Scheme, the Military Superannuation and Benefits Fund No. 1 (Fund) accepts employer contributions from the Department of Defence, other government contributions, members' contributions, transfers from other superannuation funds, and contributions made by members for the benefit of their spouse.

Administration of member records, contributions receipts and benefit payments is conducted on behalf of the Trustee by ComSuper.

The principal place of business and registered office of the Trustee is Level 8, 121 Marcus Clarke Street, Canberra ACT 2601.

On 13 May 2014 the Government announced its intention to close the Scheme to new members from 1 July 2016. A new accumulation plan, Australian Defence Force (ADF) Super, is intended to commence on 1 July 2016.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of the Fund is a general purpose financial report which has been prepared in accordance with Schedule 1 of the *Finance Minister's Orders (Financial statements for reporting periods ending on or after 1 July 2011)(as amended)* , Australian Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993* and provisions of the Trust Deed. Accounting Standards include Australian Accounting Standards and International Financial Reporting Standards ('IFRS') to the extent that they are not inconsistent with *AAS 25 'Financial Reporting by Superannuation Plans'*. For the purposes of preparing financial statements, the Fund is a not-for-profit entity.

The financial statements have been prepared on the basis required by the Defined Benefit Plan provisions of AAS 25, which provides specific measurement requirements for assets, liabilities and for accrued benefits. A Defined Benefit Plan refers to a superannuation plan where the amounts to be paid to members on retirement are determined at least in part by a formula based on years of membership and salary levels. The Trustee adopted the provisions of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and notes thereto.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

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

The financial statements of the Fund were authorised for issue by the Directors of the Trustee on 11 September 2014.

Australian Accounting Standards require disclosure of Australian Accounting Standards that have not been applied for Standards that have been issued but are not yet effective. The Trustee expects to adopt the Standards disclosed below upon their application date to the extent that they are not inconsistent with AAS 25 *'Financial Reporting by Superannuation Plans'* (noting however that AASB 1056 *'Superannuation Entities'* replaces AAS 25 *'Financial Reporting by Superannuation Plans'*). The following Standards expected to be relevant to the Fund were in issue but not yet effective at the date of authorisation of the financial report.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', **AASB 2010-7** 'Amendments to Australian Accounting Standards arising from AASB 9', **AASB 2012-6** 'Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures'	1 January 2017	30 June 2018
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (AASB 132)'	1 January 2014	30 June 2015
AASB 1031 'Materiality'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' Part B Materiality	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' Part C Financial Instruments	1 January 2015	30 June 2016
AASB 1056 'Superannuation Entities'	1 July 2016	30 June 2017

AASB 1056 *'Superannuation Entities'* was issued on 5 June 2014. It replaces AAS 25 *'Financial Reporting by Superannuation Plans'* with effect for annual reporting periods beginning on or after 1 July 2016 but can be applied earlier.

The Directors are yet to fully consider the impact of the new Standard, however it is expected to significantly impact the recognition of items in, and the presentation of, the financial statements.

With the exception of AASB 1056 *'Superannuation Entities'*, it is anticipated that adoption of these Standards will not have a material financial impact on the financial report of the Fund.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

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

Standard / Interpretation	Effective for annual reporting periods
AASB 10 'Consolidated Financial Statements' and **AASB 2011-7** 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	beginning on or after 1 January 2013
AASB 13 'Fair Value Measurement' and **2011-8** 'Amendments to Australian Accounting Standards arising from AASB 13'	beginning on or after 1 January 2013
AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities (AASB 7 & 132)'	beginning on or after 1 January 2013
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	beginning on or after 1 January 2013
AASB 12 'Disclosure of Interests in Other Entities' and **AASB 2011-7** 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	beginning on or after 1 January 2013
AASB 1048 'Interpretation of standards' (2013)	ending on or after 20 December 2013
AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments' Part A - Conceptual Framework	ending on or after 20 December 2013
AASB CF 2013-1 'Amendments to the Australian Conceptual Framework'	ending on or after 20 December 2013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

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

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

(c) Use of judgements and estimates

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented in these financial statements for the year ended 30 June 2013.

(a) Assets

Assets are included in the Statement of Net Assets at net market value as at reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market value of investments includes a deduction for selling costs which would be expected to be incurred if the investments were sold.

Financial assets (being investments in a pooled superannuation trust, cash at bank and sundry debtors) are recognised on the date the Fund becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. From this date, any gains and losses from changes in net market value are recorded.

Net market value means the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal. If the price used is the selling or redemption price a deduction for selling costs has already been included. Otherwise, as selling costs are generally immaterial, net market value approximates fair value unless otherwise stated.

Net market values have been determined as follows:

(i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the net market value of the underlying investments.

(ii) Sundry debtors are recognised at the amounts receivable. All amounts are unsecured and are subject to normal trade credit terms.

(b) Cash and cash equivalents

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

(c) Foreign Currency Translation

The Fund does not undertake transactions denominated in foreign currencies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Payables

Payables (being benefits payable and sundry payables) are recognised at their nominal value which is equivalent to net market value.

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

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

(e) Operational risk reserve

The superannuation industry wide Stronger Super reforms require trustees of all superannuation funds to establish and maintain an operational risk reserve (ORR) from 1 July 2013. The purpose of the reserve is to provide adequate financial resources to address losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Fund. The transferred assets underlying the ORR are held in a separate cash option of the ARIA Investments Trust and income earned on these assets is recognised in the reserve.

(f) Derivatives

The Fund does not directly enter into derivative financial instruments.

(g) Revenue

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

Investment revenue
Interest revenue is recognised on an accrual basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Revenue (continued)

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

Contribution revenue
Employer and member contributions, transfers from other funds and superannuation co-contributions and low income superannuation contributions from the Commonwealth Government are recognised on a cash basis.

(h) Expenses

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

(i) Income Tax

Income tax on change in net assets for the year comprises current and deferred tax. Income tax is recognised in the Statement of Changes in Net Assets except to the extent that it relates to items recognised directly in members' funds.

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Income Tax (continued)

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

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

Current and deferred tax for the period
Current and deferred tax for the period is recognised as an expense or benefit in the Statement of Changes in Net Assets.

(j) Superannuation Contributions (Surcharge) Tax

Surcharge liabilities are calculated by the Australian Taxation Office (ATO) and recorded against Scheme member accounts. The liability for surcharge is not payable until the member receives a lump sum, transfers their contributions or receives a death benefit. The amount assessed by the ATO is fully recoverable from the member from their benefit or by voluntary member payment, therefore no surcharge expense is recognised in the Fund (Note 11).

No estimate has been made for the balance of any tax payable in respect of surchargeable contributions received by the Fund during the year on transfer of member entitlements from other superannuation funds as the Trustee is unable to determine the amount until receipt of applicable assessments in the following period.

The superannuation surcharge was abolished with effect from 1 July 2005 by the passing of the *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005*.

(k) Scheme liability for accrued benefits

The liability for accrued benefits is the value of the Scheme's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Scheme up to date of measurement. The present value is determined by reference to expected future salary levels and by application of a current, market-determined, risk-adjusted discount rate and appropriate actuarial assumptions.

The liability for accrued benefits is not included in the Statement of Net Assets, but is reported at Note 13.

The liability for accrued benefits is measured by an independent actuary on at least a triennial basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Goods and Services Tax ('GST')

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

Receivables and payables are recognised inclusive of GST.

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

4. INVESTMENTS

	2014 **$'000**	2013 $'000
Pooled Superannuation Trust - ARIA Investments Trust	**5 759 942**	4 883 431
	5 759 942	4 883 431

5. CHANGES IN NET MARKET VALUES OF INVESTMENTS

	2014 **$'000**	2013 $'000
(a) Investments held at 30 June:		
Pooled Superannuation Trust - ARIA Investments Trust	**562 424**	530 081
(b) Investments realised during the year:		
Pooled Superannuation Trust - ARIA Investments Trust	**7 039**	5 457
(c) Total changes in net market values of investments	**569 463**	535 538

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS

(a) Contributions

Member Contributions
Members contribute to the Fund each fortnight at optional rates ranging from a minimum of 5% of salary, to a maximum of 10% of salary. The contribution rates were the same in the prior year.

Employer Contributions
The Department of Defence contributes to the Fund each fortnight in respect of each member at the rate of 3% of the member's salary. The contribution rates were the same in the prior year. Employers may also make salary sacrifice contributions (before tax) and Ordinary Time Earnings top up contributions to the Plan on behalf of members.

Transferring Superannuation Benefits From Other Funds
Money invested in other superannuation funds can be rolled over to the Fund.

Government Co-Contributions
For the financial years ended 30 June 2014 and 30 June 2013, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

Low Income Superannuation Contributions
The low income super contribution (LISC) is a Commonwealth Government superannuation payment of up to $500. LISC payments into the Scheme commenced during the financial year ended 30 June 2014 in respect of the 2012-13 financial year, and are recognised as revenue when received.

(b) Benefits

The benefits payable from the Scheme comprise a lump sum of accumulated member contributions and a defined benefit financed by the employer and calculated on the basis of the member's final average salary and length of service. The defined benefit may be taken as a lump sum or as a pension or as a combination of lump sum and pension. The defined benefit consists of a funded component (the accumulated value of contributions made to the Fund by the Department of Defence) and an unfunded component (the balance of the defined benefit).

In general, when a benefit becomes payable to a member, the accumulated member and employer contributions held in the Fund in respect of the member are transferred to the Consolidated Revenue Fund (CRF) which pays out the total benefit (both funded and unfunded components).

Appropriation refers to the total amount paid from the CRF. The appropriation from CRF shown in the Statement of Changes in Net Assets is the net amount after taking into account transfers from the Fund to the CRF.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS (continued)

(b) Benefits (continued)

Of the total benefits payable as at 30 June 2014, $2.63 million (2013: $2.35 million) is payable by the Consolidated Revenue Fund. The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

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

	2014 $'000	2013 $'000
Gross Appropriation from Consolidated Revenue Fund	**439 760**	376 450
less: Transfers from Fund to Consolidated Revenue Fund	**(60 848)**	(52 457)
Net Appropriation	**378 912**	323 993
Consolidated Revenue Fund		
Lump-sum benefits	**128 050**	112 295
Pensions	**311 710**	264 155
	439 760	376 450
Military Superannuation & Benefits Fund		
Lump-sum benefits	**31 208**	22 626
Total benefits paid	**470 968**	399 076

(c) Costs of administration, managing and investing the Fund

Costs of and incidental to the management of the Fund and the investment of its money are charged against the assets of the ARIA Investments Trust ('AIT') that are referable to the Fund. Transactions in respect of these costs have been brought to account in the financial statements of AIT. The costs of member administration are met by ComSuper.

Expenses met by the AIT and referable to the Fund are:

	2014 $'000	2013 $'000
Investment		
Investment manager fees	**5 431**	5 186
Custodian fees	**886**	1 278
Investment consultant and other service provider fees	**680**	890
Other	**298**	199
Total direct investment expenses	**7 295**	7 553
Regulatory fees	**1 668**	1 674
General administration	**4 345**	3 183
Total costs	**13 308**	12 410

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS (continued)

(c) Costs of administration, managing and investing the Fund (continued)

In accordance with the *ComSuper Act 2011* , ComSuper provides administrative services to the Trustee in relation to the Scheme. The expenses of ComSuper are met by government appropriation and a share of the administrative fees paid to ComSuper by the Department of Defence. The remaining share of administrative fees is paid to the Trustee to meet costs other than those incurred in managing and investing the Fund's assets. Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee and ComSuper.

Sponsoring employers contributed the following to Scheme administration costs:

	2014	2013
	$'000	$'000
Trustee costs	**1 469**	1 497
ComSuper costs	**18 898**	24 018
Total	**20 367**	25 515

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

7. INCOME TAX

(a) Income tax recognised in the Statement of Changes in Net Assets

	2014	2013
	$'000	$'000
Tax expense comprises:		
Current tax expense	**24 812**	26 102
Deferred tax expense / (income) relating to the originiation and reversal of temporary differences	**1**	-
Under / (over) provided in prior years	**10**	(15 278)
Total tax expense	**24 823**	10 824

The prima facie income tax expense on the benefits accrued as a result of operations before income tax reconciles to the income tax expense in the Statement of Changes in Net Assets as follows:

Increase in net assets for the year before income tax	**902 201**	886 493
Income tax expense calculated at 15%	**135 330**	132 974
Add (less) permanent differences - items not assessable or deductible		
Member contributions, Government co-contributions and low income superannuation contributions	**(38 906)**	(37 805)
Benefits paid	**70 645**	59 862
Appropriation from Consolidated Revenue Fund	**(56 837)**	(48 599)
Investment revenue already taxed	**(85 419)**	(80 330)
Prior year under / (over) provision	**10**	(15 278)
Total tax expense	**24 823**	10 824

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

7. INCOME TAX (continued)

	2014	2013
	$'000	$'000
(b) Current tax liabilities		
Current tax payables:		
Provision for current year income tax	**24 771**	20 861
	24 771	20 861
(c) Deferred tax balances		
Deferred tax liabilities comprise:		
Temporary differences	**10**	-
	10	-

Taxable and deductible temporary differences arise from the following:

2014	**Opening balance**	**Charged to income**	**Acquisition/ disposal**	**Closing balance**
	$'000	**$'000**	**$'000**	**$'000**
Gross deferred tax liabilities:				
Interest receivable	**-**	**10**	**-**	**10**
	-	**10**	**-**	**10**
Net deferred tax liabilities / (assets)	-	**10**	-	**10**

2013	Opening balance	Charged to income	Acquisition/ disposal	Closing balance
	$'000	$'000	$'000	$'000
Gross deferred tax liabilities:				
Interest receivable	-	-	-	-
	-	-	-	-
Net deferred tax liabilities / (assets)	-	-	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

8. SUNDRY DEBTORS

	2014	2013
	$'000	$'000
Receivable from the ARIA Investments Trust	**95**	-
Interest receivable	**65**	61
Amount to be appropriated from Consolidated Revenue Fund	**2 629**	2 346
Consolidated Revenue Fund special account	**1 207**	941
	3 996	3 348

9. OPERATIONAL RISK RESERVE

	2014	2013
	$'000	$'000
Opening balance	**-**	-
Transfers to reserve	**5 938**	-
Earnings on reserve	**59**	-
Closing balance	**5 997**	-

10. AUDITOR'S REMUNERATION

	2014	2013
	$	$

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

Financial statements	**57 960**	58 900
Regulatory returns	**13 800**	1 550
Prudential standards	**20 240**	1 550
Total	**92 000**	62 000

The audits were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the ARIA Investments Trust that are referable to the Fund.

Deloitte Touche Tohmatsu are contracted by the ANAO to provide audit services on its behalf. Fees for those services are included above.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

11. SUPERANNUATION CONTRIBUTIONS (SURCHARGE) TAX

The Superannuation Contributions (Surcharge) Tax applies to the surchargeable superannuation contributions of Scheme members whose adjusted taxable income exceeds the surcharge threshold. Surcharge liabilities are calculated by the Australian Taxation Office and recorded against Scheme member accounts. The surcharge liability may be paid by the member in full or in part during the period of Scheme membership. Any surcharge liability remaining at the end of the financial year incurs interest. Scheme rules provide for any outstanding surcharge liability to be recovered from a benefit payable to the member.

Transactions recorded during the reporting period were as follows:

	2014	2013
	$'000	$'000
Total surcharge liability outstanding at start of year	**18 681**	19 318
Changes in unpaid assessments	**20**	38
Interest on outstanding surcharge liabilities at end of year	**636**	683
	19 337	20 039
Less: Amount paid by members	**(62)**	(96)
Less: Amounts deducted from members' benefit payments	**(858)**	(1 262)
	18 417	18 681
Total surcharge liability outstanding at end of year	**18 417**	18 681

The surcharge tax ceased on 1 July 2005. Assessments relating to periods prior to this date continue to be received by the Fund.

No liability is recognised in the financial statements for the estimated value of the surcharge liability because the liability will be either met by the members during their period of membership or will be recovered from member benefits paid when they are paid.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

12. VESTED BENEFITS

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

The actuarial estimate of vested benefits at 30 June 2014 is $29.5 billion (2013: $26.2 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2014 and elected the option which maximised their benefit entitlement.

The vested benefits have been calculated on the basis of current legislative arrangements for indexation of pension payments.

	2014	2013
	$billion	$billion
The vested benefits amount is made up of :		
Funded component	**5.8**	4.9
Unfunded component	**23.7**	21.3
	29.5	26.2

The net assets of the Fund compared to the vested benefits are:

Funded component	**5.8**	4.9
Net assets plus funded benefits payable	**5.8**	4.9
Surplus / (deficiency)	**-**	-

The net assets of the Fund includes $5,996,594 of assets backing the operational risk reserve.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

13. LIABILITY FOR ACCRUED BENEFITS

The amount of accrued benefits is the present value of expected future benefit payments that arise from membership of the Scheme up to the measurement date. The accrued benefits are comprised of a funded component (i.e. accumulated member contributions, and, where applicable, productivity contributions, plus interest) which will be met from the Fund, and an unfunded component that, pursuant to the *Military Superannuation and Benefits Act 1991* , will be funded from the Consolidated Revenue Fund at the time the superannuation benefits become payable.

The amount of accrued benefits in respect of the Scheme is calculated on a triennial basis. The most recent valuation of the accrued benefits was undertaken by the Australian Government Actuary as part of a comprehensive review as at 30 June 2011. A summary of the review is attached.

	2011	2008
	$billion	$billion
Accrued benefits as at 30 June were:		
Funded component	**3.7**	2.9
Unfunded component	**19.3**	13.1
	23.0	16.0

The net assets of the Fund compared to the liability for accrued benefits are as follows:

Funded component	**3.7**	2.9
Net assets plus funded benefits payable	**3.7**	2.9
Surplus / (deficiency)	**-**	-

The next actuarial review is due to be conducted during the financial year ending 30 June 2015 based on data at 30 June 2014.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

14. FINANCIAL INSTRUMENTS

(a) Financial instruments management

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

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

(b) Significant accounting policies

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

(c) Capital risk management

The RSE licence of the Trustee of the Fund requires the Trustee to maintain a balance of at least $100 000 at all times in an administration reserve account in the AIT until the operational risk reserve target amount is met. This is required to be maintained in cash or cash equivalents. The Trustee of the Fund was in compliance with this requirement throughout the year.

(d) Categories of financial instruments

The financial assets and liabilities of the Fund are recognised at net market value as at the reporting date. Net market value approximates fair value less costs of realisation of investments. The cost of realisation of investments is minimal and therefore net market value that is carrying value approximates fair value. Changes in net market value are recognised in the Statement of Changes in Net Assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

14. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

14. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk

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

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within AIT exceeded 5% of net assets of that trust at 30 June 2014 or 30 June 2013.

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

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

	2014	2013
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**5 759 942**	4 883 431
Other financial assets		
Cash and cash equivalents	**30 947**	26 346
Sundry debtors	**3 996**	3 348
	5 794 885	4 913 125

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

14. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk

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

The Trustee's approach to managing liquidity is to ensure that the Fund will always have sufficient liquidity to meet its liabilities as they fall due. On resignation the member benefit accrued before 30 June 1999 can be paid as a lump sum but the balance must be preserved until the member's preservation age, either in the Fund or another complying superannuation fund. The employer benefit, including productivity component, must be preserved in the Fund. The unfunded component of benefit payments is financed by the Commonwealth, from the CRF. As such there is minimal liquidity risk.

The Fund's exposure to liquidity risk is therefore limited to those circumstances in which the Scheme Rules allow members to withdraw benefits.

The Trustee undertakes forecasting and scenario testing of the cashflow requirements of the Fund to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements. As a further risk mitigation strategy, it is the Trustee's policy that the target asset allocation to illiquid assets is limited to around 25% of the investments of the AIT (with a plus or minus 10 percentage point rebalancing range around that target). Regular scenario testing is performed to confirm the validity of the strategy.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

14. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk (continued)

The following tables summarise the maturity profile of the Fund's financial liabilities. Vested benefits have been included in the less than three months column, as this is the amount that members could call upon as at reporting date. This is the earliest date on which the Fund can be required to pay members' vested benefits. However, members may not necessarily call upon amounts vested to them during this time. The tables have been drawn up based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
30 June 2014					
Sundry payables	**218**	**-**	**-**	**-**	**218**
Benefits payable	**4 683**	**-**	**-**	**-**	**4 683**
Vested benefits	**29 520 000**	**-**	**-**	**-**	**29 520 000**
Total financial liabilities	**29 524 901**	**-**	**-**	**-**	**29 524 901**
30 June 2013					
Sundry payables	225	-	-	-	225
Benefits payable	4 214	-	-	-	4 214
Vested benefits	26 244 000	-	-	-	26 244 000
Total financial liabilities	26 248 439	-	-	-	26 248 439

There has been no change to the Fund's exposure to liquidity risk or the manner of management of the risk during the reporting period.

(h) Market risk

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

There has been no change to the Fund's exposure to market risk or the manner in which it manages and measures that risk since the 2013 reporting period.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

14. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Foreign currency risk (continued)
The Fund does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from the its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of the AIT, relating to emerging markets, remain unhedged due to lack of suitable currency instruments for hedging.

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

The Fund is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2014 and 30 June 2013 had a maturity profile of less than one month.

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

The following table illustrates the Fund's sensitivity to a 0.6% p.a. (2013: 1.2%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of a reasonably possible change in interest rates. Had interest rates been lower or higher by 0.6% (2013: 1.2%) at reporting date, and all other variables were held constant, the financial result would have improved / (deteriorated) as demonstrated:

	Carrying amount $'000	**Interest rate risk $' 000**			
		Changes in net assets	**Net assets available to pay benefits**	**Changes in net assets**	**Net assets available to pay benefits**
2014		-0.6%		+0.6%	
Cash and cash equivalents	**30 947**	**(186)**	**(186)**	**186**	**186**
2013		-1.2%		+1.2%	
Cash and cash equivalents	26 346	(316)	(316)	316	316

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

14. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk

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

The Fund's investment in AIT is exposed to market price risk in respect of the latter's holdings of equity securities, unit trusts and pooled superannuation trusts. As the investment in AIT is carried at net market value with changes in net market value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect the Fund's net investment income.

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

The following table illustrates the Fund's sensitivity to a reasonably possible change in the value of its investment in AIT, based on risk exposures at reporting date. The volatility factors shown represent the average annual volatility of comparable option prices expected for the Fund's investment in the ARIA Investments Trust. For the Cash Option and the investments backing the operational risk reserve, a factor of 0.6% (2013: 1.2%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as follows:

	Change in price	Carrying amount $'000	Price risk $' 000			
			Changes in net assets	Net assets available to pay benefits	Changes in net assets	Net assets available to pay benefits
2014						
Financial Assets						
ARIA Investments Trust :						
Balanced Option	-/+5.5%	5 351 437	(294 329)	(294 329)	294 329	294 329
Cash Option	-/+0.6%	40 105	(241)	(241)	241	241
Income Focused Option	-/+1.9%	24 823	(472)	(472)	472	472
Aggressive Option	-/+6.7%	337 675	(22 624)	(22 624)	22 624	22 624
Operational risk reserve	-/+0.6%	5 902	(35)	(35)	35	35
Total increase / (decrease)		5 759 942	(317 701)	(317 701)	317 701	317 701
2013						
Financial Assets						
ARIA Investment Trust :						
Balanced Option	-/+4.1%	38 293	(1 532)	(1 532)	1 532	1 532
Cash Option	-/+1.2%	46 437	(557)	(557)	557	557
Conservative Option	-/+2.0%	22 622	(452)	(452)	452	452
Growth Option	-/+5.3%	4 507 754	(225 388)	(225 388)	225 388	225 388
High Growth Option	-/+6.9%	268 325	(18 783)	(18 783)	18 783	18 783
Total increase / (decrease)		4 883 431	(246 712)	(246 712)	246 712	246 712

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

14. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

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

On 1 July 2013 the investment options of the Fund were renamed, primarily to better reflect the underlying objectives and asset allocations of the options. The High Growth option was renamed Aggressive, the Growth option was renamed Balanced and the Conservative option was renamed Income Focused. There was no change to the Cash option. The Balanced (Pre 30 June 2013) option was closed during the year and the funds transferred to the new Balanced option.

(i) Fair value measurement

The Fund's financial instruments are included in the Statement of Net Assets at net market value that approximates fair value. The net market value is determined per accounting policies disclosed in Note 3(a).

Net market value measurements recognised in the Statement of Net Assets
The following table provides an analysis of the Fund's financial instruments whereby the assets and liabilities are each grouped into one of three categories based on the degree to which their method of valuation is observable.

Level 1: net market value measurements are those derived from quoted prices in active markets.

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2014				
Financial Assets				
Pooled superannuation trust	**-**	**5 759 942**	**-**	**5 759 942**
2013				
Financial Assets				
Pooled superannuation trust	-	4 883 431	-	4 883 431

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

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

Reconciliation of Level 3 net market value measurements
There were no Level 3 financial assets or liabilities for the period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

15. RELATED PARTIES

(a) Trustee

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

(b) Key Management Personnel

The Directors throughout the year ended 30 June 2014 were:

Tony Cole
Peter Cosgrove (resigned - 31 January 2014)
Peter Feltham
Nadine Flood
Lyn Gearing
Winsome Hall
Tony Hyams (Chairman - term ended 30 June 2014)
John McCullagh
Peggy O'Neal
Margaret Staib (commenced 2 May 2014)
Gabriel Szondy (term ended 30 June 2014)
Michael Vertigan

The Directors of CSC from 1 July 2014 to the date of this report were:

Tony Cole
Patricia Cross (Chairman - commenced 1 July 2014)
Christopher Ellison (commenced - 1 July 2014)
Peter Feltham
Nadine Flood
Lyn Gearing
Winsome Hall
John McCullagh
Peggy O'Neal
Margaret Staib
Michael Vertigan

In addition to the Directors listed above, the following executives of the Trustee had authority and responsibility for planning, directing and controlling the activities of the Fund throughout the year ended 30 June 2014:

Helen Ayres	Corporate Secretary
Peter Carrigy-Ryan	Chief Executive Officer
Leonie McCracken	General Manager, Operations
Bronwyn McNaughton	General Counsel
Christine Pearce	General Manager, Member & Employer Services
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance & Risk

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

15. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

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

	2014	2013
	$	$
Short-term employee benefits	**292 930**	237 194
Post-employment benefits	**30 423**	26 067
Other long-term benefits	**2 888**	3 977
	326 241	267 238

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

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

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

(d) Investing entities

Throughout the year ended 30 June 2014, the Fund's only investment has consisted of units in AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

15. RELATED PARTIES (continued)

(d) Investing entities (continued)

The Trustee pays costs of and incidental to the management of the Fund and the investment of its money from the assets of the AIT that are referable to the Fund (see Note 6(c)). No fees were charged for acting as Trustee during the year ended 30 June 2014 (2013: $nil).

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

	Net Market Value of Investment	Net Market Value of Investment	Share of Net Income/ (Loss) after tax	Share of Net Income/ (Loss) after tax
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**5 759 942**	4 883 431	**569 463**	535 538
	5 759 942	4 883 431	**569 463**	535 538

16. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Fund had no capital or other expenditure commitments at 30 June 2014 (2013: $nil).

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

There were no other contingent liabilities or contingent assets for the Fund at 30 June 2014 (2013: $nil).

17. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2014 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

12 September, 2012

MILITARY SUPERANNUATION AND BENEFITS SCHEME

SUMMARY OF THE 2011 LONG TERM COST REPORT

1. A report on the long term cost of the Military Superannuation and Benefits Scheme (MSBS), the Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Defence Forces Retirement Benefits Scheme (DFRB) was carried out using data as at 30 June 2011 by the Australian Government Actuary.

2. The MSBS is partially funded and has an underlying Government guarantee. Member contributions and the employer 3% Productivity Benefit contributions are paid into the MSBS Fund. Any MSBS benefit payment amounts not paid from Fund assets are paid from Consolidated Revenue. From 1 July 2008, following changes in the Superannuation Guarantee regime, additional employer superannuation contributions have been paid into the Ancillary Section of the MSBS in respect of allowances that are regarded as being part of Ordinary Time Earnings but are not included in the existing definition of superannuation salary. These additional contributions are payable in respect of serving ADF members in both MSBS and DFRDB. The Ancillary Section also includes salary sacrifice contributions, amounts transferred into the scheme and spouse contributions.

3. Projections of the actual annual employer costs of the MSBS, DFRDB and DFRB combined as a percentage of Gross Domestic Product (GDP) were made over a period of 40 years. These projections showed a progressive fall in the combined cost of the three schemes as a percentage of GDP. Given the underlying Government guarantee, I was therefore of the opinion that the financial position of the schemes as at 30 June 2011 was satisfactory.

4. The value of net assets of the MSBS available to pay benefits as at 30 June 2011 reported in the audited financial statements of the Fund was $3,738 million.

5. The value of accrued benefits for the MSBS using the actuarial Projected Unit Credit (PUC) methodology as at 30 June 2011 was $23.1 billion. This comprised $19.3 billion in unfunded accrued benefits and $3.7 billion in funded accrued benefits[1]. The value of accrued Benefits is the present value of the portion of projected benefit payments that had accrued in respect of membership of the MSBS to 30 June 2011. The employer component of the benefits for contributors was apportioned on the basis used to calculate accrued benefits for purposes of Australian Accounting Standard AASB 119.

6. As would be expected in a substantially unfunded arrangement, the value of total Accrued Benefits is more than the audited value of scheme assets at the same date.

7. A summary of the MSBS data used for the valuation is set out below:

   - 55,769 contributors with total superannuation salaries of $3,952m
   - 84,186 preserved beneficiaries with total nominal preserved benefits of $6,001m
   - 8,177 pensioners with total annual pensions of $201m.

[1] Due to rounding, the unfunded and funded components do not sum to the total.

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8. The major assumptions used in the calculations were as follows:

• Pension increases (CPI):	2.5% per annum (unchanged from the 2008 review)
• Interest Rate:	3.5% per annum real (unchanged from the 2008 review)
• Inflationary salary increases:	1.5% per annum real (unchanged from the 2008 review)
• Promotional salary increases:	scales based upon age and length of service
• GDP increases:	a series of rates starting at 3.6% (real) for 2011/12, falling to 3.2% (real) for 2012/13 and 2.9% (real) for 2013/14 and then gradually falling to 2.2% (real) from 2049/50 onwards.

9. The value of the vested benefits of the MSBS was not calculated as part of the 2011 Long Term Cost Report. This value is calculated separately on an annual basis for the MSBS financial statements and covers contributors, preserved members and pensioners. As at 30 June 2011, the value of vested benefits was $20.8 billion.

   It should be noted that this value of vested benefits represents the liability that would have fallen on the scheme if all members had ceased service on 30 June 2011 and elected the most costly option to the scheme. The likelihood of such an occurrence is extremely remote.

Peter Martin
Fellow of the Institute of Actuaries of Australia
Australian Government Actuary

9

PSSap financial statements

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN (ABN 65127917725)

REPORT BY THE INDEPENDENT APPROVED AUDITOR TO THE MINISTER FOR FINANCE AND MEMBERS OF THE PLAN

I have audited the financial statements of the Public Sector Superannuation Accumulation Plan for the year ended 30 June 2014 comprising the Statement of Financial Position, the Operating Statement and Statement of Cash Flows, a Summary of Principal Accounting Policies and other explanatory notes.

Trustee's Responsibility for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the form agreed with the Minister for Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of the Public Sector Superannuation Accumulation Plan and the Minister for Finance.

My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

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

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Auditor's Opinion

In my opinion:

1. the financial statements are in the form as agreed by the Minister for Finance;
2. the financial statements present fairly, in all material respects, in accordance with the Australian Accounting Standards, the financial position of the Public Sector Superannuation Accumulation Plan as at 30 June 2014 and the results of its operations and its cash flows for the year ended 30 June 2014;
3. the financial statements are based on proper accounts and records; and
4. the receipt of money into the Plan, and the payment of money out of the Plan and the investment of money standing to the credit of the Plan during the year have been in accordance with the Trust Deed.

AUSTRALIAN NATIONAL AUDIT OFFICE

Carla Jago
Executive Director

Delegate of the Auditor-General
Canberra

11 September 2014

Public Sector Superannuation Accumulation Plan (ABN 65 127 917 725)

Statement by the Trustee of the Public Sector Superannuation Accumulation Plan ('Plan')

The Board of Directors hereby states that in its opinion:

(a) the attached financial statements give a true and fair view of the matters required by Australian Accounting Standards, including AAS 25 *'Financial Reporting by Superannuation Plans'* and Schedule 1 of the *Finance Minister's Orders (Financial Statements for reporting periods ending on or after 1 July 2011) (as amended)* to the extent that the latter is not inconsistent with AAS 25;

(b) the attached financial statements give a true and fair view of the financial position as at 30 June 2014, the operating result for the year ended 30 June 2014, and the cash flows for the year ended 30 June 2014;

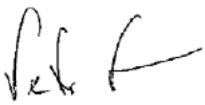
(c) at the date of this statement there are reasonable grounds to believe that the Plan will be able to pay its debts as and when they fall due;

(d) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(e) the financial statements have been prepared based on properly maintained financial records; and

(f) the operations of the Plan were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011* , the *Superannuation Act 2005,* the Trust Deed establishing the Plan, the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, and the relevant requirements of the *Corporations Act 2001* and Regulations (to the extent applicable).

Signed at Sydney this 11th day of September 2014 in accordance with a resolution of directors of Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Plan:



Patricia Cross
Chairman

Peter Feltham
Director

Public Sector Superannuation Accumulation Plan
Operating Statement
For the Year Ended 30 June 2014

	Note	2014 $'000	2013 $'000
Net investment revenue			
Interest		**3 627**	4 501
Changes in net market values	5c	**588 093**	542 082
		591 720	546 583
Contribution revenue			
Member contributions	6a	**19 875**	15 131
Employer contributions	6a	**962 672**	890 833
Transfers from other funds	6a	**242 145**	166 105
Government co-contributions	6a	**284**	878
Low income superannuation contributions	6a	**3 748**	-
		1 228 724	1 072 947
Other revenue			
Insurance proceeds		**19 794**	15 444
Other revenue		**241**	-
		20 035	15 444
Total revenue		**1 840 479**	1 634 974
Expenses			
Insurance expense		**35 609**	31 532
Other administration expenses	6c	**57**	1 607
Total expenses		**35 666**	33 139
Benefits accrued as a result of operations before income tax		**1 804 813**	1 601 835
Income tax expense	7a	**(141 020)**	(128 581)
Benefits accrued as a result of operations after income tax		**1 663 793**	1 473 254

The attached notes form part of these financial statements.

Public Sector Superannuation Accumulation Plan
Statement of Financial Position
As at 30 June 2014

	Note	2014 $'000	2013 $'000
Investments			
Pooled superannuation trust	4	**6 252 107**	4 838 896
Total investments		**6 252 107**	4 838 896
Other assets			
Cash and cash equivalents	8a	**161 277**	147 637
Sundry debtors	9	**418**	330
Deferred tax asset	7c	**404**	400
Total other assets		**162 099**	148 367
Total assets		**6 414 206**	4 987 263
Liabilities			
Benefits payable		**1 489**	1 697
Sundry payables	10	**3 021**	3 051
Current tax liabilities	7b	**140 644**	128 689
Total liabilities		**145 154**	133 437
Net assets available to pay benefits		**6 269 052**	4 853 826
Represented by:			
Liability for accrued benefits			
Allocated to members' accounts		**6 217 823**	4 827 581
Operational risk reserve	13a	**6 280**	-
Other funds not allocated to members' accounts	13b	**44 949**	26 245
Total liability for accrued benefits	12	**6 269 052**	4 853 826

The attached notes form part of these financial statements.

Public Sector Superannuation Accumulation Plan
Statement of Cash Flows
For the Year Ended 30 June 2014

	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Contributions received -			
Employer		**962 659**	890 780
Member		**19 875**	15 131
Transfers from other funds		**242 145**	166 105
Government co-contributions		**284**	878
Low income superannuation contributions		**3 748**	-
Interest received		**3 643**	4 586
Other revenue received		**241**	22
Insurance proceeds		**19 794**	15 444
Insurance expense paid		**(35 600)**	(30 710)
Other administration expenses paid		**(83)**	(1 607)
Benefits and transfers paid		**(247 499)**	(168 161)
Pensions paid		**(1 276)**	-
Income tax paid		**(129 069)**	(120 100)
Net cash inflows from operating activities	8b	**838 862**	772 368
Cash flows from investing activities			
Proceeds from sales of units in pooled superannuation trusts		**4 707 044**	97 832
Purchases of units in pooled superannuation trusts		**(5 532 266)**	(865 229)
Net cash outflows from investing activities		**(825 222)**	(767 397)
Net increase in cash held		**13 640**	4 971
Cash at the beginning of the financial year		**147 637**	142 666
Cash at the end of the financial year	8a	**161 277**	147 637

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

1. DESCRIPTION OF THE PLAN

The Public Sector Superannuation Accumulation Plan ('Plan') is a defined contribution scheme constituted by Trust Deed dated 29 June 2005 under the *Superannuation Act 2005* and is domiciled in Australia. The Trustee of the Plan is the Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243).

Administration of member records, contributions receipts and benefit payments is conducted on behalf of the Trustee by ComSuper. ComSuper has contracted Pillar Administration ('Pillar') to perform these duties.

The principal place of business and registered office of the Plan is Level 8, 121 Marcus Clarke Street, Canberra ACT 2601.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of the Plan is a general purpose financial report which has been prepared in accordance with Schedule 1 of the *Finance Minister's Orders (Financial statements for reporting periods ending on or after 1 July 2011)(as amended)* , Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993* and provisions of the Trust Deed. Accounting Standards include Australian Accounting Standards and International Financial Reporting Standards ('IFRS') to the extent that they are not inconsistent with AAS 25 *'Financial Reporting by Superannuation Plans'* . For the purposes of preparing financial statements, the Plan is a not-for-profit entity.

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

The financial statements of the Plan were authorised for issue by the Directors on 11 September 2014.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Australian Accounting Standards require disclosure of Australian Accounting Standards that have not been applied for Standards that have been issued but are not yet effective. The Trustee expects to adopt the Standards disclosed below upon their application date to the extent that they are not inconsistent with AAS 25 *'Financial Reporting by Superannuation Plans'* (noting however that AASB 1056 *'Superannuation Entities'* replaces AAS 25 *'Financial Reporting by Superannuation Plans'*). The following Standards expected to be relevant to the Plan were on issue but not yet effective at the date of authorisation of the financial report.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', **AASB 2010-7** 'Amendments to Australian Accounting Standards arising from AASB 9', **AASB 2012-6** 'Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures'	1 January 2017	30 June 2018
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (AASB 132)'	1 January 2014	30 June 2015
AASB 1031 'Materiality'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' Part B Materiality	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' Part C Financial Instruments	1 January 2015	30 June 2016
AASB 1056 'Superannuation Entities'	1 July 2016	30 June 2017

AASB 1056 *'Superannuation Entities'* was issued on 5 June 2014. It replaces AAS 25 *'Financial Reporting by Superannuation Plans'* with effect for annual reporting periods beginning on or after 1 July 2016 but can be applied earlier.

The Directors are yet to fully consider the impact of the new Standard, however it is expected to significantly impact the recognition of items in, and the presentation of, the financial statements.

With the exception of AASB 1056 *'Superannuation Entities'*, it is anticipated that adoption of these Standards will not have a material financial impact on the financial report of the Plan.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

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

Standard / Interpretation	Effective for annual reporting periods
AASB 10 'Consolidated Financial Statements' and **AASB 2011-7** 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	beginning on or after 1 January 2013
AASB 13 'Fair Value Measurement' and **2011-8** 'Amendments to Australian Accounting Standards arising from AASB 13'	beginning on or after 1 January 2013
AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities (AASB 7 & 132)'	beginning on or after 1 January 2013
AASB 12 'Disclosure of Interests in Other Entities' and **AASB 2011-7** 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	beginning on or after 1 January 2013
AASB 1048 'Interpretation of standards' (2013)	ending on or after 20 December 2013
AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments' Part A - Conceptual Framework	ending on or after 20 December 2013
AASB CF 2013-1 'Amendments to the Australian Conceptual Framework'	ending on or after 20 December 2013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

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

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

(c) Use of judgements and estimates

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented in these financial statements for the year ended 30 June 2013.

(a) Assets

Assets are included in the Statement of Financial Position at net market value as at reporting date and movements in the net market value of assets are recognised in the Operating Statement in the periods in which they occur. Net market value of investments includes a deduction for selling costs which would be expected to be incurred if the investments were sold.

Financial assets (being investments in a pooled superannuation trust, cash at bank and sundry debtors) are recognised on the date the Plan becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. From this date, any gains and losses from changes in net market value are recorded.

Net market value means the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal. As selling costs are generally immaterial, net market value approximates fair value unless otherwise stated.

Net market values have been determined as follows:

(i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the net market value of the underlying investments.

(ii) Sundry debtors are recognised at the amounts receivable. All amounts are unsecured and are subject to normal credit terms.

(b) Cash and Cash Equivalents

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

(c) Foreign Currency Translation

The Plan does not undertake transactions denominated in foreign currencies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Payables

Payables (being benefits payable and sundry payables) are recognised at their nominal value which is equivalent to net market value.

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

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

(e) Operational risk reserve

The superannuation industry wide Stronger Super reforms require trustees of all superannuation funds to establish and maintain an operational risk reserve (ORR) from 1 July 2013. The purpose of the reserve is to provide adequate financial resources to address losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Plan. The transferred assets underlying the ORR are held in separate cash options of the ARIA Investments Trust and income earned on these assets is recognised in the reserve.

(f) Derivatives

The Plan does not directly enter into derivative financial instruments.

(g) Revenue

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

Investment revenue
Interest revenue is recognised on an accrual basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Revenue (continued)

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

Contribution revenue
Employer and member contributions, transfers from other funds and superannuation co-contributions and low income superannuation contributions from the Commonwealth Government are recognised on a cash basis.

Other revenue
Insurance claim amounts on a group life policy and compensation payments from the administrator are recognised on a cash basis.

(h) Expenses

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

(i) Insurance Premiums

Death and total & permanent disability insurance premiums are charged to member accounts on a monthly basis and then remitted to the life insurer in arrears.

(j) Income Tax

Income tax on benefits accrued as a result of operations for the year comprises current and deferred tax. Income tax is recognised in the Operating Statement except to the extent that it relates to items recognised directly in members' funds.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Income Tax (continued)

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

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

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

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

Current and deferred tax for the period
Current and deferred tax for the period is recognised as an expense or benefit in the Operating Statement.

(k) Superannuation Contributions (Surcharge) Tax

Amounts paid or payable in respect of the surcharge tax are calculated by the Australian Taxation Office (ATO) and are recognised as an expense of the Plan. The expense (and any corresponding liability) is brought to account in the period in which the assessments are received by CSC and are properly payable by the Plan. All amounts paid are allocated back against the member account to which the surcharge applies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Superannuation Contributions (Surcharge) Tax (continued)

No estimate has been made for the balance of any tax payable in respect of surchargeable contributions received by the Plan during the year on transfer of member entitlements from other superannuation funds as the Trustee is unable to determine the amount until receipt of applicable assessments in the following period.

The superannuation surcharge was abolished with effect from 1 July 2005 by the passing of the *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005*. The Plan commenced on 1 July 2005, therefore surcharge assessments received by PSSap relate to surchargeable contributions transferred in from other funds.

(l) Goods and Services Tax ('GST')

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

Receivables and payables are recognised inclusive of GST.

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

4. INVESTMENTS

	2014	2013
	$'000	$'000
Pooled superannuation trust - ARIA Investments Trust	**6 252 107**	4 838 896
	6 252 107	4 838 896

5. CHANGES IN NET MARKET VALUE OF INVESTMENTS

		2014	2013
		$'000	$'000
(a)	**Investments held at 30 June:**		
	Pooled superannuation trust - ARIA Investments Trust	**565 520**	536 856
(b)	**Investments realised during the year:**		
	Pooled superannuation trust - ARIA Investments Trust	**22 573**	5 226
(c)	**Total changes in net market values of investments**	**588 093**	542 082

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS

(a) Contributions

Employer Contributions
Employers contribute at least 15.4% (2013: 15.4%) of employee's superannuation salary to the Plan, subject to superannuation law. Employers may also make salary sacrifice contributions (before tax) to the Plan on behalf of members.

Member Contributions
Members may make voluntary contributions to the Plan in the form of personal contributions (after tax).

Transferring superannuation from other funds
Money invested in other superannuation funds can be rolled over to the Plan.

Spouse Contributions
Additional contributions can be made by a spouse on behalf of a member of the Plan.

Government Co-Contributions
For the financial years ended 30 June 2014 and 30 June 2013, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

Low income superannuation contributions
The low income super contribution (LISC) is a Commonwealth Government superannuation payment of up to $500. LISC payments into the Scheme commenced during the financial year ended 30 June 2014 in respect of the 2012-13 financial year, and are recognised as revenue when received.

(b) Benefits paid

Where a member meets a condition of release and a valid application is received, the benefit is paid to the beneficiary from the Plan.

Where members invest in a standard or transition retirement income stream (pension) via the Commonwealth Superannuation Corporation retirement income product (CSCri), regular income payments are made to the member from the Plan. Standard retirement income stream members also have access to ad hoc withdrawals.

Benefits paid by the Plan during the year are as follows:

	2014	2013
	$'000	$'000
Lump sum benefits and transfers paid and payable	**247 291**	167 208
Pensions paid	**1 276**	-
Total	**248 567**	167 208

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

6. FUNDING ARRANGEMENTS (continued)

(c) Costs of Administration

	2014 $'000	2013 $'000
System and service development expenses	**-**	1 550
Other administration expenses	**57**	57
	57	1 607

System and service development expenses include the costs associated with the new MySuper product required under the Federal Government's Stronger Super measures and the provision of a retirement income product (CSCri) to members.

Other costs of and incidental to the management of the Plan and the investment of its money are charged against the assets of ARIA Investments Trust ('AIT') that are referable to the Plan. Transactions in respect of these costs have been brought to account in the financial statements of AIT. The costs of member administration are met by ComSuper.

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

	2014 $'000	2013 $'000
Investment		
Investment manager fees	**5 660**	4 883
Custodian fees	**923**	1 203
Investment consultant and other service provider fees	**709**	838
Other	**310**	188
Total direct investment expenses	**7 602**	7 112
Regulatory fees	**1 683**	1 577
General administration	**4 528**	2 992
Total costs	**13 813**	11 681

In accordance with the *ComSuper Act 2011* , ComSuper provides administrative services to the Trustee in relation to the Plan. ComSuper has contracted Pillar Administration to perform these services. The expenses of ComSuper are met by government appropriation and a share of administrative fees paid by employing agencies. The remaining share of administrative fees is paid to the Trustee to fund its costs other than those incurred in managing and investing the Plan assets. Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee and ComSuper.

Sponsoring employers contributed the following to Plan administration costs:

	2014 $'000	2013 $'000
Trustee costs	**1 154**	1 099
ComSuper costs	**11 945**	11 359
Total	**13 099**	12 458

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

7. INCOME TAX

(a) Income tax recognised in Operating Statement

	2014	2013
	$'000	$'000
Tax expense comprises:		
Current tax expense	**140 789**	128 689
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	**(4)**	(136)
Adjustments recognised in current year in relation to current tax of prior year	**235**	28
Total tax expense	**141 020**	128 581

The prima facie income tax expense on benefits accrued as a result of operations before income tax reconciles to the income tax expense in the financial statements as follows:

Benefits accrued as a result of operations before income tax	**1 804 813**	1 601 835
Income tax expense calculated at 15%	**270 722**	240 275
Add (less) permanent differences - items not assessable or deductible		
Insurance proceeds	**(2 969)**	(2 316)
Investment revenue already taxed	**(88 214)**	(81 312)
Member contributions, government co-contributions, low income superannuation contributions and transfers from other superannuation funds	**(39 131)**	(26 459)
Death benefit increase (Anti-Detriment)	**(271)**	(274)
No-TFN Tax and Offset	**680**	(1 361)
Non-assessable income	**(32)**	-
Under/(over) provision for income tax in previous year	**235**	28
Total tax expense	**141 020**	128 581

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

7. INCOME TAX (continued)

	2014	2013
	$'000	$'000
(b) Current tax balances		
Current tax payables:		
Provision for current year income tax	**140 644**	128 689
	140 644	128 689
(c) Deferred tax balances		
Deferred tax asset:		
Temporary differences	**404**	400
	404	400

Taxable and deductible temporary differences arise from the following:

2014	**Opening balance**	**Charged to income**	**Acquisition / (disposal)**	**Closing balance**
	$'000	**$'000**	**$'000**	**$'000**
Gross deferred tax assets:				
Interest receivable	**(50)**	**3**	**-**	**(47)**
Insurance premiums payable	**450**	**1**	**-**	**451**
	400	**4**	**-**	**404**

2013	Opening balance	Charged to income	Acquisition / (disposal)	Closing balance
	$'000	$'000	$'000	$'000
Gross deferred tax assets:				
Interest receivable	(63)	13	-	(50)
Insurance premiums payable	327	123	-	450
	264	136	-	400

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

8. CASH FLOW INFORMATION

	2014	2013
	$'000	$'000

(a) Reconciliation of Cash

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

Cash at bank	**161 277**	147 637

(b) Reconciliation of Benefits Accrued as a Result of Operations after Income Tax to Net Cash Inflows from Operating Activities

Benefits accrued as a result of operations after income tax	**1 663 793**	1 473 254
Less:		
Benefits and transfers paid and payable	**(247 291)**	(167 209)
Pensions paid	**(1 276)**	-
Increase in net market value of investments	**(588 093)**	(542 082)
Add back:		
(Increase)/decrease in interest receivable	**16**	85
(Increase)/decrease in deferred tax asset	**(4)**	(136)
Increase/(decrease) in benefits payable	**(208)**	(952)
Increase/(decrease) in sundry payables	**(30)**	791
Increase/(decrease) in current tax liabilities	**11 955**	8 617
Net cash inflows from operating activities	**838 862**	772 368

9. SUNDRY DEBTORS

	2014	2013
	$'000	$'000
Receivable from the ARIA Investments Trust	**104**	-
Interest receivable	**314**	330
	418	330

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

10. SUNDRY PAYABLES

	2014	2013
	$'000	$'000
Insurance premiums payable	**3 007**	2 998
Employer contributions refundable	**12**	25
Other payables	**2**	28
	3 021	3 051

11. AUDITOR'S REMUNERATION

	2014	2013
	$	$
Amounts paid or payable to the Australian National Audit Office for audit services:		
Financial statements	**48 495**	51 300
Regulatory returns	**16 470**	1 350
Prudential standards	**26 535**	1 350
Total	**91 500**	54 000

The audits were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the ARIA Investments Trust that are referable to the Plan.

Deloitte Touche Tohmatsu are contracted by the ANAO to provide audit services on its behalf. Fees for those services are included above.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

12. LIABILITY FOR ACCRUED BENEFITS

The liability for accrued benefits is the Plan's present obligation to pay benefits to members and beneficiaries and has been calculated as the difference between the total assets and total liabilities as at year-end.

	2014	2013
	$'000	$'000
Liability for accrued benefits at beginning of the year	**4 853 826**	3 547 780
Add:		
Benefits accrued as a result of operations after income tax	**1 663 793**	1 473 254
Less:		
Benefits and transfers paid and payable	**(247 291)**	(167 208)
Pensions paid	**(1 276)**	-
Net change	**1 415 226**	1 306 046
Liability for accrued benefits at the end of the year	**6 269 052**	4 853 826

13. FUNDS NOT ALLOCATED TO MEMBER ACCOUNTS

	2014	2013
	$'000	$'000
(a) Operational Risk Reserve		
Opening balance	**-**	-
Transfers to reserve	**6 220**	-
Earnings on reserve	**60**	-
Closing balance	**6 280**	-
(b) Other Funds Not Allocated to Members' Accounts		
Employer contributions (net of contributions tax) and member transfers received prior to year-end but not allocated at balance date	**5 219**	2 787
Valuation differences between unit pricing and financial statements	**26 004**	13 708
Bank interest	**14 584**	14 963
Other	**(858)**	(5 213)
	44 949	26 245

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

14. GUARANTEED BENEFITS

No guarantees have been made in respect of any part of the liability for accrued benefits.

15. VESTED BENEFITS

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

The vested benefits amount is made up of:

	2014	2013
	$'000	$'000
Members' account balances at 30 June	**6 217 823**	4 827 581
Employer contributions (net of contributions tax) and member transfers received prior to year-end but not allocated at balance date	**5 219**	2 787
Vested benefits	**6 223 042**	4 830 368
Net assets available to pay benefits	**6 269 052**	4 853 826

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS

(a) Financial instruments management

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

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

(b) Significant accounting policies

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

(c) Capital risk management

The RSE licence of the Trustee of the Plan requires the Trustee to maintain a balance of at least $100 000 at all times in an administration reserve account until the operational risk reserve target amount is met. This is required to be maintained in cash or cash equivalents. The Trustee was in compliance with this requirement throughout the year.

(d) Categories of financial instruments

The financial assets and liabilities of the Plan are recognised at net market value as at the reporting date. Net market value approximates fair value less costs of realisation of investments. The cost of realisation of investments is minimal and therefore net market value that is carrying value approximates fair value. Changes in net market value are recognised in the Operating Statement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives

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

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

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

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

(f) Credit risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk (continued)

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within AIT exceeded 5% of net assets of that trust at 30 June 2014 or 30 June 2013.

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

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

	2014	2013
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**6 252 107**	4 838 896
Other financial assets		
Cash and cash equivalents	**161 277**	147 637
Sundry debtors	**418**	330
Total financial assets	**6 413 802**	4 986 863

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

(g) Liquidity risk

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

The Trustee's approach to managing liquidity is to ensure that the Plan will always have sufficient liquidity to meet its liabilities and member withdrawals. The Plan allows members to withdraw benefits, and it is therefore exposed to the liquidity risk of meeting member withdrawals at any time. The Plan has a high level of net inward cash flows through new contributions which provide capacity to manage liquidity risk. The Trustee undertakes forecasting and scenario testing of the cashflow requirements of the Plan to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk (continued)

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

The following tables summarise the maturity profile of the Plan's financial liabilities. Vested benefits have been included in the less than three months column, as this is the amount that members could call upon as at reporting date. This is the earliest date on which the Plan can be required to pay members' vested benefits. However, members may not necessarily call upon amounts vested to them during this time. The tables have been drawn up based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Plan can be required to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months $'000	**3 months to 1 year $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**
30 June 2014					
Benefits payable	**1 489**	**-**	**-**	**-**	**1 489**
Sundry payables	**3 021**	**-**	**-**	**-**	**3 021**
Vested benefits	**6 223 042**	**-**	**-**	**-**	**6 223 042**
Total financial liabilities	**6 227 552**	**-**	**-**	**-**	**6 227 552**
30 June 2013					
Benefits payable	1 697	-	-	-	1 697
Sundry payables	3 051	-	-	-	3 051
Vested benefits	4 830 367	-	-	-	4 830 367
Total financial liabilities	4 835 115	-	-	-	4 835 115

There has been no change to the Plan's exposure to liquidity risk or the management and measurement of that risk during the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(h) Market risk

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

There has been no change to the Plan's exposure to market risk or the manner in which it manages and measures the risk since the 2013 reporting period.

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

The Plan does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of AIT, relating to emerging markets, may remain unhedged due to lack of suitable currency instruments for hedging.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

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

The Plan is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits, taxation and insurance payments. All holdings at 30 June 2014 and 30 June 2013 had a maturity profile of less than one month.

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

The following table illustrates the Plan's sensitivity to a 0.6% p.a. increase or decrease in interest rates (2013: 1.2%), based on cash balances directly held at reporting date. This represents an assessment of the reasonably possible change in interest rates as at that date. Had interest rates been lower or higher by 0.6% at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as demonstrated:

	Carrying amount $'000	Interest rate risk $' 000			
		Benefits accrued	Net assets available to pay benefits	Benefits accrued	Net assets available to pay benefits
2014		-0.6%		+0.6%	
Cash and cash equivalents	161 277	(968)	(968)	968	968
2013		-1.2%		+1.2%	
Cash and cash equivalents	147 637	(1 772)	(1 772)	1 772	1 772

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

The Plan's investment in AIT is exposed to market price risk in respect of the latter's holdings of equity securities, unit trusts and pooled superannuation trusts. As the investment in AIT is carried at net market value with changes in net market value recognised in the Operating Statement, all changes in market conditions will directly affect the Plan's net investment income. In its capacity as trustee of AIT, the Trustee manages the market price risk arising from these investments by diversifying the portfolio in accordance with its investment strategy.

The following table illustrates the Plan's sensitivity to a reasonably possible change in the value of its investment in AIT, based on risk exposures at reporting date. The volatility factors represent the average annual historical volatility in the investment option unit prices. For the Cash Option and the investments backing the operational risk reserve a factor of 0.6% (2013: 1.2%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at the reporting date, and all other variables were held constant, the financial result would have improved/ (deteriorated) as follows:

Financial Assets ARIA Investments Trust:	Change in price	Carrying amount $'000	Price risk $' 000			
			Benefits accrued	Net assets available to pay benefits	Benefits accrued	Net assets available to pay benefits
2014						
Balanced	-/+4.1%	8 284	(340)	(340)	340	340
Aggressive	-/+10.3%	251 264	(25 880)	(25 880)	25 880	25 880
Cash	-/+0.6%	89 932	(540)	(540)	540	540
Income Focused	-/+3%	97 399	(2 922)	(2 922)	2 922	2 922
MySuper Balanced	-/+6.7%	5 753 060	(385 455)	(385 455)	385 455	385 455
CSCri Cash	-/+0.6%	2 748	(16)	(16)	16	16
CSCri Aggressive	-/+11.4%	5 050	(576)	(576)	576	576
CSCri Balanced	-/+7.3%	17 097	(1 248)	(1 248)	1 248	1 248
CSCri Income Focused	-/+3.4%	21 097	(717)	(717)	717	717
Operational risk reserve options	-/+0.6%	6 176	(37)	(37)	37	37
Total		6 252 107	(417 731)	(417 731)	417 731	417 731

On 1 July 2013, the Trustee Choice investment option was renamed MySuper Balanced to reflect the offering of a MySuper product, and the Conservative option was renamed Income Focused to better reflect the underlying objectives of the option.

The Government Bonds, International Shares, International Shares (Unhedged), Australian Shares, Property and Sustainable investment options were closed during the year. At the time of closure, funds held in the closing investment options were transferred into the PSSap MySuper Balanced option.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

Financial Assets ARIA Investments Trust:	Change in price	Carrying amount $'000	Price risk $' 000			
			Benefits accrued	Net assets available to pay benefits	Benefits accrued	Net assets available to pay benefits
2013						
Balanced	-/+4%	80 143	(3 206)	(3 206)	3 206	3 206
Aggressive	-/+11%	124 277	(13 671)	(13 671)	13 671	13 671
Australian Shares	-/+18%	66 827	(12 029)	(12 029)	12 029	12 029
Cash	-/+1.2%	89 330	(1 072)	(1 072)	1 072	1 072
Conservative	-/+3%	70 878	(2 126)	(2 126)	2 126	2 126
International Shares Hedged	-/+15%	9 546	(1 432)	(1 432)	1 432	1 432
International Shares Unhedged	-/+15%	7 511	(1 127)	(1 127)	1 127	1 127
Government Bonds	-/+4%	22 228	(889)	(889)	889	889
Property	-/+4%	41 980	(1 679)	(1 679)	1 679	1 679
Sustainable	-/+17%	13 747	(2 337)	(2 337)	2 337	2 337
Trustee Choice	-/+7%	4 311 907	(301 834)	(301 834)	301 834	301 834
CSCri Cash	-/+1.2%	47	(1)	(1)	1	1
CSCri Aggressive	-/+11%	176	(19)	(19)	19	19
CSCri Balanced	-/+4%	141	(6)	(6)	6	6
CSCri Income Focused	-/+3%	158	(5)	(5)	5	5
Total		4 838 896	(341 433)	(341 433)	341 433	341 433

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

The Plan's financial instruments are included in the Statement of Financial Position at net market value that approximates fair value. The net market value is determined per accounting policies in Note 3(a).

Net market value measurements recognised in the Statement of Financial Position
The following table provides an analysis of the Plan's financial instruments whereby the assets and liabilities are each grouped into one of three categories based on the degree to which their method of valuation is observable.

Level 1: net market value measurements are those derived from quoted prices in active markets.

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2014				
Financial Assets				
Pooled superannuation trust	**-**	**6 252 107**	**-**	**6 252 107**
2013				
Financial Assets				
Pooled superannuation trust	-	4 838 896	-	4 838 896

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

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

Reconciliation of Level 3 net market value measurements
There were no Level 3 financial assets or liabilities for the period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

17. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. No fees were charged by CSC for acting as Trustee of the Plan during the reporting period.

(b) Key Management Personnel

The Directors of CSC throughout the year ended 30 June 2014 were:

Tony Cole
Peter Cosgrove (resigned 31 January 2014)
Peter Feltham
Nadine Flood
Lyn Gearing
Winsome Hall
Tony Hyams (Chairman - term ended 30 June 2014)
John McCullagh
Peggy O'Neal
Margaret Staib (commenced 2 May 2014)
Gabriel Szondy (term ended 30 June 2014)
Michael Vertigan

The Directors of CSC from 1 July 2014 to the date of this report were:

Tony Cole
Patricia Cross (Chairman - commenced 1 July 2014)
Christopher Ellison (commenced 1 July 2014)
Peter Feltham
Nadine Flood
Lyn Gearing
Winsome Hall
John McCullagh
Peggy O'Neal
Margaret Staib
Michael Vertigan

In addition to the Directors listed above, the following executives of the Trustee had authority and responsibility for planning, directing and controlling the activities of the Plan throughout the year ended 30 June 2014:

Helen Ayres	Corporate Secretary
Peter Carrigy-Ryan	Chief Executive Officer
Leonie McCracken	General Manager, Operations
Bronwyn McNaughton	General Counsel
Christine Pearce	General Manager, Member & Employer Services
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance & Risk

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

17. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

The aggregate compensation of the key management personnel in relation to the Plan is set out below:

	2014	2013
	$	$
Short-term employee benefits	**305 850**	223 912
Post-employment benefits	**31 765**	24 608
Other long-term benefits	**3 015**	3 754
	340 630	252 274

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

The compensation of key management personnel (including Directors) related to investment management is charged against the assets of the ARIA Investments Trust that are referable to the Plan.

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

(d) Investing entities

Throughout the year ended 30 June 2014, the Plan's only investment consisted of units in AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

17. RELATED PARTIES (continued)

(d) Investments (continued)

The Trustee pays costs of and incidental to the management of the Plan and the investment of its money from the assets of the ARIA Investments Trust that are referable to the Plan (Note 6(c)). No fees were charged for acting as Trustee during the year ended 30 June 2014 (2013: $nil).

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

	Net Market Value of Investment	Net Market Value of Investment	Share of Net Income after tax	Share of Net Income after tax
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**6 252 107**	4 838 896	**588 093**	542 082
	6 252 107	4 838 896	**588 093**	542 082

18. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Plan had no capital or other expenditure commitments at 30 June 2014 (2013: $nil).

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

There were no other contingent liabilities or contingent assets as at the reporting date (2013: $nil).

19. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2014 that have materially affected, or may materially affect, the operations of the Plan, the results of those operations, or the financial position of the Plan in future financial years.

10

CSC financial statements

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Commonwealth Superannuation Corporation for the year ended 30 June 2014, which comprise: a Statement by the Directors, Chief Executive and Chief Financial Officer; the Statement of Comprehensive Income; Statement of Financial Position; Statement of Changes in Equity; Statement of Cash Flows; Schedule of Commitments and Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors of the Commonwealth Superannuation Corporation are responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commonwealth Superannuation Corporation's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth Superannuation Corporation's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

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

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Commonwealth Superannuation Corporation:

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards; and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Commonwealth Superannuation Corporation's financial position as at 30 June 2014 and of its financial performance and cash flows for the year then ended.

AUSTRALIAN NATIONAL AUDIT OFFICE

Carla Jago
Executive Director

Delegate of the Auditor-General

Canberra

11 September 2014

Commonwealth Superannuation Corporation

STATEMENT BY THE DIRECTORS, CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2014 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, as amended.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Authority will be able to pay its debts as and when they become due and payable.

This statement is made in accordance with a resolution of the directors.

Signed.....	Signed.....	Signed.....
Patricia Cross Chairman	Peter Carrigy-Ryan Chief Executive Officer	Andy Young General Manager, Finance & Risk
11 September 2014	11 September 2014	11 September 2014

Commonwealth Superannuation Corporation

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
EXPENSES			
Employee benefits	3A	**807**	797
Suppliers	3B	**6,946**	7,495
Total expenses		**7,753**	8,292
LESS:			
OWN-SOURCE INCOME			
Own-source revenue			
Sale of goods and rendering of services	4A	**8,412**	8,249
Interest	4B	**194**	216
Total own-source revenue		**8,606**	8,465
Net contribution by services		**853**	173
Surplus for the period		**853**	173
Other comprehensive income		**-**	-
Total comprehensive income		**853**	173

The above statement should be read in conjunction with the accompanying notes.

Commonwealth Superannuation Corporation

STATEMENT OF FINANCIAL POSITION
as at 30 June 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	**7,870**	7,879
Trade and other receivables	5B	**189**	495
Total financial assets		**8,059**	8,374
Total assets		**8,059**	8,374
LIABILITIES			
Payables			
Suppliers	6A	**1,312**	1,995
Other	6B	**673**	1,158
Total payables		**1,985**	3,153
Total liabilities		**1,985**	3,153
Net assets		**6,074**	5,221
EQUITY			
Contributed equity		**2,324**	2,324
Retained surplus		**3,750**	2,897
Total equity		**6,074**	5,221

The above statement should be read in conjunction with the accompanying notes.

Commonwealth Superannuation Corporation

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2014

	Retained surplus		Asset revaluation reserve		Contributed equity/capital		Total equity	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance								
Balance carried forward from previous period	**2,897**	2,213	**-**	511	**2,324**	2,324	**5,221**	5,048
Adjusted opening balance	**2,897**	2,213	**-**	511	**2,324**	2,324	**5,221**	5,048
Comprehensive income								
Surplus for the period	**853**	173	**-**	-	**-**	-	**853**	173
Other comprehensive income	**-**	-	**-**	-	**-**	-	**-**	-
Total comprehensive income	**853**	173	**-**	-	**-**	-	**853**	173
Transfer to retained earnings on sale of assets	**-**	511	**-**	(511)	**-**	-	**-**	-
Closing balance as at 30 June	**3,750**	2,897	**-**	-	**2,324**	2,324	**6,074**	5,221

The above statement should be read in conjunction with the accompanying notes.

Commonwealth Superannuation Corporation

CASH FLOW STATEMENT
for the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
OPERATING ACTIVITIES			
Cash received			
Sale of goods and rendering of services		**8,245**	9,397
Interest		**181**	216
Total cash received		**8,426**	9,613
Cash used			
Employee benefits		**807**	797
Suppliers		**7,628**	5,888
Total cash used		**8,435**	6,685
Net cash from / (used by) operating activities	7	**(9)**	2,928
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of net assets transferred to ARIA Investments Trust		**-**	179
Total cash received		**-**	179
Net cash received from / (used by) investing activities		**-**	179
Net increase / (decrease) in cash held		**(9)**	3,107
Cash and cash equivalents at the beginning of the reporting period		**7,879**	4,772
Cash and cash equivalents at the end of the reporting period	5A	**7,870**	7,879

The above statement should be read in conjunction with the accompanying notes.

Commonwealth Superannuation Corporation

SCHEDULE OF COMMITMENTS
as at 30 June 2014

	2014	2013
BY TYPE	**$'000**	$'000
Commitments receivable		
Net GST recoverable on commitments [1]	**784**	916
Total commitments receivable	**784**	916
Commitments payable		
Other commitments		
Operating leases [2]	**8,620**	10,072
Total other commitments	**8,620**	10,072
Net commitments by type	**7,836**	9,156
BY MATURITY		
Commitments payable		
Operating lease commitments		
One year or less	**1,060**	1,320
From one to five years	**5,730**	5,239
Over five years	**1,046**	2,597
Total operating lease commitments	**7,836**	9,156
Net commitments by maturity	**7,836**	9,156

1. Commitments payable are GST inclusive.
2. Operating leases included are non-cancellable in the normal course of business.

The nature of other commitments relates to the leases for office accommodation.

The entity in its capacity as a lessee has leases for office accommodation in Canberra and Sydney. Lease payments are subject to annual increases of the higher of 3.25% or upwards movements in the Consumer Price Index in Canberra, and 4% fixed rate annual increases in Sydney. The initial period of the Canberra office lease is still current and may be renewed by two further terms of 3 years. The Sydney office lease is due to expire on 31 December 2014. A new lease has been entered into, commencing 1 January 2015, with no further option for renewal.

The above schedule should be read in conjunction with the accompanying notes.

Commonwealth Superannuation Corporation

Note 1: Summary of Significant Accounting Policies

1.1 Objective of the entity

The objective of Commonwealth Superannuation Corporation ('CSC') (ABN 48 882 817 243) is to provide retirement benefits for past, present and future Australian Government employees and members of the Australian Defence Force, as trustee of their superannuation funds and schemes.

CSC is responsible for the administration of the Public Sector Superannuation Scheme ('PSS'), the Commonwealth Superannuation Scheme ('CSS'), the Public Sector Superannuation Accumulation Plan ('PSSap'), the Military Superannuation and Benefits Scheme ('MSBS'), the Defence Force Retirement and Death Benefits Scheme ('DFRDB'), the Defence Force Retirement Benefits Scheme ('DFRB'), the Defence Force (Superannuation) (Productivity Benefit) Scheme ('DFSPB'), the Papua New Guinea Scheme ('PNG') and the 1922 Scheme, collectively referred to as 'the Schemes'.

The Schemes invest solely through the ARIA Investments Trust - a pooled superannuation trust under CSC's trusteeship - which facilitates access to a broad range of underlying securities across various asset classes on an efficient and cost-effective basis.

CSC's sole source of income is from external sources, and therefore no direct appropriations are included.

CSC's activities are funded in part through a share of the scheme administration charges collected by ComSuper from employers participating in PSS, CSS and PSSap, and in part through negotiated administration charges collected by ComSuper from the Department of Defence. Additional funding may be provided by Government to meet specific administration requirements. No such monies were received during the financial year.

All CSC's operating expenses are paid by the ARIA Investments Trust (AIT) other than:
- premises lease payments
- trustee director expenses (other than the Chairman's expenses, which by law are paid by the Schemes).

The AIT invoices CSC for the share of those expenses that relate to Scheme administration as a service fee. Similarly, CSC invoices the AIT for the share of premises lease payments and trustee director expenses that relate to the management and investment of Scheme funds.

CSC also receives revenue and pays expenses relating to the administration of the retirement income (CSCri) and ancillary products of the PSSap Plan.

Commonwealth Superannuation Corporation

Note 1: Summary of Significant Accounting Policies (continued)

1.1 Objective of the entity (continued)

As defined by the Portfolio Budget Statements, CSC is structured to meet the following sole outcome:

> Outcome 1: Retirement benefits for past, present and future Australian Government employees and members of the Australian Defence Force through investment and administration of their superannuation funds and schemes.

The continued existence of the entity in its present form and with its present programs is dependent on Government policy and on continuing funding by Parliament for the entity's administration and programs. On 13 May 2014 the Government announced its intention to merge ComSuper into CSC from 1 July 2015 and to close the Military Superannuation and Benefits Scheme (MSBS) to new members from 1 July 2016. A new accumulation plan, Australian Defence Force (ADF) Super, is intended to commence on 1 July 2016.

1.2 Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997*.

The financial statements have been prepared in accordance with:

a) Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2011 (as amended); and
b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accruals basis and in accordance with the historical cost convention. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Commonwealth Superannuation Corporation

Note 1: Summary of Significant Accounting Policies (continued)

1.2 Basis of Preparation of the Financial Statements (continued)

Unless an alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow to the entity or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under executor contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the schedule of commitments.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Statement of Comprehensive Income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Significant Accounting Judgements and Estimates

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

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

No accounting assumptions and estimates have been identified that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period.

Commonwealth Superannuation Corporation

Note 1: Summary of Significant Accounting Policies (continued)

1.4 New Australian Accounting Standards

Adoption of New Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

The following amending standards that were issued prior to the sign-off date were applicable to the current reporting period and did not have a financial impact and are not expected to have a future financial impact on the entity:

	Effective for annual reporting periods	Application date
AASB 13 'Fair Value Measurement' and **2011-8** 'Amendment to Australian Accounting Standards arising from AASB 13'	beginning on or after 1 January 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities (AASB 7 & 132)'	beginning on or after 1 January 2013	30 June 2014
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	beginning on or after 1 January 2013	30 June 2014
AASB 119 'Employee Benefits': **AASB 2011-10** 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	beginning on or after 1 January 2013	30 June 2014
AASB 1048 'Interpretation of standards' (2013)	ending on or after 20 December 2013	30 June 2014
AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments' Part A - Conceptual Framework	ending on or after 20 December 2013	30 June 2014
AASB CF 2013-1 'Amendments to the Australian Conceptual Framework'	ending on or after 20 December 2013	30 June 2014

Commonwealth Superannuation Corporation

Note 1: Summary of Significant Accounting Policies (continued)

1.4 New Australian Accounting Standards (continued)

Future Australian Accounting Standard Requirements

The following new standards, revised standards, interpretations or amending standards were issued by the Australian Accounting Standards Board prior to the sign-off date and are not expected to have a financial impact on the entity for future reporting periods (although existing disclosures may be impacted):

	Effective for annual reporting periods beginning on or after	Application date
AASB 9 'Financial Instruments', **AASB 2010-7** 'Amendments to Australian Accounting Standards arising from AASB 9.' **AASB 2012-6** 'Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures'	1 January 2017	30 June 2018
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities' **(AASB 132)**	1 January 2014	30 June 2015
AASB 1031 'Materiality'	1 January 2014	30 June 2015
AASB 1055 'Budgetary Reporting'	1 July 2014	30 June 2015
AASB 2013-1 'Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements'	1 July 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments' Part B Materiality	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments' Part C Financial Instruments	1 January 2015	30 June 2016

1.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Where revenue is received but not earned, it shall be shown as the liability 'unearned revenue'.

Revenue from interest

Interest revenue is recognised using the effective interest method as set out in *AASB 139 Financial Instruments: Recognition and Measurement.*

Revenue from rendering of services

CSC receives a share of administration fees collected by ComSuper from participating employer contributors to the Schemes. CSC also receives revenue relating to the administration of the retirement income (CSCri) and ancillary products of the PSSap Plan. Any revenue due but not received by balance date is reflected in the Statement of Financial Position as a receivable.

Commonwealth Superannuation Corporation

Note 1: Summary of Significant Accounting Policies (continued)

1.5 Revenue (continued)

Revenue from Government

CSC may receive supplementary funding from Government from time to time to meet specific administration needs. Any such funding is recognised as revenue in the period specified by the funding arrangement.

1.6 Transactions with the Government as Owner

Equity Injections

Amounts that are designated as equity injections for a year are recognised directly in contributed equity in that year.

1.7 Employee Benefits

Amounts disclosed for employee benefits represent trustee directors' benefits only, as all other staff are employed by the AIT.

Leave

No leave liabilities are provided for as CSC's directors are not entitled to annual, long service or sick leave.

Superannuation

CSC's directors are members of various superannuation schemes including PSS and PSSap.

The PSS is a defined benefit scheme for Australian Government employees.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance as an administered item. CSC makes employer contributions to the PSS at rates determined by an actuary to be sufficient to meet the current cost to the Government and accounts for the contributions as if they were contributions to a defined contribution plan.

The PSSap is a defined contribution scheme for Australian Government employees.

Commonwealth Superannuation Corporation

Note 1: Summary of Significant Accounting Policies (continued)

1.8 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

1.9 Cash

Cash is recognised at its nominal amount. Cash and cash equivalents includes:

a) cash on hand; and
b) demand deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

1.10 Financial Assets

CSC classifies its financial assets as loans and receivables.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets that are recognised at fair value through profit or loss.

Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of Financial Assets

Financial assets are assessed for impairment at the end of each reporting period.

Financial assets held at amortised cost - if there is objective evidence that an impairment loss has been incurred for loans and receivables held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement of Comprehensive Income.

Commonwealth Superannuation Corporation

Note 1: Summary of Significant Accounting Policies (continued)

1.11 Financial Liabilities

Financial liabilities are classified as other financial liabilities. Financial liabilities are recognised and derecognised upon 'trade date'.

Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

1.12 Taxation

Under its legislation, the Income Tax Act is applicable to CSC, however in the normal course of its activities CSC does not derive assessable income under that Act. CSC is liable for Goods and Services Tax (GST) and Fringe Benefits Tax (FBT).

Revenues, expenses and assets are recognised net of GST except:

a) where the amount of GST incurred is not recoverable from the Australian Taxation Office; and

b) for receivables and payables.

Commonwealth Superannuation Corporation

Note 2: Events After the Reporting Period

There was no subsequent event that had the potential to significantly affect the ongoing structure and financial activities of Commonwealth Superannuation Corporation.

Commonwealth Superannuation Corporation

Note 3: Expenses

	2014 $'000	2013 $'000
Note 3A: Employee Benefits		
Wages and salaries	**706**	711
Superannuation:		
Defined contribution plans	**61**	59
Defined benefit plans	**40**	27
Total employee benefits	**807**	797
Note 3B: Suppliers		
Services rendered:		
Consultants	**24**	73
Contractors	**5,843**	5,887
Total services rendered	**5,867**	5,960
Services rendered in connection with:		
External Parties	**5,867**	5,960
Total services rendered	**5,867**	5,960
Other supplier expenses		
Operating lease rentals in connection with:		
External parties		
Minimum lease payments	**1,079**	1,535
Total other supplier expenses	**1,079**	1,535
Total supplier expenses	**6,946**	7,495

Commonwealth Superannuation Corporation

Note 4: Income

Own-Source Revenue	**2014 $'000**	2013 $'000
Note 4A: Sale of Goods and Rendering of Services		
Rendering of services in connection with:		
Related parties	**5,904**	5,926
External parties	**2,508**	2,323
Total sale of goods and rendering of services	**8,412**	8,249
Note 4B: Interest		
Deposits	**194**	216
Total interest	**194**	216

Commonwealth Superannuation Corporation

Note 5: Financial Assets

	2014 $'000	2013 $'000
Note 5A: Cash and Cash Equivalents		
Cash on hand or on deposit	**7,870**	7,879
Total cash and cash equivalents	**7,870**	7,879
Note 5B: Trade and Other Receivables		
Goods and Services receivables in connection with:		
External parties	**9**	-
Total goods and services receivables	**9**	-
Other receivables:		
GST receivable	**167**	495
Interest receivable	**13**	-
Total other receivables	**180**	495
Total trade and other receivables (net)	**189**	495
Receivables are expected to be recovered in:		
No more than 12 months	**189**	495
Total trade and other receivables (net)	**189**	495
Receivables are aged as follows:		
Not overdue	**189**	495
Total trade and other receivables (net)	**189**	495

Commonwealth Superannuation Corporation

Note 6: Payables

	2014 $'000	2013 $'000
Note 6A: Suppliers		
Trade creditors and accruals	**1,312**	1,995
Total supplier payables	**1,312**	1,995
Supplier payables expected to be settled:		
No more than 12 months	**1,312**	1,995
Total supplier payables	**1,312**	1,995
Supplier payables in connection with:		
External parties	**1,312**	1,995
Total supplier payables	**1,312**	1,995
Note 6B: Other Payables		
Unearned income	**-**	363
Lease liabilities	**673**	795
Total other payables	**673**	1,158
Other payables expected to be settled:		
No more than 12 months	**166**	485
More than 12 months	**507**	673
Total other payables	**673**	1,158

Commonwealth Superannuation Corporation

Note 7: Cash Flow Reconciliation

	2014	2013
	$'000	$'000
Reconciliation of cash and cash equivalents as per Statement of Financial Position to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash Flow Statement	**7,870**	7,879
Statement of Financial Position	**7,870**	7,879
Difference	**-**	-
Reconciliation of net contribution by services to net cash from operating activities:		
Net contribution by services	**853**	173
Changes in assets / liabilities		
(Increase) / decrease in trade and other receivables	**306**	655
Increase / (decrease) in supplier payables	**(683)**	1,954
Increase / (decrease) in other payables	**(485)**	246
Increase / (decrease) in provisions	**-**	(100)
Net cash from / (used by) operating activities	**(9)**	2,928

Commonwealth Superannuation Corporation

Note 8: Contingent Liabilities and Assets

Quantifiable Contingencies

CSC has no quantifiable contingent liabilities or assets as at 30 June 2014 (2013: Nil).

Unquantifiable Contingencies

CSC has no unquantifiable contingent liabilities or assets as at 30 June 2014 (2013: Nil).

Significant Remote Contingencies

CSC has no remote contingent liabilities or assets as at 30 June 2014 (2013: Nil).

Commonwealth Superannuation Corporation

Note 9: Directors Remuneration

	2014 No.	2013 No.
The remuneration of non-executive directors of the entity is shown below in the relevant remuneration bands:		
$0 to $29,999	**1**	-
$30,000 to $59,999	**1**	-
$60,000 to $89,999	**8**	10
$90,000 to $119,999	**1**	-
$120,000 to $149,999	**1**	1
Total	**12**	11
	$	$
Total remuneration received or due and receivable by directors of the entity	**919,187**	902,938

The Directors of CSC throughout the year ended 30 June 2014 were:

Tony Cole
Peter Cosgrove (resigned 31 January 2014)
Peter Feltham
Nadine Flood
Lyn Gearing
Winsome Hall
Tony Hyams (Chairman - term ended 30 June 2014)
John McCullagh
Peggy O'Neal
Margaret Staib (commenced 2 May 2014)
Gabriel Szondy (term ended 30 June 2014)
Michael Vertigan

The Directors of CSC from 1 July 2014 to the date of this report were:

Tony Cole
Patricia Cross (Chairman - commenced 1 July 2014)
Christopher Ellison (commenced 1 July 2014)
Peter Feltham
Nadine Flood
Lyn Gearing
Winsome Hall
John McCullagh
Peggy O'Neal
Margaret Staib
Michael Vertigan

Commonwealth Superannuation Corporation

Note 10: Senior Executive Remuneration

CSC's staff are employed by CSC as trustee for the AIT. Employee expenses are initially paid by the AIT, and the AIT invoices CSC for the share of those expenses that relate to Scheme administration as a service fee. The following notes disclose the total remuneration of CSC's employees regardless of which entity bears the expense.

Note 10A: Senior Executive Remuneration Expenses for the Reporting Period

	2014	2013
	$	$
Short-term employee benefits:		
Salary	**2,068,308**	1,998,920
Performance bonuses	**975,725**	443,980
Motor vehicle and other	**-**	628
Total short-term employee benefits	**3,044,033**	2,443,528
Post-employment benefits:		
Superannuation	**289,106**	253,533
Total post-employment benefits	**289,106**	253,533
Other long-term benefits:		
Annual leave accrued/(used)	**(8,072)**	21,255
Long service leave	**46,048**	33,123
Total other long-term benefits	**37,976**	54,378
Total Senior Executive Remuneration Expenses	**3,371,115**	2,751,439

Notes:

1. Note 10A is prepared on an accrual basis.
2. Note 10A excludes acting arrangements and part-year service where remuneration expensed was less than $195,000.

The following Executives of CSC had authority and responsibility for planning, directing and controlling the activity of the entity throughout the year ended 30 June 2014:

Helen Ayres	Corporate Secretary
Peter Carrigy-Ryan	Chief Executive Officer
Leonie McCracken	General Manager, Operations
Bronwyn McNaughton	General Counsel
Christine Pearce	General Manager, Member & Employer Services
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance & Risk

Commonwealth Superannuation Corporation

Note 10B: Average Annual Reportable Remuneration Paid to Substantive Senior Executives during the Reporting Period

Average annual reportable remuneration[1]	2014 Senior Executives No.	Reportable salary[2] $	Contributed superannuation[3] $	Reportable allowances[4] $	Bonus paid[5] $	Total
Total reportable remuneration (including part-time arrangements):						
$225,000 to $254,999	**1**	**146,988**	**32,322**	**-**	**52,745**	**232,055**
$285,000 to $314,999	**1**	**198,673**	**24,948**	**-**	**67,056**	**290,677**
$315,000 to $344,999	**3**	**221,604**	**42,099**	**-**	**64,733**	**328,436**
$615,000 to $644,999	**1**	**412,631**	**80,539**	**-**	**137,404**	**630,574**
$1,095,000 to $1,124,999	**1**	**557,355**	**25,000**	**-**	**524,120**	**1,106,475**
Total	**7**					

Average annual reportable remuneration[1]	2013 Senior Executives No.	Reportable salary[2] $	Contributed superannuation[3] $	Reportable allowances[4] $	Bonus paid[5] $	Total
Total reportable remuneration (including part-time arrangements):						
$195,000 to $224,999	2	158,693	28,496	-	27,652	214,841
$225,000 to $254,999	1	205,228	24,772	-	-	230,000
$255,000 to $284,999	1	193,392	31,417	-	28,350	253,159
$285,000 to $314,999	1	231,685	35,436	-	36,170	303,291
$555,000 to $584,999	1	417,633	79,915	399	69,090	567,037
$825,000 to $854,999	1	557,003	25,000	-	255,067	837,069
Total	**7**					

Notes:

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.

2. 'Reportable salary' includes the following:
   a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
   b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
   c) reportable employer superannuation contributions.

3. The 'contributed superannuation' amount is the average cost to the entity for the provision of superannuation benefits to substantive senior executives in that reportable remuneration band during the reporting period.

4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.

5. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as performance and individuals commencing with or leaving the entity during the financial year.

Commonwealth Superannuation Corporation

Note 10C: Average Annual Reportable Remuneration Paid to Other Highly Paid Staff during the Reporting Period

Average annual reportable remuneration[1]	Staff No.	Reportable salary[2] $	Contributed superannuation[3] $	Reportable allowances[4] $	Bonus paid[5] $	Total $
	2014					
Total reportable remuneration (including part-time arrangements):						
$195,000 to $224,999	**4**	**163,345**	**27,257**	**114**	**28,342**	**219,058**
$225,000 to $254,999	**3**	**171,750**	**26,825**	**111**	**34,548**	**233,234**
$255,000 to $284,999	**2**	**187,628**	**32,753**	**-**	**52,601**	**272,982**
$285,000 to $314,999	**1**	**217,063**	**22,499**	**-**	**63,094**	**302,656**
$345,000 to $374,999	**1**	**264,107**	**20,020**	**-**	**81,382**	**365,509**
$375,000 to $404,999	**1**	**283,061**	**25,000**	**-**	**77,109**	**385,170**
$405,000 to $434,999	**1**	**261,693**	**63,170**	**-**	**83,020**	**407,883**
$465,000 to $494,999	**1**	**343,340**	**25,000**	**-**	**103,423**	**471,763**
$645,000 to $674,999	**1**	**317,372**	**25,000**	**-**	**311,559**	**653,931**
Total	**15**					

Average annual reportable remuneration[1]	Staff No.	Reportable salary[2] $	Contributed superannuation[3] $	Reportable allowances[4] $	Bonus paid[5] $	Total $
	2013					
Total reportable remuneration (including part-time arrangements):						
$195,000 to $224,999	1	165,256	17,055	-	16,646	198,957
$225,000 to $254,999	3	187,264	24,054	-	20,811	232,129
$315,000 to $344,999	2	268,764	32,515	-	38,776	340,055
$335,000 to $374,999	1	271,341	42,940	-	38,999	353,280
$405,000 to $434,999	1	343,135	25,000	-	47,504	415,639
$465,000 to $494,999	1	317,165	25,000	-	149,956	492,120
Total	**9**					

Notes:

1. This table reports staff:
   a) who were employed by the entity during the reporting period;
   b) whose reportable remuneration was $195,000 or more for the financial period; and
   c) were not required to be disclosed in Note10B or director disclosures.

Each row is an averaged figure based on headcount for individuals in the band.

2. 'Reportable salary' includes the following:
   a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
   b) reportable fringe benefits (at the net amount prior to 'grossing up' for tax purposes); and
   c) reportable employer superannuation contributions.

3. The 'contributed superannuation' amount is the average cost to the entity for the provision of superannuation benefits to other highly paid staff in that reportable remuneration band during the reporting period.

4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.

5. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as performance and individuals commencing with or leaving the entity during the financial year.

Commonwealth Superannuation Corporation

Note 11: Remuneration of Auditors

Financial statement audit services were provided to the entity by the Australian National Audit Office (ANAO) through its contracted service provider Deloitte Touche Tohmatsu (Deloitte). Fees for the services are as follows:

	2014	2013
	$'000	$'000
Financial statement audit services	**21**	20
Regulatory audit services	**12**	38
	33	58

No other services were provided to CSC by the ANAO or Deloitte.

Commonwealth Superannuation Corporation

Note 12: Financial Instruments

	2014	2013
	$'000	$'000
Note 12A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables:		
Cash and cash equivalents	**7,870**	7,879
Trade and other receivables	**22**	-
Total loans and receivables	**7,892**	7,879
Total financial assets	**7,892**	7,879
Financial Liabilities		
Financial liabilities measured at amortised cost:		
Trade creditors	**1,128**	1,652
Total financial liabilities measured at amortised cost	**1,128**	1,652
Total financial liabilities	**1,128**	1,652

The carrying amount of the financial assets and financial liabilities is equivalent to their fair value.

Note 12B: Net Gains or Losses on Financial Assets		
Loans and receivables		
Interest revenue	**194**	216
Net gains on loans and receivables	**194**	216

Note 12C: Credit Risk

CSC is exposed to minimal credit risk as financial assets comprise cash at bank and trade receivables. CSC has exposure to an Australian bank of $7,869,771 at 30 June 2014 (2013: $7,878,764). The greatest exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total amount of trade and other receivables, excluding GST receivable (2014: $22,276 and 2013: $Nil). CSC has assessed the risk of the default on payment and has determined there is no credit risk to CSC. CSC holds no collateral to mitigate against credit risk. No receivables are past due or impaired at the balance date (2013: $Nil).

Commonwealth Superannuation Corporation

Note 12D: Liquidity Risk

CSC's financial liabilities are payables. The exposure to liquidity risk is based on the notion that CSC will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely as CSC's cash receipts are primarily received from Australian Government agencies and the ARIA Investments Trust. CSC manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, CSC has policies in place to ensure timely payments are made when due and has no past experience of default.

The entity has no derivative financial liabilities in both the current and prior year.

Maturities for financial liabilities 2014

	On demand $'000	within 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	> 5 years $'000	Total $'000
Trade creditors	-	1,128	-	-	-	1,128
Total	-	1,128	-	-	-	1,128

Maturities for financial liabilities 2013

	On demand $'000	within 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	> 5 years $'000	Total $'000
Trade creditors	-	1,652	-	-	-	1,652
Total	-	1,652	-	-	-	1,652

Note 12E: Market Risk

CSC is not exposed to market risk.

Commonwealth Superannuation Corporation

Note 13: Assets Held in Trust

Monetary assets

Shown below are the values of gross assets held in Trust by CSC in its capacity as Trustee of the CSS, PSS, PSSap and MSBS. The assets comprise units in a Pooled Superannuation Trust for which CSC is also Trustee, plus cash and cash equivalents and sundry debtors.

	2014	2013
	$'000	$'000
CSS		
Opening balance	**4 223 960**	4 228 134
Closing balance	**4 071 391**	4 223 960
PSS		
Opening balance	**14 988 508**	13 021 709
Closing balance	**16 613 851**	14 988 508
PSSap		
Opening balance	**4 987 263**	3 672 761
Closing balance	**6 414 206**	4 987 263
MSBS		
Opening balance	**4 913 125**	4 022 194
Closing balance	**5 794 885**	4 913 125

Commonwealth Superannuation Corporation

Note 14: Reporting of Outcomes

CSC receives its funding via ComSuper from levies and fees charged by ComSuper to employers. This funding is to be used solely for the Outcome specified in Note 1.1.

Note 14A: Net Cost of Outcome Delivery

	Outcome 1	
	2014	2013
	$'000	$'000
Departmental		
Expenses	**7,753**	8,292
Own-source income	**8,606**	8,465
Net cost of / (contribution by) outcome delivery	**(853)**	(173)

Note 14B: Major Classes of Departmental Expenses, Income, Assets and Liabilities by Outcome

	Outcome 1	
	2014	2013
	$'000	$'000
Expenses:		
Employee benefits	**807**	797
Suppliers	**6,946**	7,495
Total	**7,753**	8,292
Income:		
Sale of goods and rendering of services	**8,412**	8,249
Interest	**194**	216
Total	**8,606**	8,465
Assets		
Cash and cash equivalents	**7,870**	7,879
Trade and other receivables	**189**	495
Total	**8,059**	8,374
Liabilities		
Suppliers	**1,312**	1,995
Other payables	**673**	1,158
Total	**1,985**	3,153

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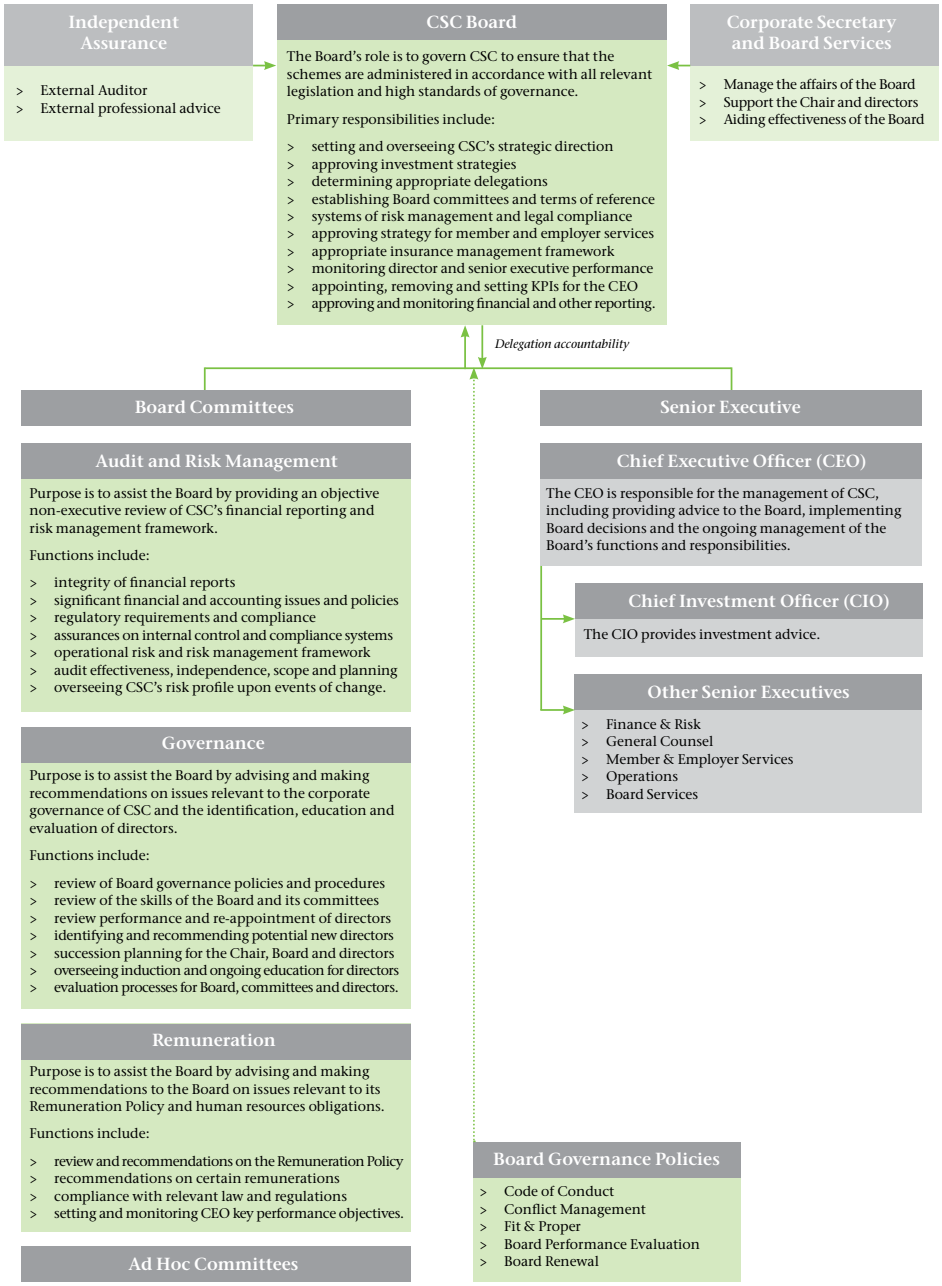
Appendices

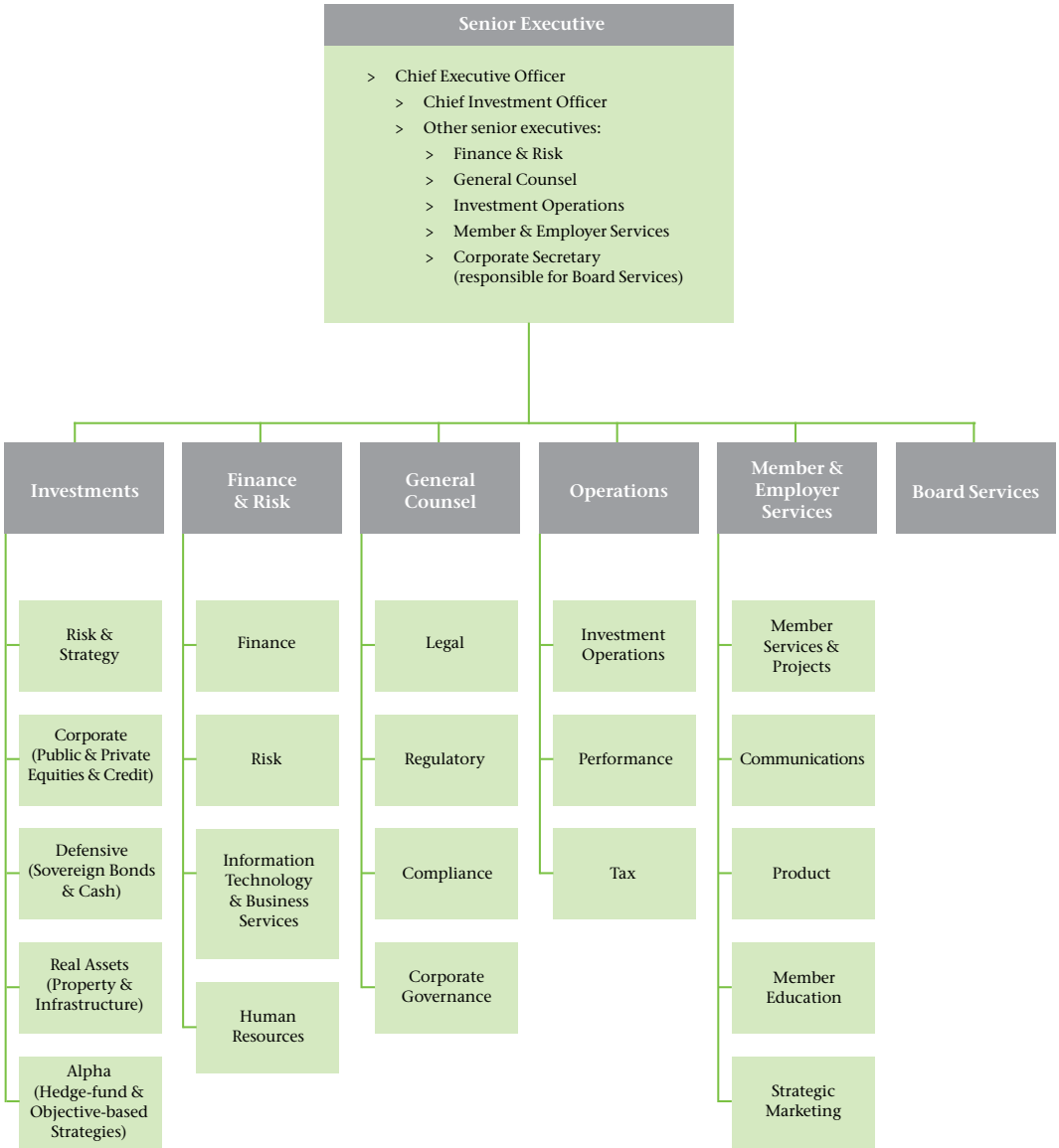
Appendix 1

CSC's corporate governance framework



Appendix 2

CSC's organisational structure



Appendix 3

Advertising and market research

Pursuant to Section 311A of the *Commonwealth Electoral Act 1918*, CSC must report on advertising and market research expenditure during the year. Individual contracts that exceeded $12,400 (inclusive of GST) during the year must be reported.

Table 62 details these individual contracts. All amounts include GST.

Table 62: Advertising and market research expenditure in 2013–14

Provider	Purpose	Expenditure ($)
APN Outdoor (Trading)	Public space advertising	27,225
Canprint Communications Pty Ltd	Print advertising	12,694
Fairfax Media	Print advertising	45,330
Total		**85,249**

Appendix 4

Information publication scheme statement

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS).

This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a Section 8 statement in an annual report. Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. Our IPS is available at: **csc.gov.au/reports-and-information/information-publication-scheme/**

Appendix 5

Changes to legislation

Governance of Australian Government Superannuation Schemes Act 2011

Other than the PGPA consequential amendments outlined below, there were no changes to the *Governance of Australian Government Superannuation Schemes Act 2011*.

The CSS Act

The *Statute Law Revision Act (No. 1) 2014* amended the CSS Act to remove the definition of APS employee and update incorrect references to the Legislative Assembly 'for' the Northern Territory. The updated provisions correctly refer to the Legislative Assembly 'of' the Northern Territory. These changes took effect from 24 June 2014.

The PSS Act

Other than the PGPA consequential amendments, there were no changes to the PSS Act.

The 38th Amending Deed to the PSS Trust Deed was made on 26 July 2013. The 38th Amending Deed amended the Trust Deed to incorporate changes made by the ATO to the reporting frequency of AWOTE and consequential changes as a result of the Government's measure to reduce superannuation tax concessions for very high income earners. These changes took effect from 13 August 2013.

The MilitarySuper Act

The *Statute Law Revision Act (No. 1) 2014* repealed parts of the MilitarySuper Act that are now obsolete, as they related to amendments of the *Defence Force Retirement and Death Benefits Act 1973* that had already been incorporated. This change took effect from 24 June 2014.

The MilitarySuper Trust Deed was amended by the *Military Superannuation Legislation Amendment (Sustaining the Superannuation Contribution Concession) Instrument 2013*. This instrument made consequential changes as a result of the Government's measure to reduce superannuation tax concessions for very high income earners. These changes reduced the tax concession that individuals with income above $300,000 receive on their concessional superannuation contributions, from 30% to 15%. The provisions enable CSC to pay an affected member's tax liability under Division 293 of the *Income Tax Assessment Act 1997* from their DFRDB productivity benefit, their MSB employer benefit or their MSB Ancillary benefit without a release authority. These changes took effect from 10 July 2013.

The PSSap Act

The *Statute Law Revision Act (No. 1) 2014* amended provisions of the PSSap Act to update a number of cross-references. These changes took effect from 24 June 2014.

The 9th Amending Deed to the PSSap Trust Deed was made on 31 May 2013. These amendments were outlined in the Annual Report for the previous period of 2012–2013 and allowed CSS and PSS members to salary sacrifice into the PSSap. Additional provisions amended the Trust Deed in relation to transfers or roll-overs made on or after 1 July 2014. These changes took effect 1 July 2014. From 10 December 2013, the 10th Amending Deed to the PSSap Trust Deed took effect. The 10th Amending Deed amended the Trust Deed to allow a person to be paid a lump sum from their PSSap account to pay their liability for any assessed tax under Division 293 of the *Income Tax Assessment Act 1997*, and for their PSSap benefit to be reduced accordingly. The Deed also updated a reference to the superannuation guarantee percentage to bring it in line with the superannuation guarantee rate that applies at a particular time.

The 1922 Act

The *Statute Law Revision Act (No. 1) 2014* amended provisions of the1922 Act to reflect changes to Commonwealth government ministries and to ensure that instruments or decisions previously made under the 1922 Act remain valid. References to the Minister for Aboriginal Affairs are now references to the Minister administering the *Aboriginal Land Grant (Jervis Bay Territory) Act 1986*. It also amended a provision of the 1922 Act that incorrectly referred to the Legislative Assembly 'for' the Northern Territory, instead of the Legislative Assembly 'of' the Northern Territory. This change took effect from 24 June 2014.

The DFRB Act

The *Defence Force Retirement Benefits Legislation Amendment (Fair Indexation) Act 2014* amended the DFRB Act to allow certain pension benefits to be indexed every half year period. For pensioners under 55 years old the indexation is based on positive movements in the CPI. For pensioners aged above 55 the indexation is based on the more favourable of either the CPI or the pensioner and beneficiary living cost index, provided that the benefit increases at a rate that maintains a pension at 27.7 % of male total average weekly earnings. This change took effect from 10 April 2014.

The DFRDB Act

The *Defence Force Retirement Benefits Legislation Amendment (Fair Indexation) Act 2014* amended the DFRDB Act to allow certain pension benefits to be indexed every half year period. For pensioners under 55 years old the indexation is based on positive movements in the CPI. For pensioners aged above 55 the indexation is based on the more favourable of either the CPI or the pensioner and beneficiary living cost index, providing that the benefit increases at a rate that maintains a pension at 27.7 % of male total average weekly earnings. This change took effect from 10 April 2014.

The *Statute Law Revision Act (No. 1) 2014* amended a provision of the DFRDB Act that incorrectly referred to the Legislative Assembly 'for' the Northern Territory, instead of the Legislative Assembly 'of' the Northern Territory. This change took effect from 24 June 2014.

The DFSPB

The *Military Superannuation Legislation Amendment (Sustaining the Superannuation Contribution Concession) Instrument 2013* made amendments to the DFSPB Determination as a result of the Government's measure to reduce superannuation tax concessions for very high income earners. The instrument widened the definition of productivity benefit to include a debt account discharge liability. This enables CSC to pay an affected member's tax liability under Division 293 of the *Income Tax Assessment Act 1997* from their DFRDB productivity benefit. This change took effect from 10 July 2013.

The *Defence Force (Superannuation) (Productivity Benefit) Amendment (Interest Factor) Determination 2014* amended the DFSPB Determination to incorporate an interest factor to enable notional interest to be calculated from a notional superannuation productivity benefit that is accruing and that is paid from the Consolidated Revenue Fund when the benefit becomes payable. This change took effect from 1 January 2014.

Public Governance, Performance and Accountability Act 2013

The *Public Governance, Performance and Accountability Act 2013* ('the PGPA Act') came into force, for the most part, on 1 July 2014. The main impact of the PGPA Act has been to repeal the *Commonwealth Authorities and Companies Act 1997.* This has had the effect of changing CSC's status from being a Commonwealth authority under the *Commonwealth Authorities and Companies Act 1997* to being a corporate Commonwealth entity under the PGPA Act. The *Public Governance, Performance and Accountability (Consequential and Transitional Provisions) Act 2014* made a number of consequential amendments across CSC's scheme legislation to allow for the PGPA Act to take effect. These changes took effect from 1 July 2014.

Appendix 6

Publications

CSC publishes the following communication materials for the benefit of members and employers. Forms, educational videos and calculators are also available online.

CSC annual report

CSC Annual Report to Parliament

APS employer publications

Newsletter

Employer news (quarterly newsletter)

Quick guides

Casuals
Continuous service and membership numbers
Death of a contributing member
Membership eligibility
Part time members
Salary reductions
Tax File Numbers
0% contributions in CSS and PSS
CSS and PSS invalidity notes
How to complete departmental reports (CSS and PSS only)
CSS contributions in arrears
CSS part-time members
CSS transition to retirement
PSS changes to maximum benefit limits
PSS contributions in arrears
PSS election to cease membership
PSS members ceasing scheme membership
PSSap ceasing members
PSSap commencing new members

Training notes

Contributions to CSS
CSS employer productivity superannuation contributions
CSS general benefit accrual
Membership of CSS
CSS permanent part-time membership
CSS salary for superannuation
CSS reduction in salary for superannuation
CSS shift allowance
Contributions to PSS
PSS employer productivity superannuation contributions
PSS general benefit accrual
PSS medical status of scheme members
Membership of PSS
PSS part-time and casual membership
PSS salary for superannuation
PSS reduction in salary for superannuation
PSS shift allowance
CSS and PSS Employer Services Online
PSSap manual

CSS publications

Publications

CSS Product Disclosure Statement
> Investment Options and Risk
> Fees and other costs
> Tax and your CSS super
> Death and invalidity benefits

CSS Member Statement Guide – contributing
CSS Member Statement Guide – deferred
CSS Annual Member Report
CSS Financial Services Guide
Pension update (biannual newsletter)
Family law and super splitting
Explore your expanded options booklet
CSS benefit tables

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CSS age retirement
CSS preservation of benefits
Death benefits
Early access to super benefits
Invalidity benefits
Postponement of benefits
Redundancy
Retiring and claiming your CSS benefit
Contributions to CSS
CSS transfers in
Leave without pay (LWOP)
Salary reductions and your super
Salary sacrifice
Accessing your super information online
CSS changing from permanent full-time to permanent part-time
Tax and your CSS pension
The superannuation contributions surcharge
Transition to retirement

PSS publications

Publications

PSS Product Disclosure Statement
> Investment Options and Risk
> Fees and other costs
> Tax and your PSS super
> Death and invalidity cover

PSS Member Statement Guide – contributing
PSS Member Statement Guide – preserved
PSS Annual Member Report
PSS Financial Services Guide
Pension update (biannual newsletter)
Family law and super splitting

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Death benefits
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Preservation of benefits
Redundancy
Salary sacrifice
Ceasing PSS membership
Changing from part-time to full-time
Getting info online
Multiple PSS memberships
Tax concessions for PSS pensions
The superannuation contributions surcharge
Transition to retirement

MilitarySuper publications

Publications

MilitarySuper Product Disclosure Statement
> Investment Options and Risk
> Fees and other costs
> Tax and your MilitarySuper
> Death and invalidity benefits

MilitarySuper About Your Statement Guide – Contributing
MilitarySuper About Your Statement Guide – Preserved
MilitarySuper About Your Statement Guide – Ancillary
MilitarySuper About Your Statement Guide – Associate
MilitarySuper Annual Member Report
MilitarySuper Financial Services Guide
Pension update (biannual newsletter)
Family law and super splitting
Death benefits summary guide
Preserved benefits summary guide
Retirement benefits summary guide
Retirement, resignation and redundancy summary guide
Long-term Cost Report 2011
MilitarySuper pension surcharge reduction factors

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About to leave the ADF
Death and dependant benefits
Early access to your superannuation benefits

Invalidity benefits
Lump sum maximum benefits limit
Pension maximum benefits limit
Additional personal contributions
Salary sacrifice contributions
Spouse contributions
Superannuation Guarantee contributions
Taxation of contributions (contribution caps)
Transfer amounts
Appeal rights
Family law and super overview
Foreign service
Leave without pay provisions
Productivity benefit
Rejoining the ADF
Relationship definitions
Summary of scheme
Superannuation contributions surcharge
Tax and lump sums
Tax concessions for pensions

PSSap publications

Publications

PSSap Product Disclosure Statement
> Investment Options and Risk
> Fees and other costs
> Tax and your PSSap super
> Insurance and your PSSap super
> Ancillary membership

PSSap Financial Services Guide
PSSap Member Statement Guide – Contributing
PSSap Member Statement Guide – Ancillary
PSSap Member Report (including CSCri)

Factsheets

Withdrawing your super from PSSap
Transfers to PSSap
Your super salary and PSSap
Beneficiary nomination

CSCri publications

Publications

CSCri Product Disclosure Statement
CSCri Financial Services Guide

Factsheets

CSCri standard retirement income stream
CSCri transition to retirement income stream

DFRDB publications

Publications

DFRDB Book
DFRDB About Your Statement Guide – Contributor
DFRDB Annual Member Report
Pension update (biannual newsletter)
Family law and super splitting booklet
Long-term Cost Report 2011

Factsheets

About to leave the ADF
Dependant's benefits
Invalidity benefits
Martial or couple relationship
Productivity benefit
Restoration of reversionary pensions
Retirement benefits
Retrenchment/redundancy
Additional personal contributions
Salary sacrifice contributions
Spouse contributions
Transfer amounts
Appeal rights
Family law and your super
Resuming ADF full-time service (former contributors)
Resuming ADF full-time service (pension recipients and deferred members)
Superannuation contributions surcharge
Tax and your DFRDB pension
Taxation of benefits

Appendix 7

Glossary

AAT	Administrative Appeals Tribunal
AAT Act	*Administrative Appeals Tribunal Act 1975*
ABN	Australian Business Number
ACTU	Australian Council of Trade Unions
ADF	Australian Defence Force
AD (JR) Act	*Administrative Decisions (Judicial Review) Act 1997*
AFS licence	Australian Financial Services licence
APRA	Australian Prudential Regulation Authority
APS	Australian Public Sector
ARIA	Australian Reward Investment Alliance
ASFA	Association of Superannuation Funds of Australia
AWOTE	Average Weekly Ordinary Time Earnings
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CEO	Chief Executive Officer
CIO	Chief Investment Officer
CPI	Consumer Price Index
CPSU	Community and Public Sector Union
CSC	Commonwealth Superannuation Corporation
CSCri	Commonwealth Superannuation Corporation retirement income
CSS	Commonwealth Superannuation Scheme
CSS Act	*Superannuation Act 1976*
DFCAP	Defence Force Case Assessment Panel
DFRB	Defence Forces Retirement Benefits Scheme
DFRB Act	*Defence Forces Retirement Benefits Act 1948*
DFRDB	Defence Force Retirement and Death Benefits
DFRDB Act	*Defence Force Retirement and Death Benefits Act 1973*
DFSPB	*Defence Force (Superannuation) (Productivity Benefit) Determination 1988*
ESG	Environmental, social and governance
FIRG	Financial Institutions Remuneration Group
FMA ACT	*Financial Management and Accountability Act 1997*
FOI Act	*Freedom of Information Act 1982*
GAGSS Act	*Governance of Australian Government Superannuation Scheme Act 2011*
GDP	Gross Domestic Product

IFS	Industry Fund Services
IP	Income Protection
IPS	Information Publication Scheme
MilitarySuper	Military Superannuation and Benefits Scheme
MilitarySuper Act	*Military Superannuation and Benefits Scheme Act 1991*
Minister	Minister for Finance
PGPA	*Public Governance, Performance and Accountability Act 2013*
Pillar	Pillar Administration
PNG Act	*Papua New Guinea (Staffing Assistance) Act 1973*
PNG Scheme	Papua New Guinea Scheme
PSS	Public Sector Superannuation Scheme
PSS Act	*Superannuation Act 1990*
PSSap	Public Sector Superannuation accumulation plan
PSSap Act	*Superannuation Act 2005*
RSE	Registrable Superannuation Entity
RSEL	Registered Superannuation Entity licence
SCT	Superannuation Complaints Tribunal
SIS Act	*Superannuation Industry (Supervision) Act 1993*
SLA	Service level agreement
SRC Act	*Superannuation (Resolution of Complaints) Act 1993*
TPD	Total and permanent disability
TWI	Trade weighted index
1922 Act	*Superannuation Act 1922*

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Report requirements

This report satisfies section 9 of the CAC Act for the 2013–14 financial year and the relevant Finance Minister's Orders, which are the *Commonwealth Authorities (Annual Reporting) Orders 2011* and the *Finance Minister's Orders (Financial Statements for reporting periods ending on or after 1 July 2011)*. A list of specific reporting requirements is set out below in **Table 63**.

Table 63: List of CSC's annual reporting requirements

Requirement	Page
> Signed by a CSC director	3
> Details of how and when approval by Board was given	3
> State that directors are responsible for the preparation and contents of the Annual Report of Operations	3
Comply with relevant presentation and printing standards for documents presented to Parliament	–
Be written in a manner that is relevant, reliable, concise, understandable and balanced	–
Specify CSC's enabling legislation, including a summary of its objectives and function, as specified in the GAGGS Act	20
Specify the name of the current responsible Minister	3
> Provide details of directions issued by any Minister to CSC, under the GAGGS Act; general policies of Government that apply to CSC; and General Policy Orders made under the CAC Act that apply to CSC	N/A
> Where CSC has not complied with any directions, policies or Orders, include explanation of non-compliance	N/A
Report on certain matters in other legislation:	
> Environmental matters under the *Environmental Protection and Biodiversity Conservation Act 1999*	40
> Advertising and market research (*Commonwealth Electoral Act 1918*)	271
> Work health and safety (*Work, Health and Safety Act 2011*)	35
> Information publication scheme statement (FOI Act)	272
> Information on the directors, including names, qualifications, experience, attendance at meetings and whether they are executive or non-executive	21–29
> Outline of the organisational structure of CSC, and the location of major activities and facilities	270
> Information on the main corporate governance practices that CSC used during the financial year	33
Disclose the decision-making process when approving related entity transactions, where a conflict of interest arises	N/A
Key activities and changes that affected CSC during the financial year	14–15, 16–17, 273–275
Significant third party decisions by judicial or administrative bodies, and reports about CSC by the Auditor-General, a Parliamentary committee, the Commonwealth Ombudsman or the Office of the Australian Information Commissioner	69–72
Details of any indemnity given to an officer (including directors) against a liability, including premiums paid, or agreed to be paid, for insurance against the officer's liability for legal costs	33
Index of the annual report requirements, identifying where relevant information can be found in the annual report	283–287

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