Australian Government

Commonwealth Superannuation Corporation

2017–18 Annual Report

CSC

Commonwealth Superannuation Corporation

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Commonwealth Superannuation Corporation (CSC)

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Superannuation schemes

CSS	ABN:	19 415 776 361
	RSE:	R1004649
	USI:	19415776361001
PSS	ABN:	74 172 177 893
	RSE:	R1004595
	USI:	74172177893001
MilitarySuper	ABN:	50 925 523 120
	RSE:	R1000306
	USI:	50925523120001
PSSap	ABN:	65 127 917 725
	RSE:	R1004601
	USI:	65127917725001
ADF Super	ABN:	90 302 247 344
	RSE:	R1077063
ADF Cover	ABN:	64 250 674 722
DFRB		
DFRDB		
1922 Scheme		
PNG Scheme		

For information on each scheme visit **csc.gov.au**

To read individual scheme annual reports visit **csc.gov.au/reports-and-information/annual-reports**

Note: All statistics are derived solely from records available to CSC and Mercer 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 and the Public Service

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 2018.

CSC is a corporate Commonwealth entity 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 *Public Governance, Performance and Accountability Act 2013* (the PGPA Act).

The Board of CSC is responsible for the preparation and contents of the Annual Report 2017–18. This report was approved by the Board on 25 September 2018 and satisfies Part 3, Division 2 of the GAGSS Act 2011, section 46 of the PGPA Act and the Public Governance, Performance and Accountability Rule 2014.

Section 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 receipt of this report.

Yours sincerely,

Patricia Cross

Chair

28 September 2018

Reader's guide

Our activities at CSC are guided by legislative and government requirements, and by our vision, mission statement and strategic objectives.

This annual report describes our activities in the 2017–18 financial year, satisfying the requirements of Part 3, Division 2 of the GAGSS Act 2011, section 46 of the PGPA Act and the Public Governance, Performance and Accountability Rule 2014.

The report is ordered as described below.

Introduction

The introduction describes CSC, our superannuation schemes and our members.

Our performance

The performance section includes the Chair's review of our year's activities, and our Annual Performance Statements as required under the PGPA Act.

Our Board

This section describes the composition and responsibilities of CSC's Board, Board remuneration and director indemnity. It also explains how our Board delegates its authority and how the performance of our Board is reviewed. There is also a list of our Board's directors for 2017–18.

Our governance

The governance section describes our Board's governance framework and CSC's regulatory requirements. It explains our approach to financial and risk management, compliance, fraud control and internal auditing.

Our investments

The investments section details how investment performance affects our members' superannuation benefits. It also provides information on CSC's investment approach, strategy, governance, environmental and social practices, and investment options. It also outlines our investment performance to 30 June 2018.

Our superannuation services

This section outlines the superannuation services CSC provides to our members and employers, and details how satisfied CSC's members and employers are with our services.

Our superannuation schemes

This section outlines what functions CSC performed in 2017–18 to manage each of our super schemes on behalf of our members, and accounts for our actions against CSC's governing legislation.

Financial statements

This section is the audited financial statements for each fund and CSC.

Reporting requirements

This section lists CSC's specific reporting requirements and includes an index to the whole report.

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Introduction

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1. Introduction

About CSC

CSC is a corporate Commonwealth entity established on 1 July 2011. We manage 11 government superannuation schemes (outlined on **pages 59–83)** and we provide superannuation services to current and former Australian Government employees and members of the Australian Defence Force (ADF).

CSC's primary function is to administer the schemes and to manage and invest the funds in the best interests of all our members in accordance with the provisions of the various acts and deeds that govern the schemes.

Our vision

Our vision is to build, support and protect better retirement outcomes for all CSC members and their families.

Our legislative objectives and functions

Our objectives and functions, as set out under CSC's governing legislation, are to:

- administer the schemes and manage and invest the funds
- receive payments from employers in accordance with scheme legislation
- pay superannuation benefits to, or in respect of, members
- provide information about scheme benefits or potential benefits
- provide advice to the Minister for Finance and the Public Service on proposed changes to the scheme legislation or trust deeds.

Our performance outcome

We exist to provide retirement and insurance benefits for scheme members and beneficiaries, including past, present and future employees of the Australian Government and other eligible employers and members of the ADF, through investment and administration of their superannuation funds and schemes.

This is CSC's performance outcome. Having a performance outcome is a requirement under the PGPA Act. CSC's performance outcome is published in CSC's *2017–18 Corporate Plan* and in the *2017–18 Portfolio Budget Statements*. Go to CSC's Annual Performance Statements on **page 17** to see how we performed in 2017–18.

Regulated superannuation 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.

We are the trustee of five regulated public sector and military schemes which are:

- 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)
- the ADF Super scheme (ADF Super) established on 1 July 2016 by the *Australian Defence Force Superannuation Act 2015* (the ADF Super Act).

Exempt public sector schemes

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

We administer six exempt public sector and military schemes which are:

- 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* (which is a productivity benefit paid by the Department of Defence)
- the ADF Cover scheme (ADF Cover) established on 1 July 2016 by the *Australian Defence Force Cover Act 2015* (the ADF Cover Act).

Our members

Our schemes generally consist of two types of members:

- **contributors**, who are either employed by a participating scheme employer (usually an Australian Government entity or the ADF), or are PSSap members who were formerly employed by a participating scheme employer, and who elected to continue PSSap membership with their new employer
- **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 re-join the ADF.

There are also **CSC pensioners**. 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 (known as **associates**); spouses and eligible children of deceased pensioners or members; and members who under scheme rules hold a benefit in a second scheme (MilitarySuper or PSSap), and who are known in their second scheme as **ancillary members**.

Performance

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2. Our Performance

Report from our Chair

I write to address major developments at CSC and events in our operating environment that are likely to lead to significant structural changes in the superannuation and financial services industry.

Investment performance

CSC achieved its investment return objective for the seventh consecutive financial year in 2017–18.

All of our investment options either met or exceeded their target returns over their investment horizons to 30 June 2018.

In particular, the investment returns to 30 June 2018 for the Default, Balanced and MySuper Balanced options of the various schemes in which the majority of CSC's assets under management (AUM) are invested comfortably exceeded their objectives, see Table 1 below.

Table 1. Investment returns to 30 June 2018 for CSC's Default, Balanced and MySuper Balanced scheme options

	AUM $billion	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.
Australian inflation		**2.1**	**1.7**	**1.9**	**1.9**
Investment option					
CSS Default	2.51	9.4	6.9	8.9	8.6
PSS Default	20.41	9.3	6.8	8.8	8.5
MilitarySuper Balanced	8.50	9.3	6.9	8.8	7.9
PSSap MySuper Balanced	10.61	9.3	6.8	8.8	8.5
Target return		5.6	5.2	5.4	5.4

Note: Performance is presented net of fees and taxes.

CSC's primary investment objective is to maximise long-term real (i.e. above inflation) returns for members, with a target of 3.5% per annum above inflation, for our Default, Balanced and MySuper Balanced options, while keeping risk to an acceptable level (defined as a probability of loss in no more than three to four years out of 20). This investment objective is designed to provide adequacy in retirement for our average member. 'Adequacy' is defined by the Australian Superannuation Fund Association (ASFA) as a 'comfortable standard', which accounts for post-retirement cost-of-living adjustments.

Acknowledgement of CSC as a world leader in responsible asset allocation

In November 2017, CSC was included in a list of the world's top 25 most responsible institutional investors. The '25 Most Responsible Asset Allocators' list, compiled and announced by Bretton Woods II, was drawn from 298 sovereign wealth and government pension funds from around the

world. CSC was the only Australian fund to be included in the list. The 25 institutions named in the list represent global best practice in this regard.

These seven sovereign wealth funds and 18 government pension funds have not only achieved appropriate commercial returns for their stakeholders but have also taken significant, proactive steps to mitigate potentially mispriced social, environmental and governance risks that could negatively impact their portfolios over the long term.

Making the list is recognition of CSC's long-term commitment to global best practice in investment governance, asset allocation and investment risk management.

A customer value proposition

Following a direct consultation process with a broad cross-section of our members, we developed a customer value proposition and new corporate branding in the past year. Our customer value proposition is: ***Committed service for the future wealth of our members***.

One of CSC's major strengths is deep knowledge, understanding and focus on retirement outcomes for those who work for the Australian Government and for those who are members of the Australian Defence Force. CSC is the dedicated provider for government employees and ADF personnel.

Member services and enhancements

In 2017–18 changes to PSSap came into effect that enabled PSSap members to continue as PSSap contributors after their Australian Public Service employment. This is a significant change and enables members to consolidate their superannuation into one active account consistent with recommendations of recent inquiries. The take-up rate of this option to date has been very pleasing.

CSC has offered a personal financial planning service to our members since early 2013. Until late 2017, CSC provided financial planning service through an outsourced arrangement. In November 2017, this service model changed to an Authorised Representative model, whereby the business management and our financial planning staff are insourced but the licensee obligations and some technology services are outsourced.

The comprehensive intra-fund advice provided by CSC's financial planners is on a fee-for-service basis, with the cost to members based entirely on the time taken to create individual financial plans. CSC's financial planners are salaried employees of CSC and they do not receive commissions.

We constantly assess the most effective way to provide advice to our members, including ensuring the optimum model for delivery.

CSC's Canberra-based staff moved into a single office in the Canberra CBD in early 2018. The relocation involved moving approximately 400 staff from Belconnen and around 60 staff from Civic to a single office space at 7 London Circuit, Civic.

The relocation has allowed us to open a walk-in shopfront that can be accessed by our members. We are also able to hold public information seminars, and provide a central location for financial planning appointments and access to our other services. Centralising CSC's operations into a single office will reduce costs in the medium term and improve operational efficiency.

To improve our processes and the quality of service we provide our members, CSC has worked with the Australian Defence Force and the Department of Veterans' Affairs to improve the experience for members who are exiting from their Defence Force service. Through improving processes and enabling better information sharing, the collaboration has seen positive results which have made a noticeable improvement to the experience of members and their families.

Royal Commission, Australian Prudential Regulation Authority Reports and Productivity Commission

The conduct of some participants in the financial services sector and the way in which the superannuation industry behaves has been the subject of much public discussion in 2017–18.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has highlighted practices and behaviours that tarnish the reputation of all participants in the industry. All businesses that operate in the industry, including CSC, will be impacted by the recommendations that will follow the Royal Commission's proceedings.

The Australian Prudential Regulation Authority (APRA) announced a prudential inquiry into Commonwealth Bank of Australia (CBA) in August 2017. The purpose of the prudential inquiry was to examine the frameworks and practices in relation to governance, culture and accountability within CBA.

The APRA review identified a number of shortcomings, particularly in dealing with non-financial risks, and its recommendations are designed to strengthen relevant frameworks. This report is likely to set new benchmarks generally across the financial services sector, particularly as the Royal Commission continues to identify undesirable practices within the sector.

Throughout late 2016 and 2017, APRA also undertook a thematic review of board governance practices to highlight better industry practices and areas where APRA considers improvement may be required to encourage all Registrable Superannuation Entity (RSE) licensee boards towards sound practice.

CSC has commenced a review of our existing governance arrangements having regard to relevant APRA reports, issues arising from the Royal Commission, and other related matters. We will address any identified areas for improvement.

We monitor developments and continuously review our governance, risk and assurance policies and practices to remain at the forefront of these matters.

The Productivity Commission released its draft report at the end of May 2018: *Superannuation Assessing Efficiency and Competitiveness*.

The report is comprehensive and makes recommendations to deal with what the Commission sees as two structural flaws: multiple accounts and entrenched under-performers. The Commission considers that inadequate competition, governance and regulation have produced this outcome. It makes draft recommendations to remedy these deficiencies and, in addition, makes recommendations in relation to insurance matters.

If implemented, the recommendations in the draft report would have implications for the structure of the entire superannuation industry in the long term.

CSC's Board and staff

I thank CSC's highly skilled and dedicated directors and staff for their efforts throughout the year. The superannuation industry faces a constantly changing operating environment and our ongoing ability to respond, adjust accordingly and service our members effectively is to be commended.

CSC's central focus will always be on our members and I am confident the initiatives and operational improvements that have been put in place during 2017–18 will improve the services we provide and will place the business in a strong position to take on the challenges that we will inevitably face in the years ahead.

Patricia Cross
Chair
28 September 2018

CSC's Annual Performance Statements

Statement from CSC's Board

We, the CSC Board, as the accountable authority of CSC, present the 2017–18 Annual Performance Statements of CSC, as required under section 39(1)(a) of the Public Governance, Performance and Accountability Act 2013 (PGPA Act). In our opinion, these Annual Performance Statements are based on properly maintained records, accurately reflect the performance of CSC, and comply with section 39(2) of the PGPA Act.

CSC purpose and vision

CSC's purpose and vision is to build, support and protect better retirement outcomes for all our members (being current and former Australian Government employees and members of the ADF) and their families.

CSC performance outcome

CSC's performance outcome is to provide retirement and insurance benefits for scheme members and beneficiaries, including past, present and future employees of the Australian Government and other eligible employers and members of the ADF, through investment and administration of their superannuation funds and schemes.

CSC's performance outcome is stated in CSC's 2017–18 PGPA *Corporate Plan* and in the *2017–18 Portfolio Budget Statements.*

Managing and investing our funds

Table 2. CSC's investment performance: criterion and results

Performance criterion	Results
CSC's investment performance for its default accumulation option over a 10-year investment horizon, but measured on a rolling three-year period. (SOURCE: CSC's *2017–18 Corporate Plan*, p. 5; *2017-18 Portfolio Budget Statements*, p. 100)	**Achieved:** CSC's default accumulation option achieved its annual real return target of 3.5% per annum over the rolling three-year period to 30 June 2018.
CSC's investment portfolio is maintained within Board-approved risk parameters, such that negative returns are expected in no more than four out of every 20 years for the default accumulation option. (SOURCE: CSC's *2017–18 Corporate Plan*, p. 5; *2017-18 Portfolio Budget Statements*, p. 100)	**Achieved:** CSC's portfolio risk for its default accumulation option has been managed such that the number of negative returns has not exceeded the expectation of negative returns in no more than four years over the 20 year period to 30 June 2018.

How do our performance results help our members?

By consistently achieving our investment performance criteria summarised above, CSC increases the probability that the average CSC accumulation member in retirement will have reached the ASFA's (Australian Superannuation Fund Association) 'comfortable retirement standard' of income for Australian retirees.

We invest for a comfortable level of retirement income

We know that if our members are to use their superannuation savings to generate this comfortable level of retirement income, their super balance must grow to an appropriate amount over their working life—appropriate meaning that their final super balance can 1) generate this comfortable level of annual income in retirement, and 2) not run out prematurely.

For members to grow an appropriate amount of super savings over their working life, four factors are important to consider as they can all help improve retirement outcomes. These include the member's current super balance; the amount of their contributions over their working life; the number of years until they retire; and the investment returns their super fund can generate on their behalf.

Our net investment returns target

We target net investment returns of 3.5% per annum above inflation for members in our Default accumulation options.

This is CSC's target rate of return because it is the real savings growth rate that we estimate can achieve an appropriate amount of superannuation savings for the average CSC accumulation member at retirement, as determined by age, current superannuation balance, amount of superannuation contributions, and likely retirement age.

Our investment strategy

To consistently achieve our target rate of investment return for our members, CSC's investment strategy has a keen focus on avoiding loss. This focus increases the probability that our members

will achieve financial adequacy in retirement. Compared to other superannuation funds, we generally deliver greater preservation of member capital through periods of negative returns, while still capturing most of the gains when markets are rising strongly.

In practice, this means that we are continuously assessing whether investment returns, net of costs and tax, are sufficient to compensate for evolving risks. Where the returns available to prudent risk-taking are limited, our members' investment portfolio will run at a lower investment-risk level than we would expect to target, on average, over the long term. This contributes to a higher, more consistent probability of achieving a cumulative return for our members that is very competitive.

Competitive and consistent returns for our members

Our investment strategy aims to achieve a cumulative return for our members which is:

- **competitive** as measured against other superannuation funds, and
- **consistent** as measured, over the long term, by smaller negative returns when investment markets fall, but still-competitive capture of positive returns when investment markets are performing strongly.

Our investment performance to 30 June 2018

In 2017–18, CSC achieved its real return targets for Default options for the seventh consecutive financial year. All other CSC investment options ***exceeded*** their return target over their investment horizons to 30 June 2018.

Factors contributing to our performance included:

Global monetary policy that has been 'accommodative': Nearly all asset classes have contributed positively to returns, as they have continued to be supported by low interest rates across most of the developed world. This monetary policy support has supported economic growth, employment and general asset price inflation.

Actions taken by CSC to limit our potential for capital loss: Examples of this include:

- Reducing our reliance on government bonds to protect capital. Instead, we have preferred other defensive assets which are less vulnerable to, or indeed positively correlated with, a period of gradually rising interest rates as the global business cycle matures. Government bond prices typically fall when monetary policy support unwinds.
- Diversifying our portfolio's dependence on equity risk into other sources of real return (i.e. returns above those necessary to keep pace with inflation). These included finding opportunities in data infrastructure, other private-enterprise assets, and active strategies designed to be less reliant on the direction of equity markets.
- Using protection strategies only to mitigate identifiable event risks in members' portfolios, rather than using them continuously. This enables us to reduce the costs involved, which are akin to paying an insurance premium.

Our investment governance model supports our capacity to take investment decisions in real time, rather than subject to the constraints of the Board meeting cycle; identifies and manages risks pro-actively, before they can materially impact our members' portfolios; and ensures full transparency and accountability in all investment decisions.

Our investment governance framework means that CSC implements its investment decisions through:

- **A structured and transparent set of delegations:** this ensures the right decisions can be taken, at the right time, by those best skilled and therefore accountable to take them.

- **A robust set of specialised, external agents:** that compliment CSC's internal resources and reduce our operational risks.
- **An agile, stable and skilled internal investment team** that is focused on ensuring CSC's comparative advantages are used to our members' best interests; are empowered to continuously innovate to maintain our global best-practice credentials; and remains mindful of the implications for risk taking that flow from a continuously evolving, global market.

To learn more about CSC's investment approach and strategy, go to the Investment section of this report on pages 43–52.

The global investment outlook

CSC is alert to the consensus view that real returns (i.e. returns above inflation) are likely to be much lower, on average, in future because the pace of asset reflation will slow as interest rates rise from their historically low levels and valuations become increasingly less supportive. However, we are also mindful that developed-market central banks are intensely focused on trying to ensure that their transition away from extreme monetary policy settings is gradual and undisruptive of economic growth.

Their capacity to execute this has the potential to return financial markets to a more normal operating environment, where interest rates are once again above the inflation rate (i.e. real interest rates are positive).

Our observations of current global market conditions include:

- The process of monetary policy withdrawal in the developed world is being led by the United States, albeit at a very gradual pace.
- Economic growth around the world is improving but remains low by historical standards and is unsynchronised.
- Global debt levels are persistently high.
- The impact of technology on productivity and labour demand is uncertain.
- Trade tensions are adding to the sense of global vulnerability.

There are many considerations for investors that arise from these conditions. Some of these include:

- **The maturity of the US business cycle compared to other regions**: with the most recent differentiating factor being an expansion of fiscal policy to further support growth and employment.
- **China's continued rotation towards domestic sources of growth**: China has so far been very successful in rebalancing its growth drivers away from a reliance on government-funded infrastructure investments towards private consumption, and on progressing its parallel strategy to develop well-functioning, stable capital markets to support the efficient allocation of financial resources.
- **Inflation and interest rate uncertainty**: There is genuine uncertainty about whether the drivers of persistently low inflation and interest rates are temporary – because they just result from the impact of a financial crisis in extending the business cycle beyond historical averages – or more persistent – because non-policy-related structural changes have permanently altered the balance between savings and investment (through, for example, technology changes, demographics, and reduced capital-intensity in production). This is a critical factor that will determine how asset market prices evolve.
- **Geopolitical event risk:** This manifests in risks around Eurozone cohesion (specifically in Italy), tensions in South-East Asia, and global trade wars.

Administration of our schemes

Table 3. CSC's operational performance: criteria and results

Performance criteria	Result
Achievement of operational objectives for benefit payments, pension and contributions processing, and the dispatch of member statements (SOURCE: CSC's *2017–18 Corporate Plan, p. 5; 2017-18 Portfolio Budget Statements*, p. 100).	**Achieved:** 90% or more of each operational objective was met as shown below. **Benefit payment objectives met:** • 96% of benefit payments to CSC's defined benefit schemes were paid within five business days of CSC receiving all required documents (exceeding our performance criterion of 85.5%) • 98% of benefit payments to CSC's defined contribution schemes were paid within three business days of Mercer Administration (administrator of CSC's defined contribution schemes and CSCri) receiving all required documentation (exceeding our performance criterion of 85.5%). **Pension payment objectives met:** • 100% of fortnightly pension payment files for CSC's defined benefit schemes were lodged with CSC's bank on Wednesday morning prior to pay day (meeting our performance criterion of 90%) • 100% of pension payments for CSCri and ADF Cover were completed by Mercer Administration by the 21st of each month (meeting our performance criterion of 90%). **Contribution-processing objectives met:** • 99% of contributions to CSC's defined benefit schemes were allocated to member accounts within four days of CSC validating the contribution (exceeding our performance criterion of 85.5%) • 100% of paper-based contributions for CSC's defined contributions were allocated to members' accounts within three business days of Mercer Administration validating the contribution (exceeding our performance criterion of 85.5%). **Contribution-processing objective met:** • 92% of electronic contributions to CSC's defined contribution schemes were allocated to member accounts within three business days of Mercer Administration validating contributions (exceeding our performance criterion of 85.5%). **Dispatch of member statements objective met:** • 98% of member statements were available for members of CSC's defined benefit schemes by end October 2017 (exceeding our performance criterion of 81%). **Dispatch of member statements objective not met:** • Member statements were not available for members of CSC's defined contributions schemes within the target period, being no later than eight weeks after 30 June 2017. This did not meet our performance criterion of 90% and was caused through the late provision of data from employers and contribution and insurance rectification to member accounts by Mercer Administration. While later than expected, ADF Super statements were sent by 13 September and PSSap statements by 6 October. This did meet the legislative deadline to provide statements to members by 31 December 2017.

How we administer our superannuation schemes

Mercer Administration Services (Australia) Pty Ltd (Mercer Administration) is contracted by us to administer our PSSap, CSCri and ADF Super schemes. We administer all our other superannuation schemes.

Good administration helps our members

Our administrative performance objectives are a set of strict standards and deadlines on how we administer all of our superannuation schemes. To meet our objectives in 2017–18, CSC and Mercer Administration:

- calculated and paid over $1.5 billion of superannuation benefits
- made over six million payments to more than 237,000 CSC pensioners and CSCri members
- allocated over $2.4 billion of superannuation contributions to member accounts, and
- dispatched almost 500,000 superannuation statements to members.

Meeting our own strict standards gives members peace of mind that their superannuation is administered accurately and efficiently.

Accurate and efficient administration

To administer our members' superannuation accurately and efficiently we do the following:

1. **We work with our many employer contacts to ensure that the member data our employers provide is accurate and complete** – which is very important to best serve our members and maintain their confidence and trust.
2. **We continue to improve our workload-forecasting capabilities** – so we can deploy the expertise and capacity of staff most effectively during peak service periods.
3. **And we continue to improve our technology systems** – so more of our administration workload is automated for speed and accuracy, while staff spend less time on technology problems and more time on member needs.

Our services to members

Table 4. CSC's service performance: criteria and results

Performance criteria	Results
Adequate satisfaction levels of members, beneficiaries and employers with the service provided. (SOURCE: CSC's *2017–18 Corporate Plan*, p. 5; *2017-18 Portfolio Budget Statements*, p. 100)	**Not achieved**: CSC's aggregated member Net Promoter Score was -5, below the target of +10. **Achieved**: CSC's employer Net Promoter Score was +21, above the target of +10.

Member satisfaction has increased, but is below our target

Although CSC's aggregated member Net Promoter Score in 2018 was below our target of +10, our score increased by four points from 2017. This increase from -9 to -5 reflects growing member satisfaction with the service CSC provides. Further:

- Five schemes scored a positive Net Promoter Score; two schemes (MilitarySuper and PSSap) scored a negative score, however, both schemes increased by five and six points respectively from 2017. This means that member satisfaction for both MilitarySuper and PSSap increased in the 12 months to 30 June 2018.
- The increase in member satisfaction illustrates the success of initiatives we have put in place to improve the customer experience for members. Some of the initiatives are described in more detail below.

Employer satisfaction increased significantly

Our employer Net Promoter Score was also higher in 2018 than 2017, increasing by 16 points from +5 to +21 in the 12 months to 30 June 2018. This is well above our employer target score of +10, and affirms our work during 2017–18 to serve and strengthen our relationship with CSC's many employer contacts.

How do we calculate Net Promoter Scores?

We surveyed members and employers in 2017–18:

- We asked over 143,000 members: *How likely would you be to recommend your scheme to a friend or family?*
- And we asked over 1,100 employer contacts: *How likely are you to recommend CSC to a friend or colleague as their organisation's default super fund based on your experience with CSC?*

We then analysed their responses to calculate CSC's member and employer Net Promoter Scores. (CSC's aggregate member score was calculated using the individual scores for the CSS, PSS, MilitarySuper, PSSap, CSCri, ADF Super and DFRDB schemes.)

Why measure satisfaction with the Net Promoter Score?

The Net Promoter Score is a standard industry measure of member and employer satisfaction and loyalty to their particular superannuation fund. The score indicates how willing individual members and employer contacts are to advocate on behalf of their superannuation fund, or to recommend their fund to other people.

How we use the results of Net Promoter Score surveys

The insights we gained from the Net Promoter Score surveys inform our engagement plans and improvement programs for members and employers. As part of the process we identified the drivers that increase member satisfaction, and why these same drivers were not met for some MilitarySuper and PSSap members—knowing this allows us to improve our service to those members.

The key drivers of member satisfaction

The four key drivers of CSC member satisfaction are:

1. Believing CSC is easy and effective to deal with; for example, believing we consistently meet members' expectations by using our unique knowledge and experience to satisfy their individual superannuation needs;
2. Feeling positive about CSC and members' individual scheme; for example, trusting us, thinking we act fairly, and believing we are the obvious choice for their own super;
3. Believing we are always helpful; for example, believing we listen, act in members' best interests, and provide value beyond just financial value; and
4. Believing we achieve positive outcomes; for example, believing that we are committed to helping members build their future wealth, that we tailor investment choices to meet individual need, and that we help achieve individual investment objectives.

Our Net Promoter Scores for 2018 reveal that we meet the four key drivers of member satisfaction for many members. But the scores also show that these drivers are not met for the average MilitarySuper or PSSap member.

When some members are not satisfied

Our research identified two scenarios where the four key drivers of member satisfaction are not met for the typical MilitarySuper or PSSap member; these scenarios are:

- when a member cannot get the outcome they want from their CSC super (often because of legislation), and
- when a member encounters a 'pain point' when using CSC services.

Some of our improvements in 2017–18

- **We rewrote many of our communications**, like letters to members, in a more empathetic tone of voice and in simpler and clearer language. We want to be sure that members do not feel misunderstood or disrespected in their dealings with CSC.
- **We consolidated 11 websites into one website,** which means members can find the information they need more easily. This addresses feedback that some members had difficulty quickly locating information online.
- **We opened a walk-in shopfront for members and employers at 7 London Circuit in central Canberra** in March 2018. Members can now speak in person on many matters about their super, like how to correctly fill in benefit application forms.

These are just three of many initiatives we undertook in 2017–18 to make managing superannuation easier for our members. As trustee of some of Australia's most complex superannuation schemes, CSC initiates many improvements each year to help members make sense of their superannuation and to act effectively for their future income needs. See the Chair's Report on pages 14–16 for more of our initiatives for 2017–18.

Our customer value proposition

All initiatives we undertake deliver on CSC's customer value proposition: ***Committed service for the future wealth of our members.*** It is pleasing to note that member satisfaction with our individual super services, such as our educational seminars and financial advice service, remained high in 2017–18. More information about member satisfaction with CSC's individual services can be found on pages 23–25.

Our Board

3

3. Our Board

CSC's governing legislation establishes the CSC Board. The function of the Board is to ensure that CSC performs its functions as outlined in the governing legislation 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.

This section details the composition and responsibilities of the Board, Board remuneration and director indemnity, as well as explaining how the Board's authority is delegated and how Board performance is reviewed. Directors for 2017–18 are listed below.

Composition

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

The Chair is appointed by the Minister after consultation with the Minister for Defence, and after the Board has agreed to the person proposed by the Minister.

All directors must meet the fitness and proprietary standards under the SIS Act.

Responsibilities

The Board is responsible for the sound and prudent management of CSC's superannuation schemes. Directors and CSC employees are required to comply with the Board's governance policy framework.

The framework includes policies such as the Board Charter, Conflicts Management Policy and Framework, 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 reviewed regularly to ensure they remain current. CSC employees exercising delegations are accountable to the CEO, who in turn is responsible to the Board. Sensitive or extraordinary matters that arise within delegated powers are usually referred by the CEO to the Board.

Performance review

The Board's performance is formally evaluated annually, including evaluation of the Board as a whole, the Chair, individual directors and Board committees. A range of matters are examined: performance relative to objectives, fulfilment of responsibilities, structure and skills, strategic direction and planning, policy development, and monitoring and supervision.

There is a standing Board agenda item for open discussion and meeting evaluation. This may include management of Board agenda items and the conduct of Board meetings.

All directors participate in ongoing professional development activities.

Remuneration

The Remuneration Tribunal determines the remuneration of CSC directors (*Remuneration Tribunal Act 1973*), including for members of the Audit Committee and the reconsideration committees.

Remuneration is disclosed in our annual financial statements included in this report.

Director indemnity

The director or a delegate of the Board, acting in good faith, will not be subject to any action, liability, claim or demand, for anything done (or not done) in the performance of their functions under CSC's governing legislation. CSC, however, may be subject to an action, liability, claim or demand.

As well as legislative indemnity for directors and delegates of the Board, CSC holds trustee liability and comprehensive crime insurance which complies with the *Corporations Act 2001*. CSC has provided all directors with a deed of indemnity, insurance and access.

Diversity

CSC aims to work in a supportive and collaborative way. We support and encourage a diverse and inclusive workforce by fostering a culture and environment of respect, courtesy, honesty and integrity, and treat others as we wish to be treated ourselves. We appreciate difference and respect other perspectives and cultures.

Our commitment to diversity starts at the Board level. CSC believes we will achieve better outcomes for members and shareholders, a higher standard of corporate governance, improved financial performance and attract and retain talented female staff, if we genuinely embrace the goal of cognitive diversity, which is realised through gender equality and a spectrum of skills and experience.

CSC's commitment to diversity is detailed in our Diversity Policy, available on our website at **csc.gov.au.**

In accordance with these commitments, CSC actively encourages our investment managers to engage with investee companies that support these targets.

Our Board members in 2017–18

Mrs Patricia Cross

Appointed 1 July 2014; re-appointed 1 July 2017 to 30 June 2020

- Chair of the Board
- Member of the Board Governance Committee
- Member of the Remuneration and HR Committee

Mrs Cross is a non-executive director of Aviva plc (since 2013), a senior independent director of Aviva Investors Holdings Limited (since January 2017) and an Ambassador of the Australian Indigenous Education Foundation (AIEF). Having begun her career in public service with the United States Government, Mrs Cross went on to gain extensive international financial services experience living and working in seven countries. She worked with Chase Manhattan Bank and Chase Investment Bank (1981–87), Banque Nationale de Paris (1987–88) and National Australia Bank (1988–96) where she ran Wholesale Banking & Finance and was a Member of the Group Executive Committee.

Since 1996 she has served as a public company director for Suncorp-Metway Limited (1996–2000), AMP Limited (2000–03), Wesfarmers Ltd (2003–10), Qantas Airways Limited (2004–13), National Australia Bank (2005–13), Macquarie Group Limited (2013–18) and Macquarie Bank Limited (2013–18). She was also Chairman of Qantas Superannuation Limited (2002–05), Deputy Chairman of the Transport Accident Commission of Victoria (1997–2001) a founding director of the Grattan Institute (2008–15) and founding Chair of 30% Club Australia (2015–18).

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.

Mrs Cross has previously served on a wide range of not-for-profit boards, including the Murdoch Children's Research Institute (2002–11) and was the Co-Chair of WomenCorporateDirectors in Australia (2014–17). In 2001, Mrs Cross received the Australian Centenary Medal for service to Australian society through the finance industry and Mrs Cross has a BSc (Hons) in International Economics from Georgetown University School of Foreign Services. In 2018, she was awarded Life Fellowship with the Australian Institute of Company Directors.

Mrs Ariane Barker

Appointed 13 September 2016 to 12 September 2019

- Member of the Audit Committee
- Member of the Risk Committee

Mrs Barker is CEO at Scale Investors (since 2018), a Board director at IDP Education (since 2015); Chair of the Audit and Risk Committee at IDP Education (since 2015); a member of the Investment Committee and Development Board at the Murdoch Children's Research Institute (since 2011); and a member of the Community Advisory Committee at the Royal Victorian Eye and Ear Hospital (since 2013).

Mrs Barker was previously a Board director at Taralye, The Oral Language Centre for Deaf Children (2011–14) and was the General Manager, Products and Markets at JBWere (2015–17). Mrs Barker has over 20 years of experience in international banking and finance, including roles as Director, Equities Division at HSBC (2005–08); Executive Director, Equities Division at Goldman Sachs (Asia) (2000–02); and Associate – Capital Markets at Merrill Lynch International (1994–99).

Mrs Barker has a Bachelor of Arts degree in Economics and Mathematics from Boston University and is a Fellow of the Australian Institute of Company Directors.

The Hon. Chris Ellison

Appointed 1 July 2014; re-appointed 1 July 2017 to 30 June 2020

- Member of the Board Governance Committee
- Chair of the Remuneration and HR Committee

The Hon. Chris Ellison is Chancellor of the University of Notre Dame Australia since 2018 (and has been a Director since 2015 and Governor since 2009). He is also Chair of the Trinity College Board, Perth since 2018 (having been a Board Member since 2010), Chair of the SAS Regiment Resources Fund fundraising committee (since 2014) and Director of Business Excellence Australian (since 2013). He is presently an advisor to DORIC JAXON Consolidated Pty Ltd (since 2018) and an advisor to Quintis Corporation (formerly TFS Corporation) (since 2009). Mr Ellison is also a director of ARIA Co Pty Ltd and is a member of the Western Australian Law Society.

He was previously a director of Doric Construction Group (2011–15), Chairman of Australia's North West Tourism Board (2011–15), and a member of the Study Group Academic (SGA) Council and Chair of the Academic Board West for SGA (2014–18).

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 remains Australia's longest serving Justice Minister. He has also held a legal practising certificate for over 30 years. He has a B.Juris and LLB, both from the University of Western Australia.

Ms Nadine Flood

Appointed 1 July 2011; re-appointed 1 July 2017 to 30 June 2020

- Nominee of the President of the ACTU
- Member of the Audit Committee
- Member of the Risk Committee

Ms Flood is the National Secretary of the Community and Public Sector Union (CPSU) (since 2010), a director of the Centre for Policy Development (since 2017, having previously held the position from 2010–15), a director of Shared Advantage Pty Ltd (since 2011) and ACTU Member Connect (since 2011), a member of the ACTU Growth and Campaign Committee (since 2010), a member of ACTU Executive (since 2009), Vice President of the Australian Council of Trade Unions (since 2015) and a member of the ALP National Executive (since 2015).

Ms Flood was a member of the ALP National Policy Forum (2013–16). Ms Flood has a Bachelor of Economics degree from Macquarie University.

Ms Winsome Hall

Appointed 1 July 2011; re-appointed 1 July 2016 to 30 June 2019

- Nominee of the President of the ACTU
- Member of the Board Governance Committee
- Member of the Remuneration and HR Committee
- Member of the APS Reconsideration Advisory Committee

Ms Hall was a trustee of CSC's predecessor organisations ARIA and the CSS and PSS Boards (1996–2011). She is Chair of Zurich Australia Superannuation Pty Ltd (since 2010), is an independent non-executive director of the Medical Research Commercialisation Fund (since 2007) as a nominee of Australian Super, is Chair of the Women in Super NSW Mother's Day Classic (since 2013) and is director of the National Breast Cancer Foundation (since 2016). Ms Hall is also the Chair of ARIA Co Pty Ltd.

Ms Hall was previously a non-executive director of various financial sector companies including Colonial First State Private Capital Limited (2001–08), State Super Financial Services (2006–09) and the Financial Industry Complaints Scheme (2004–08) and was a non-executive director of the commercial fund Uniseed (2005–15).

She was also 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 Garry Hounsell

Appointed 1 July 2016 to 30 June 2019

- Chair of the Audit Committee
- Member of the Risk Committee

Mr Hounsell is Chairman of Myer Holdings Limited (since 2017), Chairman of Helloworld Travel Limited (since 2016) and non-executive director and Chair of the Audit Committee at Treasury Wine Estates Limited (since 2012). Mr Hounsell is also the Advisory Chairman for Acciona Australia and Asia (since 2015), Advisory Board Member of Charter Keck Cramer (since 2013), and a member of the Investment Committee of Investec Global Aircraft Fund (since 2007).

Mr Hounsell was previously the Chairman and a non-executive director of Spotless Group Holdings Limited (2014–17), the Chairman of Emitch Limited (2006–08) and PanAust Limited (2008–15). He was also previously an Advisory Board Member of PanAust Limited (2015–17), Rothschild Australia Limited (2012–17), and a director at Orica Limited (2004–13), Nufarm Limited (2004–12), Qantas Airways Limited (2005–15), Mitchell Communication Group Limited (2008–10), Integral Diagnostics Limited (2015–17), Dulux Group Limited (2010–17) and Investec Aircraft Syndicate Limited (2012–18).

Mr Hounsell was a Senior Partner at Ernst & Young (2002–04), CEO and Managing Partner of Arthur Andersen (2001–02) and a Partner at Arthur Andersen (1989–2002).

Mr Hounsell has a Bachelor of Business (Accounting) from the Swinburne Institute of Technology (1975) and is a Fellow of Chartered Accountants Australia and New Zealand, and a Fellow of the Australian Institute of Company Directors.

Mr Sunil Kemppi

Appointed 1 July 2016; re-appointed 1 July 2018 to 30 June 2019

- Nominee of the President of the ACTU

Mr Kemppi is a Senior Industrial Officer with the Community and Public Sector Union (CPSU), where he provides industrial and legal advice (since 2015). Mr Kemppi is an Australian legal practitioner and has worked within the trade union movement since 2009.

Mr Kemppi served as a Board director for the Victorian Contract Cleaning Industry Portable Long Service Leave Fund Pty Ltd (2014–15).

Mr Kemppi has been an Organiser, Industrial Officer and Lead Industrial Officer with United Voice (2009–15), CSO and Trustee Service Consultant with Australian Administrative Services (2006–09), and Market Research Interviewer for the National Australia Bank (2004–06).

Mr Kemppi is a Juris Doctor and has a Graduate Diploma of Legal Practice, a Bachelor of Arts (Pol. Phil.), and a Graduate Diploma of Journalism.

Air Vice-Marshal Tony Needham, AM

Appointed 1 July 2016 to 30 June 2019

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

Air Vice-Marshal Needham is a member of the Royal Australian Air Force Active Reserve (since early 2016), following a distinguished career over three decades in the permanent Air Force (1978–2015). His military service included holding the position of Head People Capability, Department of Defence (2014–15) and Deputy Commander, Joint Task Force 633, Middle East (2013).

Air Vice-Marshal Needham also served as a Commissioner of the Military Rehabilitation and Compensation Commission (2014–15) and Chair of the Defence Force Recruiting Board of Management (2014–15).

Air Vice-Marshal Needham holds a Master of Arts in Strategic Studies, Deakin University; a Graduate Diploma in Management Studies and is a graduate of the Australian Institute of Company Directors. Air Vice-Marshal Needham was appointed as a member in the Order of Australia in 2005 primarily for work in the personnel area of the RAAF.

Ms Peggy O'Neal

Appointed 1 July 2011; re-appointed 1 July 2017 to 30 June 2020

- Member of the Board Governance Committee
- Member of the Remuneration and HR Committee
- Chair 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 subsidiary (superannuation fund trustee company), NULIS Nominees (since 2011).

She is an independent member of the Audit and Compliance Committee of UniSuper Ltd (since 2009), a member of the Victorian Ministerial Council on Women's Equality (since August 2017), an independent member of the External Compliance Committee for Vanguard Investments Australia (since 2009), the President of the Richmond Football Club (since 2013, having been a director from 2005), and a director of Womens' Housing Limited (since 2013). Ms O'Neal was Chair of the Victorian Government Taskforce on Women in Sport and Recreation (2014–16). Ms O'Neal is also a director of ARIA Co Pty Ltd (since 2016).

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 practise 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; re-appointed 2 May 2017 to 1 May 2020

- Nominee of the Chief of the Defence Force
- Chair of the MilitarySuper Reconsideration Committee
- Chair of the Defence Force Case Assessment Panel
- Chair of the Risk Committee
- Member of the Audit Committee

Air Vice-Marshal Staib is a director of QinetiQ Australia (since 2017), a director of the Australian Strategic Policy Institute (since 2015), a member of the Industry Advisory Board for the Centre for Supply Chain and Logistics at Deakin University (since 2017), and a member of the Royal Australian Air Force Active Reserve (since 2012), following a distinguished career over three decades in the permanent Air Force.

Air Vice-Marshal Staib is also a Division Councillor of the Royal Aeronautical Society (Australian division) and a Northern Territory Defence and National Security Advocate (since 2017). Her military service included holding the position of Commander Joint Logistics and Commandant of the Australian Defence Force Academy.

Air Vice-Marshal Staib formerly held the position of Chief Executive Officer of Airservices Australia (2012–15). She was also a member of the Industry Advisory Board for the Centre for Aeronautical and Aviation Leadership of Embry-Riddle Aeronautical University (2010–15). She is also a Certified Professional 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 a member in the Military Division of the Order of Australia in 2009. 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

Appointed from 1 July 2017 to 30 June 2020

- Chair of the Board Governance Committee
- Member of the Remuneration and HR Committee

Dr Vertigan has experience in the public, higher education, philanthropy and business sectors. He is the former Chair of the AGEST Superannuation Fund (2004–08) and former Secretary of the Victorian (1993–98) and Tasmanian (1989–93) Departments of Treasury and Finance. He has held a number of academic appointments and is a former Chancellor of the University of Tasmania.

Dr Vertigan is currently Independent Chair of the Gas Market Reform Group established by the COAG Energy Council (since 2016) and a member of the Audit and Risk Committee of Comcare (since 2016). He has previously held appointments on corporate boards and on a wide range of Commonwealth, State and Territory government businesses, statutory bodies and advisory panels. He was a director of CSC from 2011 to 2016, and is a director of ARIA Co Pty Ltd (since 2017).

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).

Board meeting attendance

Table 5. Board and standing Board committee meeting attendance in 2017–18

	Board meetings (9)	
	Attended	Eligible to attend
Patricia Cross	9	9
Ariane Barker	8	9
The Hon. Chris Ellison	9	9
Nadine Flood	8	9
Winsome Hall	9	9
Garry Hounsell	9	9
Sunil Kemppi	9	9
Air Vice-Marshal Tony Needham, AM	9	9
Peggy O'Neal	9	9
Air Vice-Marshal Margaret Staib, AM, CSC	8	9
Dr Michael Vertigan, AC	8	9

Board committees

Established committees assist the CSC Board to carry out its responsibilities. Committee members are appointed by the Board and each committee has its own Board-approved terms of reference, which are reviewed from time to time.

The Board has four standing committees: the Audit Committee, the Remuneration and HR Committee, the Board Governance Committee, and the Risk Committee.

Table 6.CSC Board committees

Committee	Purpose	Membership
Audit Committee	To assist the Board in discharging its responsibilities by providing an objective non-executive review of CSC's financial reporting 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 • audit effectiveness, independence, scope and planning.	• Garry Hounsell (Chair) • Ariane Barker • Nadine Flood • Margaret Staib, AM, CSC
Risk Committee	To assist the Board in discharging its responsibilities by overseeing CSC's risk culture, risk frameworks and management of risk. Functions include: • business operations • technology and cyber security • fraud • insurance • business continuity and recovery • liquidity • investment governance and counterparty risk compliance.	• Margaret Staib, AM, CSC (Chair) • Ariane Barker • Nadine Flood • Garry Hounsell
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.	• Dr Michael Vertigan, AC (Chair) • Patricia Cross • The Hon. Chris Ellison • Winsome Hall • Peggy O'Neal
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.	• The Hon. Chris Ellison (Chair) • Patricia Cross • Winsome Hall • Peggy O Hall • Dr Michael Vertigan, AC

Table 7. Audit and Risk Committee meetings attendance in 2017–18

	Audit Committee meetings (6)		Risk Committee meetings (5)	
	Attended	Eligible to attend	Attended	Eligible to attend
Ariane Barker	6	6	5	5
Nadine Flood	4	6	3	5
Garry Hounsell	6	6	5	5
Air Vice-Marshal Margaret Staib, AM, CSC	6	6	5	5

Table 8. Board Governance and Remuneration and HR committees meetings attendance in 2017–18

	Board Governance Committee meetings (4)		Remuneration and HR Committee meetings (5)	
	Attended	Eligible to attend	Attended	Eligible to attend
Patricia Cross	3	4	4	5
The Hon. Chris Ellison	4	4	5	5
Winsome Hall	4	4	5	5
Peggy O'Neal	3	4	5	5
Dr Michael Vertigan, AC	4	4	4	5

Other Board committees

The Board has also established three committees which, on application by affected members, reconsider some decisions made under scheme legislation. These committees are:

- the Australian Public Sector Schemes Reconsideration Committee
- the MilitarySuper Reconsideration Committee
- the Defence Force Case Assessment Panel.

The Board may establish other committees from time to time.

Our Governance

4

4. Our Governance

Introduction

The CSC Board aspires to best practice and to be a leader in governance policy and practice. Our Board's governance framework includes the following policies (most of which are also available on our website):

- Board Charter
- Board Performance Evaluation Policy
- Board Renewal Policy
- Conflicts Management Framework and Policy
- Diversity Policy
- Fit and Proper Policy
- Governance Framework
- Privacy Policy
- Remuneration Policy
- Whistleblower Protection and Public Interest Disclosure Policy.

Following are the details of CSC's regulatory requirements, our approach to financial management, risk management and our compliance program. Also outlined are the fraud control and internal audit measures CSC has put in place.

Our regulatory requirements

CSC was established under the Governance of Australian Government Superannuation Schemes Act 2011 (GAGSS Act) and is responsible for the super schemes covered in this report. Our objectives and functions, as set out in CSC's governing legislation, are outlined on **page 10.** Our governing legislation establishes accountability arrangements for CSC, including annual reporting to Parliament and tabling of audited financial statements.

CSC holds both a Registrable Superannuation Entity (RSE) licence and an Australian Financial Services (AFS) licence, which means we are regulated by the Australian Prudential Regulation Authority under the *Superannuation Industry (Supervision) Act 1993* and the Australian Securities and Investments Commission under the *Corporations Act 2001*. 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 our individual schemes. Our regulated schemes must be managed and invested in accordance with the CSS Act, the PSS Act, the MilitarySuper Act, the PSSap Act, and the ADF Super Act, together with the relevant trust deeds under these Acts.

Our unregulated schemes are established by and must be administered in accordance with the 1922 Act, the DFRB Act, the DFRDB Act, the PNG Act, and the ADF Cover Act, as relevant.

Our financial management

CSC's finances are managed in accordance with the PGPA Act, our governing legislation and relevant scheme legislation. A Board-approved budget is in place and the Board has delegated its authority to individual staff to make and implement certain financial decisions.

Our risk management

Our Risk Management Strategy sets out CSC's risk management principles, our risk management framework and the underlying components and processes we use to identify, assess and mitigate risks.

Our Risk Appetite Statement describes the level of risk CSC is prepared to take on to achieve our objectives. The Risk Appetite Statement and Risk Management Strategy meet APRA's requirements under Prudential Standard SPS 220 and both are reviewed at least annually and updated as required.

Our compliance program

A detailed compliance program underpins CSC's Risk Management Strategy, satisfying the requirements of our RSE and AFS licences. Staff and service providers must regularly certify that they comply 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.

CSC's Audit Committee oversees compliance reporting, including remediation if a breach has occurred. CSC has a Breach and Compliance Policy that describes how to report such breaches and this policy is distributed to our service providers.

Fraud control

Strategies to manage the risks of fraud and corruption are set out in CSC's Fraud Control and Corruption Plan. The plan is reviewed annually and updated as required.

Internal audit

Audits to address changes to business priorities or to CSC's risk profile can be initiated at any time by either the Board or the Audit Committee. The Audit Committee's annual internal audit plan 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.

Our Investments

5

5. Our Investments

Introduction

CSC manages and invests five schemes:

- CSS (Commonwealth Superannuation Scheme)
- PSS (Public Sector Superannuation Scheme)
- MilitarySuper (Military Superannuation & Benefits Scheme)
- PSSap (Public Sector Superannuation accumulation plan, including the CSCri: the Commonwealth Superannuation Corporation retirement income)
- ADF Super (Australian Defence Force Superannuation).

This section details how investment performance of these schemes affects a member's superannuation benefit.

It also provides CSC investment performance to 30 June 2018, together with information on our investment approach, strategy, internal governance, environmental, social and governance practices as they relate to investments, and investment options.

How investment performance affects a member's benefit

The impact of investment performance on a member's benefits differs across our schemes. Investment returns do not affect PSS contributing members' final benefits because they are in a defined benefit. Investment performance has a greater impact on CSS contributing and deferred benefit members and on PSS preserved benefit members because in those circumstances performance directly influences a member's final benefit.

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

For MilitarySuper, investment performance directly affects the final benefit for all members, together with a small part of the employer benefit for contributing members.

Benefits in PSSap, ADF Super and CSCri (including transition to retirement income streams) are directly affected by investment performance.

The 1922, DFRB, DFRDB and the PNG schemes are unfunded superannuation schemes. While CSC administers these schemes, CSC does not invest monies for these schemes.

Our investment approach

We aim to achieve consistent long-term returns within a structured risk framework.

To achieve this, we manage and invest each scheme's investment option to enable its stated investment objective within strictly defined risk limits. Each scheme is also managed in a way that allows for payment of monies to meet member benefit payments, and to achieve equity among all members, as well as exercising care and diligence to maintain and grow the assets of the schemes.

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

Professional external investment managers are responsible for managing investments, enabling investment options in each scheme to gain exposure to a number of different asset classes.

Target asset allocation and rebalancing ranges are set for each investment option. These allocations and ranges are outlined in Table 10 on page 49.

Our investment strategy

Our investment strategy focuses on providing financial adequacy in retirement for all scheme members. The level of risk taken reflects a focus on maximising the likelihood of achieving this outcome for all CSC members.

This means that CSC-managed investment portfolios, relative to those managed by other superannuation fund providers, should help to preserve more wealth through periods of negative equity market returns and capture a proportion, but not all, of the returns available through very strong market conditions. Note, however, that through these periods of strong equity market returns, CSC members' investment returns should comfortably exceed targeted objectives.

Over the full investment horizon (that is, the length of time an investor expects to hold an investment product), as more capital is preserved in weak markets and most of the returns are captured in strong markets, the cumulative return, to members, will be very competitive and the volatility of returns will be reduced.

Our investment governance

Our investment governance focuses on managing and pricing investment risks efficiently. CSC's primary objective is to achieve stated investment objectives within strictly defined risk limits.

Our Board has established a comprehensive investment governance framework, which includes a clear statement of both Board and Executive responsibilities.

The CSC Board

Our Board is responsible for the sound and prudent management of the assets of CSC's schemes. It sets, reviews and oversees the investment strategy, mission statement and core investment beliefs. It approves and monitors investment strategies for each investment option, agrees the budget, and determines appropriate delegations.

To approve CSC's investment strategy, factors such as CSC's specific scheme-membership characteristics, including demographics, perceived organisational comparative advantages, scale (as measured by funds under management), and the broader investment environment are all explicitly considered.

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, in the context of these factors.

Our Board delegates management of investment activities to relevant members of the Executive. Reports on approved investment policies, investment performance, liquidity, risk, external investment manager and portfolio activity, portfolio structure, capital allocation and the risk budget are submitted and discussed at every Board meeting.

Our Investment team

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

Our Investment team performs two major functions:

- It executes investment strategy, option design and risk budget deployment, and monitors the evolving risks and opportunities for each fund as well as for broader financial markets.
- It identifies the most efficient implementation channels for investment strategies, where 'efficiency' is defined as the highest prospective, net (of fees), return per unit of risk.

Both functions are fulfilled by specialist senior investment managers, supported by investment analysts, who report directly to the CIO.

Our Investment Operations team

Our Investment Operations team is led by the Executive Manager Investment Operations. This executive position reports to CSC's Chief Operating Officer, who reports to the CEO. Responsibilities of the Investment Operations team include:

- implementing investment team decisions, in accordance with Board-approved delegations
- managing CSC's custodial relationship and its associated activities
- assuring that CSC's external investment managers comply with all CSC requirements
- conducting operational due diligence.

Investment managers

Under scheme legislation, CSC is required to invest through external investment managers. On the recommendation of the CIO, the Board approves the appointment of 'investment-grade' managers who may be appointed at any time by CSC.

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

External investment managers are paid a fee usually based (in part) on the value of assets managed on behalf of CSC, but importantly (where possible) on their performance in both returns and risk taking.

Fees reflect investment costs applicable to each asset class category and the investment style of each manager.

Some managers who exceed predetermined benchmarks within specified risk limits may be paid a performance fee, which is usually a share of the excess performance.

Environmental, social and governance factors

We have long endeavoured to integrate consideration of all relevant risk factors into our investment process, including those that have the potential to impact future franchise values over long horizons. We take this responsibility seriously and we have been recognised globally for our innovation and market-leading approach from both the UN and the Bretton Woods II initiative (for more on our recognition as a leader in responsible asset management, see the Chair's report on **pages 14–16).**

We actively pursue the principles of good governance in our own operations and seek them in the companies in which we invest. Poor governance, sometimes evident in poor environmental and social practices, can be a sign of poor corporate management and may lead to a decline in the value of our members' investments. We seek to identify these risks, where they are potentially material to our members' superannuation savings, and mitigate them. To this end, CSC is an active owner of all our investments because our mission is to create and steward enduring wealth for our members.

Our ownership is prosecuted through several channels, including:

- voting on all shareholder resolutions of our Australian and international investee companies
- voting on all private capital advisory board resolutions, where an advisory board position is held
- publicly communicating our ESG and proxy voting policies and practices, to which our external managers are asked to adhere
- engaging constructively and proactively with our material public-investee companies in Australia, to deepen internal corporate governance and fit-for-purpose strategic execution
- committing to reflect these practices in our own governance and innovation execution, such as:
  - in 2003 our ESG-research firm Regnan, which we founded in 2002, received the Royal Award for Responsible Investment from the United Nations
  - in 2006 we were an early signatory to the United Nations–backed Principles for Responsible Investment (PRI), founded in April 2006 (see more below)
  - in 2012 we were the first Australian fund to have its portfolio carbon foot printed by the Climate Change Institute
  - in 2015 we were an early signatory to the Montreal Carbon Pledge (see more below).

CSC is currently:

- rated A+ by the PRI global benchmarking exercise on responsible-investment prosecution by asset owners and managers
- named in New America's Bretton Woods II Leaders List of the 25 most responsible asset allocators among SWFs and Government Pension Plans around the globe (for more, go to page 47).

Principles for Responsible Investment (PRI)

In November 2006, CSC was among the earliest signatories of the United Nations–supported Principles for Responsible Investment (PRI, founded in April 2006). PRI 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 of PRI and its signatories 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.

Montreal Carbon Pledge

We are a signatory to the Montreal Carbon Pledge which is supported by PRI. It aims to increase investor awareness, understanding and management of climate change–related impacts, risks and opportunities. Under the pledge, we commit to measuring and disclosing, on at least an annual basis, the carbon footprint of our public market equities portfolio.

Table 9 shows that our public market equities carbon footprint (as at 30 June 2018) is estimated to be 14.5% lower than its benchmark by 16 million tonnes of CO_2 emissions per AUD million invested.

Table 9.CSC's public market equities carbon footprint at 30 June 2018

CSC listed equities	CSC	Benchmark	Difference
Carbon footprint*	96.7	113.1	-16.4
Coverage**	83.8%	98.3%	-14.5%

*Carbon footprint is measured in tonnes of $C0_2e$ (Scope 1 + Scope 2) per AUD million invested (as at 30 June 2018).
Carbon emissions data is sourced from MSCI ESG Research and covers the MSCI ACWI universe of companies. For more information visit **msci.com

Our investment options

Table 10. CSC investment options at 30 June 2018

Investment option (scheme)	Objective	Risk		Minimum suggested time frame	Target asset allocation including CSCri TRIS (ranges)	CSCri standard target asset allocation (ranges)
		Band	Label			
Cash (CSS, PSS, MilitarySuper, PSSap, CSCri and ADF Super)	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	One	Very low	1 year	Cash 100% (100%)	Cash 100% (100%)
Income Focused (MilitarySuper, PSSap, CSCri and ADF Super)	To outperform the CPI by 2% per annum over 10 years	Three	Low to medium	5 years	Cash 30% (10–100%) Fixed interest 20% (10–100%) Equities 15% (0–40%) Property 24% (0–35%) Infrastructure 1% (0–35%) Alternatives 10% (0–70%)	Cash 35% (10–100%) Fixed interest 20% (10–100%) Equities 10% (0–40%) Property 24% (0–35%) Infrastructure 1% (0–35%) Alternatives 10% (0–70%)
Default Fund (CSS/PSS) Balanced (MilitarySuper and CSCri) MySuper Balanced (PSSap and ADF Super)	To outperform the CPI by 3.5% per annum over 10 years	Five	Medium to high	10 years	Cash 15% (0–65%) Fixed interest 14% (0–65%) Equities 45% (15–75%) Property 10% (5–25%) Infrastructure 1% (0–20%) Alternatives 15% (0–30%)	Cash 19% (0–65%) Fixed interest 15% (0–65%) Equities 40% (15–75%) Property 10% (5–25%) Infrastructure 1% (0–20%) Alternatives 15% (0–30%)
Aggressive (MilitarySuper, PSSap, CSCri and ADF Super)	To outperform the CPI by 4.5% per annum over 10 years	Six	High	15 years	Cash 3% (0–35%) Fixed interest 5% (0–35%) Equities 65% (20–95%) Property 16% (0–50%) Infrastructure 1% (0–50%) Alternatives 10% (0–70%)	Cash 3% (0–35%) Fixed interest 5% (0–35%) Equities 60% (20–95%) Property 16% (0–50%) Infrastructure 1% (0–50%) Alternatives 15% (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's Product Disclosure Statement (PDS).

Our investment performance

Investment performance for each option is calculated after fees and taxes (please note that past performance is no indication of future performance).

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 2017 to 30 June 2018 for this report) and is indicative only of the returns that a member achieves on their investment.

Earning rates (for CSS and PSS) and unit prices (for MilitarySuper, PSSap, CSCri and ADF Super) are used for daily member transactions and will determine the actual performance a member achieves based on the timing and amount 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 incorporated 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 investment performance for the 1 July 2017 to 30 June 2018 period will provide similar—but not identical—returns to the investment performance figures published below.

Analysis of CSC's investment performance is included in the Chair's report on pages [14–16] and in the Annual Performance Statement on page 17.

Table 11. CSS investment performance to 30 June 2018

	Objective	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Australian inflation		2.1	1.7	1.9	2.1
Options					
Default Fund	To outperform the CPI by 3.5% per annum over 10 years	9.4	6.9	8.9	6.0
Cash Investment Option	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets.	1.5	1.7	1.8	2.8

Table 12. PSS investment performance to 30 June 2018

	Objective	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Australian inflation		2.1	1.7	1.9	2.1
Options					
Default Fund	To outperform the CPI by 3.5% per annum over 10 years	9.3	6.8	8.8	5.9
Cash Investment Option	To preserve capital and earn a pre-tax return inline with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	1.5	1.6	1.8	2.8

Table 13. MilitarySuper investment performance to 30 June 2018

	Objective	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Australian inflation		2.1	1.7	1.9	2.1
Options					
Cash	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	1.4	1.6	1.8	2.8
Income focused	To outperform the CPI by 2% per annum over 10 years	6.2	6.1	6.3	4.2
Balanced (default)	To outperform the CPI by 3.5% per annum over 10 years	9.3	6.9	8.8	4.9
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	10.5	7.8	10.4	4.9

Table 14. PSSap investment performance to 30 June 2018

	Objective	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Australian inflation		2.1	1.7	1.9	2.1
Options					
Cash	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	1.4	1.6	1.8	2.8
Income focused	To outperform the CPI by 2% per annum over 10 years	6.2	5.9	6.1	5.4
MySuper Balanced (default)	To outperform the CPI by 3.5% per annum over 10 years	9.3	6.8	8.8	6.0
Ancillary Balanced	To outperform the CPI by 3.5% per annum over 10 years	9.2	6.7	8.7	6.6
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	10.5	7.7	10.5	6.8

Table 15. CSCri investment performance to 30 June 2018

	1 year (%)	3 years (%) pa	5 years (%) pa
Australian inflation	2.1	1.7	1.9
Options			
Cash	1.7	1.9	2.1
Income focused (default)	6.5	6.3	6.6
Balanced	9.8	7.2	9.6
Aggressive	11.6	8.4	11.5

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.

Table 16. CSCri TRIS investment performance to 30 June 2018

	Objective	1 year (%)
Australian inflation		2.1
Options		
Cash	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	1.4
Income focused	To outperform the CPI by 2% per annum over 10 years	6.7
Balanced (default)	To outperform the CPI by 3.5% per annum over 10 years	9.5
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	10.9

Table 17. ADF Super investment performance to 30 June 2018

	Objective	1 year (%)	2 years (%) pa
Australian inflation		2.1	2.0
Options			
Cash	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	1.5	1.6
Income focused	To outperform the CPI by 2% per annum over 10 years	6.2	6.1
MySuper Balanced (default)	To outperform the CPI by 3.5% per annum over 10 years	9.3	9.4
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	10.6	11.1

Our Superannuation Services

6

6. Our Superannuation Services

Help for our members

We strive to provide superannuation services that are relevant, reliable and helpful to our members. We want our members to be able to make informed decisions about their superannuation and their future income needs.

We provide to our members:

- general information delivered over the phone and by email
- secure management of members' accounts online
- education and general advice via seminars and webinars
- general advice delivered person to person (known as 'one-to-one information sessions')
- personal financial advice from financial planners who are salaried CSC employees authorised to provide advice by Guideway Financial Services (ABN 46 156 498 538, AFSL 420367).

Our services to members are described in more detail below.

Help for our employers

In addition to services for our members, we also help our many employers to meet their superannuation responsibilities.

We provide to our employers:

- a CSC employer relationship manager who provides organisational-level support regarding superannuation
- training for payroll and HR staff, including salary for super, super contributions and choice of fund obligations
- an Employer Service Desk located in our Canberra headquarters to answer general questions about superannuation.

Our members' and employers' satisfaction with our services

Overall, **member satisfaction** with our services increased in the 12 months to 30 June 2018, with CSC's member Net Promoter Score increasing four points in that time. The Net Promoter Score is a standard industry measure of member and employer satisfaction with their particular superannuation fund. More detail about CSC's overall member satisfaction levels and our use of the Net Promoter Score can be found on pages 23–24.

As well as measuring member satisfaction with our services as a whole, we also measured satisfaction with our individual services. We asked: ***How would you rate your service experience on a scale of 1 to 5, with 1 being very dissatisfied and 5 being very satisfied?*** Members, on average, told us they were ***satisfied*** or ***very satisfied*** with our service. The results for individual services are explained in more detail below.

Employer satisfaction with our services also increased in the 12 months to 30 June 2018, with CSC's employer Net Promoter Score increasing 16 points in that time. More information about employer satisfaction can be found on pages 23–25.

Seminars for members

In 2017–18, our member education team presented more than 500 seminars and webinars at capital city and regional locations around Australia. The seminars and webinars covered topics including superannuation basics, how to set a budget, how to create wealth through superannuation, and financial considerations when planning to leave the workforce.

Our seminars and webinars encourage members to ask themselves important questions about their retirement needs. Some of the questions our seminars encourage are:

- How much super will I need?
- Am I on track?
- Should I make extra contributions?
- What is the right investment option for me?
- Do I need extra insurance cover in the unlikely event something goes wrong?
- Is now the right time to get personal advice for my needs and goals?

Members told us they were generally very satisfied with the seminar or webinar they attended, giving it an average score of 4.2 – with 1 being very dissatisfied and 5 being very satisfied.

Members told us they liked receiving new information about superannuation that only an expert would know, and having confusing aspects of superannuation explained in ways they can understand. If members expressed any dissatisfaction, it was usually about wanting more time to ask questions at the end of seminars.

Military one-to-one information sessions

Our education team provides general advice on superannuation and retirement planning to individual military scheme members. In 2017–18, we provided nearly 3,500 one-to-one information sessions to members at ADF locations around Australia.

Sessions covered general advice including how to contribute to superannuation, how to access superannuation at retirement, and how superannuation is taxed.

Military members were usually very satisfied with their one-to-one session, scoring it 4.6 on average. Members liked the easy-to-understand and professional explanation of superannuation they received. If members expressed any dissatisfaction with their one-to-one session, it was usually because of waiting times for one-to-one sessions.

Personal financial advice

In 2017–18, our financial planning team provided fee-for-service personal financial advice to more than 1,200 members. Members received personal advice for their individual objectives, financial situation and needs. Advice was provided on a range of financial matters including how to plan for retirement; how to reduce debt; how to achieve lifestyle goals, such as saving to renovate or to holiday; and how to achieve other long-term goals, such as saving an inheritance.

Members usually told us they were very satisfied with the advice they received, scoring it 4.2 on average. Members told us that receiving clear and professional advice, and the advice provided being in their best interest, were important to them. Many members liked that their financial adviser was a CSC salaried employee not paid commissions or any hidden financial incentive. When members were not satisfied with the service they had received, however, they had often wanted to get advice for their individual needs and goals sooner, especially at 30 June.

Fee-for-service advice for members

Personal financial advice has been provided on a fee-for-service basis to members since CSC first offered advice in early 2013. Fee-for-service means members only pay for the time their adviser takes to prepare and deliver them their financial plan.

Our financial planners are now employed by CSC

Until November 2017, we offered personal advice to members through Industry Fund Services (IFS). Members met with an IFS planner, and all aspects of our financial advice service, including the day-to-day business management, were outsourced to, and provided by, IFS.

In November 2017, CSC moved to an Authorised Representative model where our financial planners are employed by CSC and business management is provided by CSC. Under this new arrangement, CSC's financial planners are authorised to provide advice by Guideway Financial Services (ABN 46 156 498 538, AFSL 420367). Guideway is a licensed financial services business providing CSC financial planners with support to provide members with specialist advice, education and strategies.

Salaried employees means no commissions

As salaried employees of CSC, our financial planners do not receive commissions. Rather, we assess their performance on a combination of activity and quality metrics, including the number of member appointments they conduct, the number of financial plans they deliver, their adherence to CSC's values, and member satisfaction levels with the service and advice they provide.

Help for our members by phone and email

By phone

In 2017–18, we answered almost 200,000 phone calls from our PSS, CSS, MilitarySuper and DFRDB members, while Mercer Administration answered more than 71,000 calls from PSSap, ADF Super and CSCri members. Members called for help with many general superannuation matters ranging from superannuation benefits, benefit options and taxation of superannuation, to members telling us their email, postal address or other personal information had changed.

After speaking with a CSC Customer Information Representative on the phone, members usually told us they were very satisfied with the experience, scoring it 4.5 on average.

By email

Members also requested general information about superannuation via email. In 2017–18, we replied to almost 93,000 emails from our PSS, CSS, MilitarySuper and DFRDB members, while Mercer Administration received more than 23,500 emails from our PSSap, ADF Super and CSCri members.

Our Superannuation Schemes

7

7. Our Superannuation Schemes

Introduction

We manage 11 superannuation schemes for Australian Government employees and members of the Australian Defence Force. Our functions in relation to our superannuation schemes are set out in our governing legislation (outlined on pages 10–11 of this report).

This section details our performance in relation to these functions for each scheme in 2017–18.

Scheme legislation and trust deeds

From time to time, changes are made to scheme legislation and trust deeds. Changes made during 2017–18 are detailed in the individual scheme subsections of this section.

Reviewing decisions and complaints

Decisions that we make are subject to both internal review – called the reconsideration process—and to external review by other bodies.

We have formal procedures to resolve member complaints. These procedures comply with the *Corporations Act 2001* and 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.

The number of complaints received in 2017–18 is shown with each superannuation scheme report on the following pages.

CSS

Commonwealth Superannuation Scheme

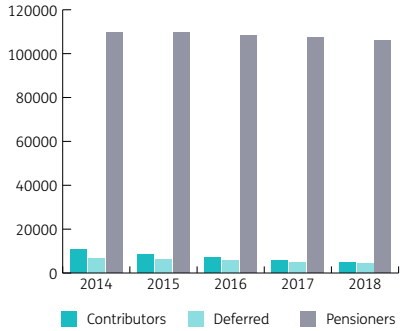
Overview of CSS

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 an employer component.

The member and productivity components are the accumulation part. It consists of member and productivity contributions and fund earnings. The employer component is the defined benefit part. It is unfunded and generally paid as a lifetime non-commutable indexed pension (lifetime pensions are paid by the Australian Government).

CSS membership

Figure 1. CSS members and pensioners over five years



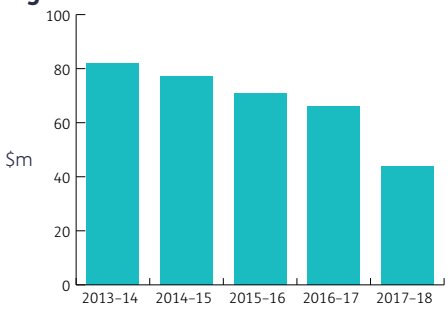
Note: Figures are at 30 June of each year; 'pensioners' represent the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

CSS administration

Member contributions

Members can make both basic and additional contributions to the scheme from their after-tax income. They can also voluntarily contribute into PSSap (see pages 72–75 for more details).

Figure 2. CSS member contributions

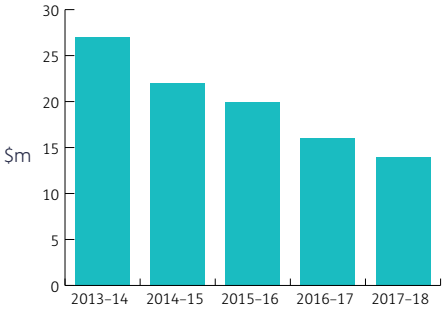


Note: This chart shows basic and supplementary contributions.

Employer contributions

Employers pay a fortnightly contribution into CSS, which is the productivity component. The amount is based on an individual member's super salary.

Figure 3. CSS employer contributions over five years



Benefit payments

Lump sums and pensions

In most cases where we pay a benefit, CSS members have exited the scheme at retirement. Generally benefits cannot be paid until minimum retirement age is reached. Pensions are generally paid to former scheme members who have exited CSS and preserved their benefit for payment at a later date. Pension payments are paid by the Australian Government.

Figure 4. CSS pension payments over five years

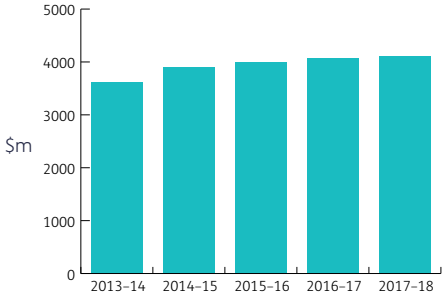
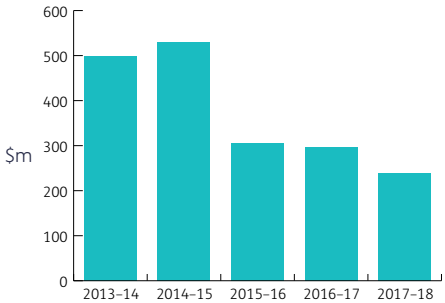


Figure 5. CSS lump sum payments over five years



Note: Lump sums are paid from the CSS fund and by the Australian Government.

Invalidity and death benefits

CSS provides partial invalidity, full invalidity and death benefits.

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

Table 18. New full invalidity pensioners in CSS

	2016–17	2017–18
Full invalidity pensioners	20	19

Note: This table shows the number of new invalidity retirement certificates issued in the relevant reporting year (not the total number of invalidity pensioners).

Partial invalidity

A partial invalidity pension – a form of income maintenance – is paid when a contributing member's salary is permanently reduced because of a medical condition.

Table 19. New partial invalidity applications in CSS

	2016–17	2017–18
New applications	3	0

Note: This table shows assessed applications including retrospective applications in the relevant reporting year.

Complaints

Table 20. Complaints received in CSS

	2016–17	2017–18
Complaints received	19	34

All complaints were resolved by 30 June 2018. Most complaints related to communication between CSC and the complainant, or to legislative changes to superannuation.

Changes to CSS's legislation

The Superannuation (Cost of Administration) Regulations 2017 replaced the sunsetting provisions of the Superannuation (Cost of Administration) Regulations 1980, to ensure continuity in requirements. The new regulations require that all CSC's costs related to the management of the CSS fund are paid by the CSS fund. The new regulations commenced on 21 December 2017.

The amended legal definition of marriage within the new *Marriage Amendment (Definition and Religious Freedoms) Act 2017* is now also recognised under the *Superannuation Act 1976*. The amendments commenced on 9 December 2017.

The *Safety, Rehabilitation and Compensation Legislation Amendment (Defence Force) Act 2017* amended the law relating to rehabilitation and compensation for Defence Force employees. From 12 October 2017, those amendments are also recognised under the *Superannuation Act 1976*.

In February 2018, the *Treasury Laws Amendment (Putting Consumers First—Establishment of the Australian Financial Complaints Authority) Act 2018* was passed by Parliament which amended the *Corporations Act 2001* and repealed the *Superannuation (Resolution of Complaints) Act 1993*.

PSS

Public Sector Superannuation Scheme

Overview of PSS

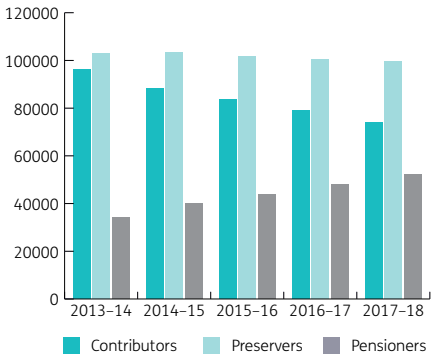
PSS is a public sector scheme established on 1 July 1990 by the PSS Act. It closed to new members on 30 June 2005. PSS is a defined benefit scheme where benefits generally derive from a member and employer component.

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 eligible employment.

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

PSS membership

Figure 6. PSS members and pensioners over five years



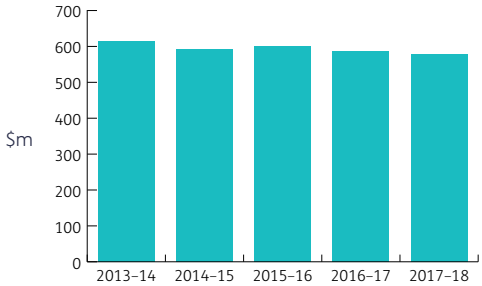
Note: Figures are at 30 June of each year; 'pensioners' represent the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

PSS administration

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 contributions into PSSap (refer to the PSSap section for details).

Figure 7. PSS member contributions over five years

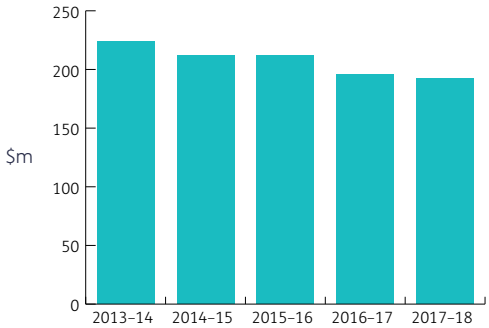


Note: This chart shows member contributions to PSS. PSS member contributions to ancillary PSSap accounts are not included in this chart.

Employer contributions

Employers pay a fortnightly contribution into PSS, which is the productivity component. The amount is based on an individual member's super salary.

Figure 8. PSS employer contributions over five years



Benefit payments

Pensions and lump sums

Benefits in PSS are paid in most cases when a member exits the scheme at retirement. Benefits usually cannot be paid until minimum retirement age is reached and the member has permanently retired from the workforce. Pensions are usually paid to former scheme members who have exited PSS and preserved their entire benefit for payment at a later date. Pension payments are paid by the Australian Government.

Figure 9. PSS pension payments over five years

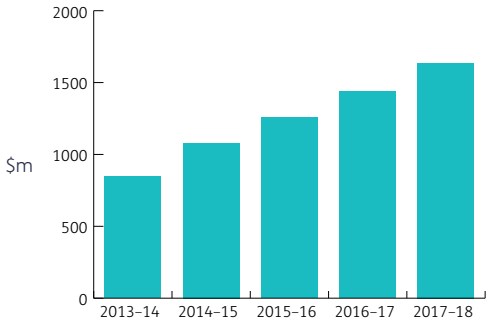
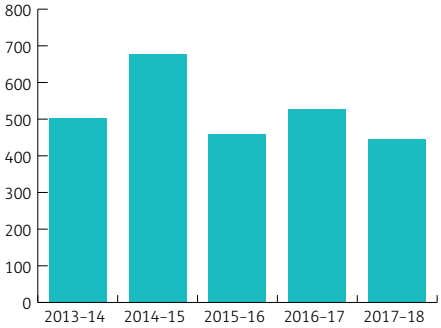


Figure 10. PSS lump sum payments over five years



Note: Lump sums are paid from the PSS fund and by the Australian Government.

Invalidity and death 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.

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 21. New full invalidity pensioners in PSS

	2016–17	2017–18
Full invalidity pensioners	173	164

Note: This table shows the number of new invalidity retirement certificates issued in the relevant reporting year (not the total number of invalidity pensioners).

Partial invalidity

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

Table 22. Partial invalidity pension applications in PSS

	2016–17	2017–18
New applications	74	10

Note: This table shows assessed applications including retrospective applications in the relevant reporting year.

Complaints

Table 23. Complaints received in PSS

	2016–17	2017–18
Complaints received	39	80

All complaints are now resolved. Most complaints related to superannuation legislation, but there was no clear reason why the number of complaints is twice those of 2016–17.

Changes to PSS's legislation and trust deed

The Superannuation Amendment (PSS Trust Deed) Instrument 2018 amended the PSS Trust Deed and Rules to take account of current and proposed enactments, including the *Safety, Rehabilitation and Compensation Legislation Amendment (Defence Force) Act 2017* and the *Marriage Amendment (Definition and Religious Freedoms) Act 2017*. The amendments simplified and updated a range of provisions and addressed matters related to preserved benefits. Most amendments took effect on 5 June 2018.

No changes were made to the *Superannuation Act 1990.*

In February 2018, the *Treasury Laws Amendment (Putting Consumers First—Establishment of the Australian Financial Complaints Authority) Act 2018* was passed by Parliament which amended the *Corporations Act 2001* and repealed the *Superannuation (Resolution of Complaints) Act 1993*.

MilitarySuper

Military Superannuation and Benefits Scheme

Overview of MilitarySuper

MilitarySuper was established on 1 October 1991 by the MilitarySuper Act. MilitarySuper closed to new ADF entrants on 30 June 2016. ADF Super is now available to new ADF entrants. MilitarySuper contributors may choose to move to ADF Super or remain in MilitarySuper.

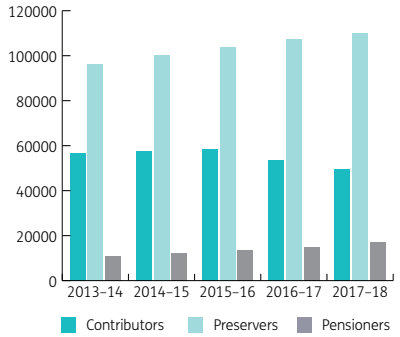
MilitarySuper is a hybrid scheme (part accumulation and defined benefit). Benefits derive from a member and employer component. The member component is the accumulation part. It consists of member contributions, any amounts notionally brought over from DFRDB, plus Fund earnings on those amounts. The 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, plus Fund earnings. Unfunded benefits are paid by the Australian Government.

MilitarySuper also offers an Ancillary membership to eligible DFRDB members who wish to make additional contributions and transfers, such as additional personal, salary sacrifice and spouse contributions.

MilitarySuper membership

Figure 11. MilitarySuper members and pensioners over five years



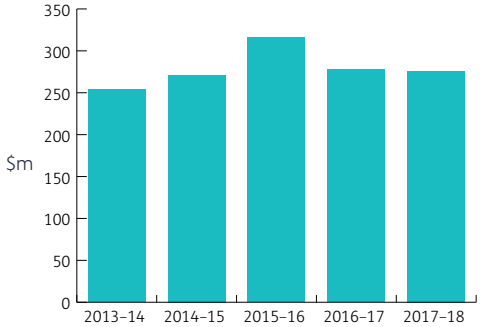
Note: Figures are at 30 June of each year; ancillary members are not included; 'pensioners' represent the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

MilitarySuper administration

Member contributions

The basic contribution rate is 5% of salary, including higher duties and other superannuate allowances as deemed by the Department of Defence. Members can elect to contribute up to 10% of their superannuation salary. Ancillary contributions are also accepted into the Fund from contributing members, including both pre - and post-tax contributions such as additional personal, salary sacrifice and spouse contributions.

Figure 12. MilitarySuper member contributions over five years



Note: This chart shows basic and ancillary contributions.

Ancillary contributions

Ancillary contributions can be made by contributing MilitarySuper and contributing DFRDB ancillary members to accumulate a separate superannuation interest called an Ancillary benefit. It accrues as a separate accumulation interest, which has fund earnings applied in line with the relevant investment option returns.

Ancillary contributions do not count towards a member's Maximum Benefit Limit in MilitarySuper nor impact the retirement pay benefit of a member's DFRDB entitlement. Ancillary contributions are only paid as a cash lump sum from a member's preservation age, or can be rolled over to another superannuation fund at any age.

Benefit payments

Pensions and lump sums

MilitarySuper members who exit the scheme are entitled to a preserved benefit, to roll out to another superannuation fund or, if they have a pre-1999 component, to receive that portion of their member benefit regardless of their reason for leaving the ADF. Exiting members must meet a criteria to be entitled to their employer benefit, the amount of which varies based on the reason for their scheme exit.

A member's employer benefit is generally preserved until the member reaches age 55. The employer benefit may be paid as a pension before a member reaches age 55 if the member exits the scheme under invalidity or redundancy.

Figure 13. MilitarySuper pension payments over five years

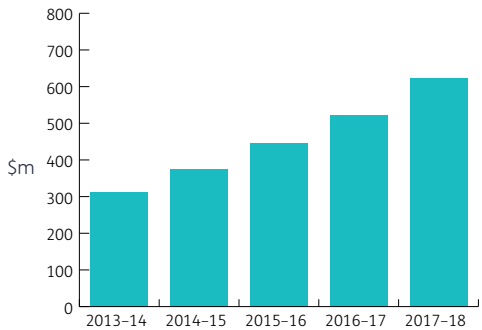
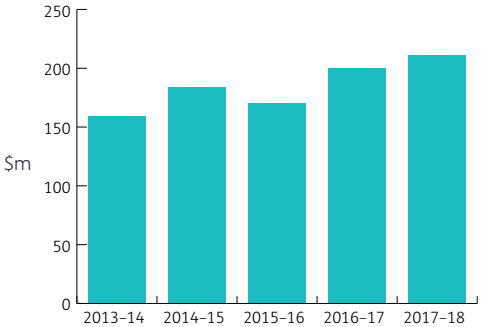


Figure 14. MilitarySuper lump sum payments over five years



Note: Lump sums are paid from the MilitarySuper fund and by the Australian Government.

Invalidity and death benefits

MilitarySuper provides partial invalidity, full invalidity and death benefits. If a member becomes disabled and is unable to continue their ADF service, invalidity benefits help them to resettle into civilian employment.

Invalidity classifications

There are three levels of invalidity classification:

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

Table 24. New invalidity classifications in MilitarySuper

	2016–17	2017–18
Initial classifications	1,288	1,523
Pensions granted	1,130	1,366
Pensions not granted	158	157

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.

Table 25. Breakdown of new invalidity classifications in MilitarySuper in 2017–18

	Army			Navy			Air Force		
Class	Class A	Class B	Class C	Class A	Class B	Class C	Class A	Class B	Class C
Membership	759	139	97	169	34	29	155	20	15

Note: This table shows the number of new invalidity retirement certificates issued in the relevant reporting year (not the total number of invalidity pensioners).

Invalidity classification review

Members classified Class A or Class B may be subject to review until age 55 by CSC or its delegate. Members can also initiate a classification level review up to age 65.

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

Complaints

Table 26. Complaints received by MilitarySuper

	2016–17	2017–18
Complaints received	188	155

All complaints were resolved by 30 June 2018. Many complaints related to communication between CSC and the complainant, or to superannuation legislation.

Changes to MilitarySuper's legislation and trust deed

No changes were made to the *Military Superannuation and Benefits Act 1991* or the Military Superannuation and Benefits Trust Deed in 2017–18.

In February 2018, the *Treasury Laws Amendment (Putting Consumers First—Establishment of the Australian Financial Complaints Authority) Act 2018* was passed by Parliament which amended the *Corporations Act 2001* and repealed the *Superannuation (Resolution of Complaints) Act 1993*.

PSSap

Public Sector Superannuation accumulation plan

Overview of PSSap

PSSap is a scheme in which members and employers pay money into the fund, and investment returns are calculated as a compound average rate of return after fees and taxes have been deducted. It was established on 1 July 2005 by the PSSap Act. PSSap is open to eligible employees of participating employers who contribute 15.4% per annum on behalf of their employees. Since 4 December 2017, certain members have been able to contribute to the scheme after leaving public sector employment.

PSSap also offers an ancillary membership to eligible CSS and PSS members who can make additional contributions and transfers, and an account-based pension product known as CSCri (Commonwealth Superannuation Corporation retirement income) to eligible public sector scheme members.

PSSap membership

Table 27. PSSap members over five years

	2014	2015	2016	2017	2018
Contributors	83,155	82,495	88,966	98,775	101,473
Preservers	46,957	46,631	43,071	36,317	34,930

Note: Figures are at 30 June of each year; ancillary members are not included.

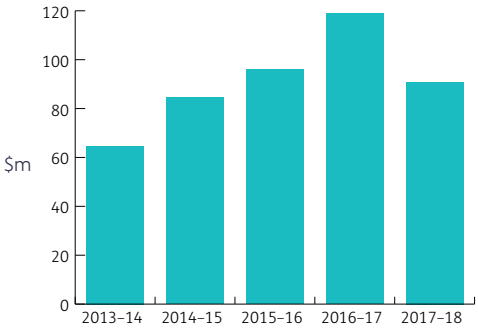
PSSap administration

Member contributions

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

Figure 15. PSSap member contributions over five years

Note: The above figures are related to PSSap ordinary members only. Ancillary and Extension/Choice members have been excluded.



Ancillary contributions

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

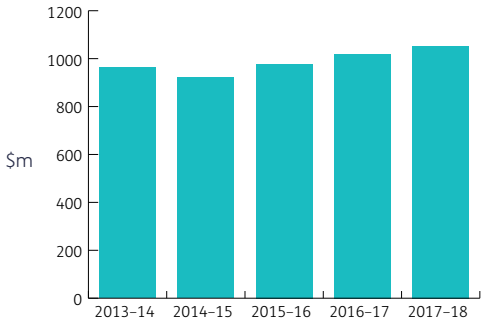
Ancillary memberships have been available since 1 July 2013.

In 2017–18, almost $93 million in ancillary contributions (in the form of salary sacrifice, personal (after tax) contributions, spouse contributions, and super transfers) were made – compared to $130 million in 2016–17.

Employer contributions

PSSap members employed by a participating PSSap employer receive 15.4% employer superannuation contributions. PSSap members not employed by a participating PSSap employer receive contributions at the current Superannuation Guarantee rate.

Figure 16. PSSap employer contributions over five years



Benefit payments

The two most common reasons for the pay out of superannuation benefits from the PSSap fund are for retirement and to consolidate funds into another superannuation fund.

Table 28. PSSap withdrawals

	2016–17	2017–18
Total withdrawals ($m)	448.275	501.165

CSCri

CSCri is an account-based pension product offered to public sector scheme members.

Table 29. CSCri members over five years

	2014	2015	2016	2017	2018
Members	181	441	777	956	1,175

Note: Figures are at 30 June of each year.

Lump sum amounts can be rolled into CSCri which generates regular income payments to members in retirement or in their transition to retirement.

Table 30. Amount rolled into CSCri

	2016–17	2017–18
Total roll-ins to CSCri ($m)	107.050	108.490

Table 31. CSCri pension payments and lump sum withdrawals

	2016–17	2017–18
Payments and withdrawals ($m)	79.964	64.361

Insurance benefits

Eligible PSSap members automatically receive cover for death or total and permanent disability (TPD), as well as income protection cover. This insurance cover offered through PSSap is called lifePLUS. Members can apply to vary, increase, decrease or withdraw from their lifePLUS cover.

lifePLUS offers both lifePLUS auto cover and lifePLUS choice cover. lifePLUS and all other insurance cover for PSSap members detailed in this report are provided by AIA Australia Limited (ABN 79 004 837 861, AFSL 230043).

Death and TPD

lifePlus provides a lump sum payment in the event of death or TPD. The level of cover varies depending on a member's age, unless a member has fixed cover in place. If a member has fixed cover in place, they receive the same level of cover until that cover ceases or until the member withdraws from that level of cover.

Members can select insurance cover for both death and TPD, or for death only.

Table 32. TPD claims in PSSap

	2016–17	2017–18
TPD claims assessed	143	84

Income protection

Income protection insurance provides a monthly income stream, paid in arrears. The income stream provides (by default) 90.4% of an eligible member's base salary. Seventy-five per cent of this amount is paid directly to the member and 15.4% is paid into the member's PSSap account for up to two years; 65.4% of a member's base annual salary is paid for a further three years.

If a member is unable to return to work because of disability caused by sickness or injury, 50% is paid directly to the member and 15.4% paid into their PSSap account.

Table 33. Income protection claims in PSSap

	2016–17	2017–18
IP claims assessed	253	373

Complaints

Table 34. Complaints received in PSSap

	2016–17	2017–18
Complaints received	243	273

All complaints were resolved by 30 June 2018. Most complaints related to insurance.

Table 35. Complaints received in CSCri

	2016–17	2017–18
Complaints received	27	10

All complaints were resolved by 30 June 2018. Most complaints related to communication between CSC and the complainant, or to the taxation of superannuation income streams.

Changes to PSSap's legislation and trust deed

The *Superannuation Amendment (PSSAP Membership) Act 2017* made amendments to the *Superannuation Act 2005* to allow former members of PSSap who leave Commonwealth employment to continue as contributory members of the scheme, known as 'former Commonwealth ordinary employer-sponsored members'. Consequent to these reforms, the Superannuation Amendment (PSSAP Trust Deed-Membership) Instrument 2017 has amended the PSSap Trust Deed and Rules.

The Superannuation (PSSAP-Former Commonwealth Ordinary Employer-Sponsored Member) Determination 2017 was made by the Minister for Finance in October 2017 to preclude those holding some Commonwealth offices from becoming 'former Commonwealth ordinary employer-sponsored members' of PSSap, which brings it into line with pre-existing PSSap membership rules.

All the above changes took effect on 4 December 2017.

Also, in February 2018, the *Treasury Laws Amendment (Putting Consumers First—Establishment of the Australian Financial Complaints Authority) Act 2018* was passed by Parliament which amended the *Corporations Act 2001* and repealed the *Superannuation (Resolution of Complaints) Act 1993*.

ADF Super

Australian Defence Force Superannuation Scheme

Overview of ADF Super

ADF Super is a military superannuation scheme established on 1 July 2016 by the ADF Super Act. It is an accumulation scheme where members and the Department of Defence (as employer) pay money into the scheme on behalf of members, with investment returns calculated as a compound average rate of return after fees and taxes are deducted.

ADF Super is open to new ADF entrants, including reservists who are in full-time continuous service. ADF Super is also open to other eligible ADF members.

ADF Super membership

Table 36. ADF Super members at 30 June 2018

	2016–17	2017–18
Members	5,539	10,044
Preservers	129	629

ADF Super administration

Member contributions

ADF Super members can make voluntary before- and after-tax contributions. Contributions for the 2017–18 financial year were $1.573m, compared with almost $0.667m in 2016–17.

Employer contributions

The Department of Defence contributes 16.4% per annum on behalf of ADF Super members. These contributions for the 2017–18 financial year were $72 million, compared with almost $27 million in 2016–17.

Benefit payments

The most common reason why superannuation benefits are paid out of ADF Super is to consolidate funds into another superannuation fund. Benefit payments in the 2017–18 financial year totaled almost $3.223m, compared with almost $0.369m in 2016–17.

Insurance benefits

There is no insurance available within ADF Super. Instead, eligible members receive automatic invalidity and death cover via ADF Cover.

ADF Cover

ADF Cover pays eligible members a pension if they are discharged from the ADF due to injury and pays their family an automatic death benefit if they die.

Table 37. New ADF Cover pension recipients

	2016–17	2017–18
New pension recipients	2	41

Table 38. ADF Cover death benefits paid

	2016–17	2017–18
Death benefits paid	0	2

Complaints

One complaint was received in 2017–18 and was resolved.

Changes to ADF's legislation and trust deed

No changes were made to the *Australian Defence Force Superannuation Act 2015* or to the Australian Defence Force Superannuation Trust Deed 2015 during 2017–18.

The amended legal definition of marriage within the new *Marriage Amendment (Definition and Religious Freedoms) Act 2017* is now also recognised under the *Australian Defence Force Cover Act 2015*. The amendments came into force on 9 December 2017.

Also, in February 2018, the *Treasury Laws Amendment (Putting Consumers First—Establishment of the Australian Financial Complaints Authority) Act 2018* was passed by Parliament which amended the *Corporations Act 2001* and repealed the *Superannuation (Resolution of Complaints) Act 1993*. Consequently, references to the Superannuation Complaints Tribunal within the *Australian Defence Force Cover Act 2015* are now replaced by the Australian Financial Complaints Authority.

1922 scheme

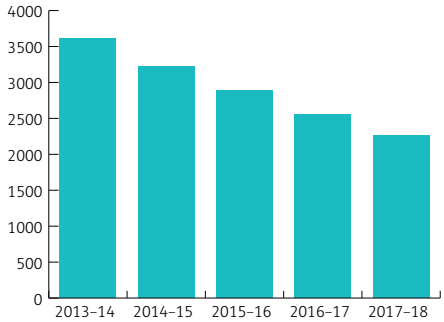
Overview of the 1922 scheme

The 1922 scheme, which was established under the 1922 Act, is a closed public sector scheme with a membership primarily of pensioners. Contributing members of the 1922 scheme transferred to CSS when CSS opened on 1 July 1976.

The 1922 Act continues to provide for pension payments, deferred benefit entitlements and any reversionary pensions that become payable.

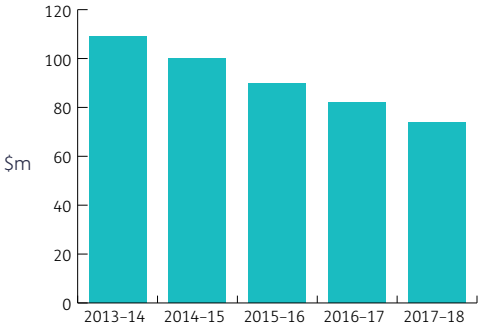
1922 scheme membership

Figure 17. 1922 scheme pensioners over five years



Note: Figures are at 30 June of each year; 'pensioners' represent the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

Figure 18. 1922 scheme pension payments over five years



Note: 1922 scheme pensions are paid by the Australian Government.

Changes to 1922's legislation and trust deed

No changes were made to the *Superannuation Act 1922*.

DFRB, DFRDB and DFSPB

Defence Forces Retirement Benefits

Defence Force Retirement & Death Benefits

Defence Force (Superannuation) (Productivity Benefit)

Overview of 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 (contributing members at that time automatically transferred to DFRDB on 1 October 1972). DFRB continues to provide the benefit entitlements of members who ceased to be contributors before 1 October 1972 and for reversionary benefits to eligible spouses and children.

Overview of DFRDB

DFRDB is also a closed military defined benefit 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.

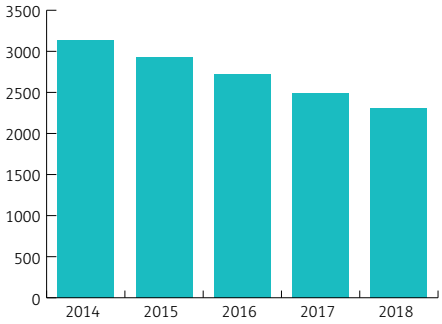
Overview of DFSPB

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.

Membership

DFRB

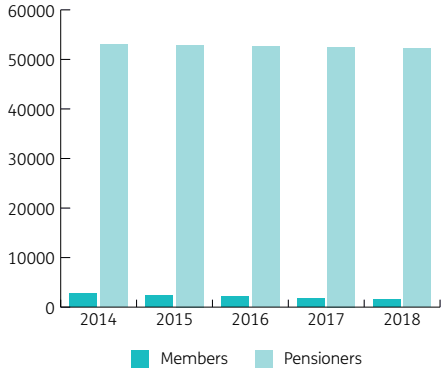
Figure 19. DFRB pensioners over five years



Note: Figures are at 30 June of each year; 'pensioners' represent the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

DFRDB

Figure 20. DFRDB members and pensioners over five years



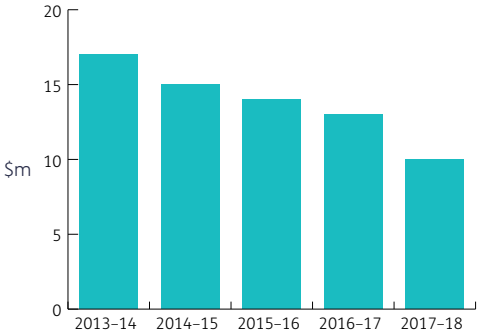
Note: Figures are at 30 June of each year; 'pensioners' represent the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account); pensioners who re-enter for less than 12 months do not contribute to DFRDB, continue to receive a pension and are not eligible for invalidity; pensioners who re-enter for more than 12 months become contributors, their pension is suspended and they are eligible for invalidity.

Scheme administration

DFRDB 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).

Figure 21. DFRDB member contributions over five years

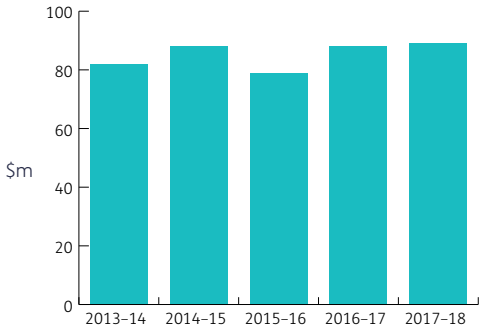


DFRDB benefit payments

Lump sum payments

DFRDB members retiring from the ADF can commute part of their DFRDB benefit to receive early payment of their retirement pension as a lump sum (commutation amount). 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.

Figure 22. DFRDB lump sum payments over five years



Invalidity benefits

DFRDB provides benefits for partial invalidity, full invalidity and death. If a member becomes disabled and unable to continue their ADF service, invalidity benefits help them to resettle into civilian employment.

There are three levels of invalidity benefit classifications:

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

Table 39. New invalidity classifications in DFRDB

	2016–17	2017–18
Initial classifications	56	58
Pensions granted	56	54
Pensions not granted	0	4

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

Table 40. New invalidity classifications by service in DFRDB in 2017–18

Army			Navy			Air Force		
Class A	Class B	Class C	Class A	Class B	Class C	Class A	Class B	Class C
20	6	8	9	2	1	9	2	1

Note: This table shows the number of new invalidity retirement certificates issued, not the total number of invalidity pensioners.

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.

Complaints

Table 41. Complaints received in DFRDB

	2016-17	2017–18
Complaints received	21	25

All complaints are now resolved. Most complaints related to communication between CSC and the complainant, or to legislative changes to superannuation.

Changes to DFRB, DFRDB and DFSPB's legislation and trust deed

The *Marriage Amendment (Definition and Religious Freedoms) Act 2017* amends the legal definition of marriage and protects religious freedoms. Consequently, definitions within the *Defence Force Retirement and Death Benefits Act 1973* were also amended, commencing 9 December 2017.

No changes were made to the *Defence Forces Retirement Benefits Act 1948* or to the *Defence Force (Superannuation) (Productivity Benefit) Determination 1998* in 2017–18.

PNG

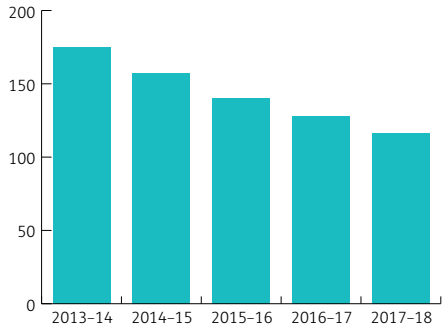
Papua New Guinea Superannuation Fund

Overview of 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.

PNG membership

Figure 23. PNG pensioners over five years

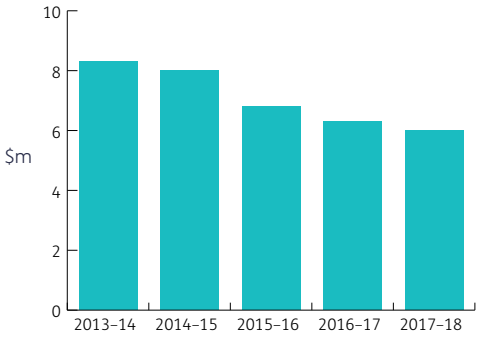


Note: Figures are at 30 June of each year; 'pensioners' represent the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

PNG Administration

Benefit payments

Figure 24. PNG pension payments over five years



Changes to PNG's legislation and trust deed

No changes were made to the *Papua New Guinea (Staffing Assistance) Act 1973* or to the Papua New Guinea (Staffing Assistance) (Superannuation) Regulations 1973.

CSS financial statements

8

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and the Public Service and Members of Commonwealth Superannuation Scheme

Opinion

I have audited the financial statements of the Commonwealth Superannuation Scheme for the year ended 30 June 2018, which comprise the following statements:

- Statement by the Trustee of the Commonwealth Superannuation Scheme;
- Statement of Financial Position;
- Income Statement;
- Statement of Changes in Member Benefits;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to the financial statements, comprising a Summary of Principal Accounting Policies and other explanatory information.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of the Commonwealth Superannuation Scheme as at 30 June 2018 and the results of its operations, cash flows, changes in equity and changes in member benefits for the year ended 30 June 2018.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Commonwealth Superannuation Scheme in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code.

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

Trustee's Responsibilities for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards and the form agreed with the Minister for Finance and the Public Service 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 they determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the Commonwealth Superannuation Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- concluded on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Carla Jago

Group Executive Director

Delegate of the Auditor-General

Canberra

24 September 2018

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 accompanying financial statements of the Commonwealth Superannuation Scheme are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2018 and the financial performance, changes in equity, changes in member benefits and cash flows of the Scheme for the year ended on that date;

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

(c) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with 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;

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

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

Patricia Cross
Chair

Margaret Staib
Director

Commonwealth Superannuation Scheme
Statement of Financial Position
As at 30 June 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents		**45 103**	43 870
Employer sponsor receivable		**62 212 895**	62 213 695
Other receivables	4	**246**	461
Investments in pooled superannuation trust	5	**2 743 005**	2 981 552
Total assets		**65 001 249**	65 239 578
Liabilities			
Benefits payable		**(7 257)**	(9 712)
Income tax payable		**(2 061)**	(2 422)
Deferred tax liabilities	8c	**(9)**	(9)
Total liabilities excluding member benefits		**(9 327)**	(12 143)
Net assets available for member benefits		**64 991 922**	65 227 435
Defined benefit member liabilities	9	**(64 981 935)**	(65 216 133)
Net assets		**9 987**	11 302
Equity			
Operational risk reserve		**(9 987)**	(11 302)
Total equity		**(9 987)**	(11 302)

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Income Statement
For the Financial Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Investment revenue			
Interest		**631**	684
Changes in fair value of investments	6c	**233 942**	260 019
Total revenue		**234 573**	260 703
Total expenses		**-**	-
Operating results		**234 573**	260 703
Net change in member benefits from investing activities		**(234 321)**	(260 413)
Operating result before income tax expense		**252**	290
Income tax expense	8a	**(95)**	(103)
Operating result after income tax		**157**	187

The attached notes form part of these financial statements.

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

	Note	2018 $'000	2017 $'000
Opening balance of member benefits at the beginning of the financial year		**65 216 133**	65 225 473
Contributions:			
Member contributions	7a	**43 736**	66 114
Employer contributions	7a	**13 556**	16 022
Government co-contributions	7a	**24**	29
Low income superannuation tax offset	7a	**4**	4
Income tax on contributions	8b	**(2 034)**	(2 408)
Net after tax contributions		**55 286**	79 761
Net appropriation from Consolidated Revenue Fund	7b	**3 825 229**	3 720 097
Benefits to members	7b	**(4 349 707)**	(4 377 291)
Net change in member benefits from investing activities		**234 321**	260 413
Net change in member benefits to be funded by employers		**673**	307 680
Closing balance of member benefits at the end of the financial year		**64 981 935**	65 216 133

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Statement of Changes in Equity
For the Financial Year Ended 30 June 2018

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2016	11 636	11 636
Operating result	187	187
Net transfers to / (from) reserves	(521)	(521)
Closing balance as at 30 June 2017	11 302	11 302
Opening balance as at 1 July 2017	**11 302**	**11 302**
Operating result	157	157
Net transfers to / (from) reserves	(1 472)	(1 472)
Closing balance as at 30 June 2018	**9 987**	**9 987**

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Statement of Cash Flows
For the Financial Year Ended 30 June 2018

		2018 $'000	2017 $'000
Cash flows from operating activities			
Interest received		**629**	695
Superannuation surcharge (paid) / received		**127**	(97)
Income tax paid		**(105)**	(664)
Net cash inflows / (outflows) from operating activities	10b	**651**	(66)
Cash flows from investing activities			
Proceeds from sale of investments		**472 490**	578 072
Net cash inflows from investing activities		**472 490**	578 072
Cash flows from financing activities			
Contributions received			
Employer contributions		**13 556**	16 022
Member contributions		**43 736**	66 114
Government co-contributions		**24**	29
Low income superannuation tax offset		**4**	4
Income tax paid on contributions		**(2 385)**	(2 408)
Benefits paid		**(4 352 162)**	(4 376 166)
Transfers to the Public Sector Superannuation Scheme		**-**	(861)
Net appropriation from Consolidated Revenue Fund		**3 825 319**	3 720 020
Net cash (outflows) from financing activities		**(471 908)**	(577 246)
Net increase in cash held		**1 233**	760
Cash at the beginning of the financial year		**43 870**	43 110
Cash at the end of the financial year	10a	**45 103**	43 870

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

1. DESCRIPTION OF THE SCHEME

The 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 Commonwealth Superannuation Fund (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 (AIT) that are referable to the CSS Fund (Note 7(c)).

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

2. BASIS OF PREPARATION

(a) Statement of Compliance

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of Compliance (continued)

Standards adopted with no significant impact on the financial statements

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of Compliance (continued)

Standards in issue but not yet effective

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

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

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

(c) Use of judgements and estimates

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

(a) Cash and Cash Equivalents

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

(b) Financial assets

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

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

Fair values have been determined as follows:

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

(ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Employer Sponsor Receivable

The Commonwealth Government is obliged under the *Superannuation Act 1976* (as amended) to meet any funding shortfall for the defined benefit member liabilities of the Scheme. The asset is measured at its 'intrinsic value' (i.e. the amount of the difference between the defined benefit member liability and the fair value of assets available to meet that liability). The value of the employer sponsor receivable will not necessarily be the same as the value of the corresponding liability in the accounts of the employer sponsor and the Australian Government Long Term Cost Report due to the application of different accounting standards which may result in different valuation assumptions from those set out in Note 9.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Foreign Currency Transactions

The Scheme does not undertake transactions denominated in foreign currencies.

(e) Payables

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

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

(f) Defined benefit member liabilities

Defined benefit member liabilities are measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due (Note 9).

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

(g) Contribution Revenue

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Operational risk reserve

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

(i) Derivatives

The Scheme does not enter into derivative financial instruments.

(j) Revenue

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

Investment revenue
Interest revenue is recognised on an accrual basis.

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

(k) Expenses

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

(l) Income Tax

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Income Tax (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

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

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

Receivables and payables are recognised inclusive of GST.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

4. OTHER RECEIVABLES

	2018	2017
	$'000	$'000
Interest receivable	**63**	61
Surcharge tax	**93**	220
Amount to be appropriated from Consolidated Revenue Fund	**90**	180
Total	**246**	461

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

5. INVESTMENTS

	2018	2017
	$'000	$'000
Pooled Superannuation Trust - ARIA Investments Trust	**2 743 005**	2 981 552
	2 743 005	2 981 552

6. CHANGES IN FAIR VALUE OF INVESTMENTS

		2018	2017
		$'000	$'000
(a)	**Investments held at 30 June:**		
	Pooled Superannuation Trust - ARIA Investments Trust	**213 839**	232 698
		213 839	232 698
(b)	**Investments realised during the year:**		
	Pooled Superannuation Trust - ARIA Investments Trust	**20 103**	27 321
		20 103	27 321
(c)	**Total changes in fair value of investments**	**233 942**	260 019

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS

(a) Contributions

Member Contributions
Members contribute to the Scheme at optional rates 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 2018 and 30 June 2017, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

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

(b) Benefits

Where a benefit that becomes payable in respect of a member can be fully met from Scheme assets attributable to that member, the benefit is paid to the beneficiary from the 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 to the Consolidated Revenue Fund, and the Commonwealth Government then assumes responsibility for funding the whole benefit.

Of the total benefits payable at 30 June 2018, $0.090 million (2017: $0.180 million) is payable by the Consolidated Revenue Fund. The Commonwealth Government is the corresponding debtor for this amount in accordance with the funding arrangements described above.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS (continued)

(b) Benefits (continued)

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

	2018	2017
	$'000	$'000
Gross appropriation from Consolidated Revenue Fund	**4 347 660**	4 375 522
less: Transfers from CSS Fund to Consolidated Revenue Fund	**(522 431)**	(655 425)
Net appropriation from Consolidated Revenue Fund	**3 825 229**	3 720 097
Consolidated Revenue Fund		
Lump-sum benefits	**235 914**	293 927
Pensions	**4 111 746**	4 081 595
	4 347 660	4 375 522
CSS Fund		
Lump-sum benefits	**2 047**	1 769
Total benefits paid and payable	**4 349 707**	4 377 291

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS (continued)

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

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

	2018	2017
	$'000	$'000
Investment		
Investment manager fees	**3 604**	5 850
Custodian fees	**415**	476
Investment consultant and other service provider fees	**506**	439
Other investment expenses	**177**	242
Total direct investment expenses	**4 702**	7 007
Regulatory fees	**312**	404
Other operating expenses	**2 971**	2 676
Total costs	**7 985**	10 087

Costs other than those incurred in managing and investing Scheme assets are met by CSC. Administrative fees are paid to CSC by employing agencies to meet these costs. Sponsoring employers have contributed further administration funding of $13.46 million (2017: $14.23 million). Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

8. INCOME TAX

	2018	2017
	$'000	$'000
(a) Income tax recognised in the Income Statement		
Income tax expense comprises:		
Current tax expense	**95**	105
Deferred tax expense relating to the origination and reversal of temporary differences	**-**	(2)
Total income tax expense	**95**	103

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

Operating result before income tax expense	**252**	290
Income tax expense / (benefit) calculated at 15%	**38**	44
Net change in member benefits from investing activities	**35 148**	39 062
Investment revenue already taxed	**(35 091)**	(39 003)
Total income tax expense	**95**	103

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

Contributions received:		
Member contributions	**43 736**	66 114
Employer contributions	**13 556**	16 022
Government co-contributions	**24**	29
Low income superannuation tax offset	**4**	4
Total contributions received	**57 320**	82 169
Contributions tax calculated at 15%	**8 598**	12 325
Member contributions not subject to tax	**(6 560)**	(9 916)
Government co-contributions not subject to tax	**(4)**	(4)
Low income super tax offset not subject to tax	**(1)**	(1)
Rollovers in subject to tax	**1**	4
Total income tax on contributions	**2 034**	2 408

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

8. INCOME TAX (continued)

	2018	2017
	$'000	$'000
(c) Recognised deferred tax assets and liabilities		
Deferred tax liabilities comprise:		
Temporary differences	**9**	9
	9	9

Taxable and deductible temporary differences arise from the following:

2018	**Opening balance**	**Charged to income**	**Closing balance**
	$'000	**$'000**	**$'000**
Gross deferred tax liabilities:			
Interest receivable	**9**	**-**	**9**
	9	**-**	**9**
Net deferred tax liabilities	**9**	**-**	**9**

2017	Opening balance	Charged to income	Closing balance
	$'000	$'000	$'000
Gross deferred tax liabilities:			
Interest receivable	11	(2)	9
	11	(2)	9
Net deferred tax liabilities	11	(2)	9

9. DEFINED BENEFIT MEMBER LIABILITIES

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

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

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

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

9. DEFINED BENEFIT MEMBER LIABILITIES (continued)

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

Key assumptions	Assumed at reporting date	Reasonably Possible Change	(Increase) / Decrease in defined benefit member liabilities ($'000)
30 June 2018			
Discount rate / investment returns	6%	+ 1% - 1%	**5 831 474** **(6 946 809)**
Salary adjustment rate	3.5%	+ 1% - 1%	**(102 744)** **94 557**
Inflation rate	2.5%	+ 1% - 1%	**(6 235 295)** **5 329 354**
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	**681 235** **(714 714)**
30 June 2017			
Discount rate / investment returns	6%	+ 1% - 1%	5 980 467 (7 156 424)
Salary adjustment rate	4%	+ 1% - 1%	(143 918) 131 661
Inflation rate	2.5%	+ 1% - 1%	(6 425 385) 5 471 441
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	684 379 (717 702)

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

9. DEFINED BENEFIT MEMBER LIABILITIES (continued)

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

An actuarial estimate of vested benefits at 30 June 2018 is $65.6 billion (2017: $66.1 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 2018 and elected the option which maximised their benefit entitlement.

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

10. CASH FLOW INFORMATION

(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:

	2018	2017
	$'000	$'000
Cash at bank	**45 103**	43 870

(b) Reconciliation of operating results after income tax to net cash inflows / (outflows) from operating activities

Operating result after income tax	**157**	187
Net change in member benefits from investing	**234 321**	260 413
Changes in fair value of investments	**(233 942)**	(260 019)
(Increase)/decrease in interest receivable	**(2)**	11
(Increase)/decrease in surcharge tax receivable	**127**	(97)
Increase/(decrease) in income tax payable	**(10)**	(559)
Increase/(decrease) in deferred tax liabilities	**-**	(2)
Net cash inflows / (outflows) from operating activities	**651**	(66)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

11. AUDITOR'S REMUNERATION

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

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

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

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

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

12. FINANCIAL INSTRUMENTS

(a) Financial instruments management

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

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

(b) Significant accounting policies

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

12. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

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

(d) Categories of financial instruments

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

(e) Financial risk management objectives

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

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

(f) Credit risk

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

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

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

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

	2018	2017
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	2 743 005	2 981 552
Other financial assets		
Cash and cash equivalents	45 103	43 870
Receivables	246	461
Total	2 788 354	3 025 883

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. 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 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.

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

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

Financial Liabilities maturity profile:

	Less than 3 months $'000	**3 months to 1 year $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**
30 June 2018					
Benefits payable	**7 257**	**-**	**-**	**-**	**7 257**
Defined benefit member liabilities	**1 088 790**	**3 266 371**	**15 556 158**	**45 070 616**	**64 981 935**
Total financial liabilities	**1 096 047**	**3 266 371**	**15 556 158**	**45 070 616**	**64 989 192**
30 June 2017					
Benefits payable	9 712	-	-	-	9 712
Defined benefit member liabilities	1 079 437	3 238 311	15 593 571	45 304 814	65 216 133
Total financial liabilities	1 089 149	3 238 311	15 593 571	45 304 814	65 225 845

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk

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

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

Foreign currency risk

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

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

Interest rate risk

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Interest rate risk (continued)

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

	Carrying amount $'000	Interest rate risk $' 000			
		Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
2018		**-0.2%**		**+0.2%**	
Cash and cash equivalents	**45 103**	**(90)**	**(90)**	**90**	**90**
2017		-0.3%		+0.3%	
Cash and cash equivalents	43 870	(132)	(132)	132	132

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.

The Scheme's investment in AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in AIT is carried at fair value through profit or loss, 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

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

	Change in price	Carrying amount $'000	Price risk $' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
			(Lower price)		Higher price	
2018						
Financial Assets						
ARIA Investments Trust:						
Default option	-/+4.0%	2 493 625	(99 745)	(99 745)	99 745	99 745
Cash option	-/+0.2%	239 393	(479)	(479)	479	479
Operational risk reserve	-/+0.2%	9 987	(20)	(20)	20	20
Total increase / (decrease)		2 743 005	(100 244)	(100 244)	100 244	100 244
2017						
Financial Assets						
ARIA Investments Trust:						
Default option	-/+4.2%	2 662 791	(111 837)	(111 837)	111 837	111 837
Cash option	-/+0.3%	307 459	(922)	(922)	922	922
Operational risk reserve	-/+0.3%	11 302	(34)	(34)	34	34
Total increase / (decrease)		2 981 552	(112 793)	(112 793)	112 793	112 793

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

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

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

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

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2018 **Financial Assets** Pooled superannuation trust	**-**	**2 743 005**	**-**	**2 743 005**
2017 **Financial Assets** Pooled superannuation trust	-	2 981 552	-	2 981 552

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. RELATED PARTIES

(a) Trustee

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

(b) Key Management Personnel

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

Ariane Barker
Patricia Cross (Chair)
Christopher Ellison
Nadine Flood
Winsome Hall
Garry Hounsell
Sunil Kemppi
Anthony Needham
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 2018:

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

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

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

Peter Carrigy-Ryan is a member of the Scheme. The terms and conditions of his membership, or those of any related parties, is the same as for any other member who is not part of the key management personnel of the the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

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

	2018	2017
	$	$
Short-term employee benefits	**157 653**	157 685
Post-employment benefits	**13 432**	16 168
Other long-term benefits	**12 648**	12 176
Termination benefits	**-**	8 585
	183 733	194 614

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

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

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

(d) Investing entities

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

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

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

The Trustee pays costs of and incidental to the management of the Scheme and the investment of its money from the assets of the AIT that are referable to the Scheme (see Note 8(c)). No fees were charged to the Scheme or its assets for acting as Trustee during the year ended 30 June 2018 (2017: $nil).

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

	Fair Value of Investment	**Fair Value of Investment**	**Share of Net Income after tax**	**Share of Net Income after tax**
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**2 743 005**	2 981 552	**233 942**	260 019
	2 743 005	2 981 552	**233 942**	260 019

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

14. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

15. SUBSEQUENT EVENTS

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

PSS financial statements

9

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and the Public Service and Members of Public Sector Superannuation Scheme

Opinion

I have audited the financial statements of the Public Sector Superannuation Scheme for the year ended 30 June 2018, which comprise the following statements:

- Statement by the Trustee of the Public Sector Superannuation Scheme;
- Statement of Financial Position;
- Income Statement;
- Statement of Changes in Member Benefits;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of the Public Sector Superannuation Scheme as at 30 June 2018 and the results of its operations, cash flows, changes in equity and changes in member benefits for the year ended 30 June 2018.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Public Sector Superannuation Scheme in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. The Auditor-General is mandated to perform the audit of the Public Sector Superannuation Scheme, pursuant to the *Superannuation Act 1990*. 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. I have also fulfilled my other responsibilities in accordance with the Code.

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

Trustee's Responsibilities for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards and the form agreed with the Minister for Finance and the Public Service 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 they determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, the trustee is responsible for assessing the Public Sector Superannuation Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- concluded on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Carla Jago

Group Executive Director

Delegate of the Auditor-General

Canberra

24 September 2018

Public Sector Superannuation Scheme (ABN 74 172 177 893)

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

The Board of Directors hereby states that in its opinion:

(a) the accompanying financial statements of the Public Sector Superannuation Scheme are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2018 and the financial performance, changes in equity, changes in member benefits and cash flows of the Scheme for the year ended on that date;

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

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

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

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

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

Patricia Cross
Chair

Margaret Staib
Director

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

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

The attached notes form part of these financial statements.

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

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

The attached notes form part of these financial statements.

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

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

The attached notes form part of these financial statements.

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

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

The attached notes form part of these financial statements.

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

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

The attached notes form part of these financial statements.

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

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

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

1. DESCRIPTION OF THE SCHEME

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

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

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

2. BASIS OF PREPARATION

(a) Statement of compliance

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no significant impact on the financial statements

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards in issue but not yet effective

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

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

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

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

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

(c) Use of judgements and estimates

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

(a) Cash and Cash Equivalents

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

(b) Financial assets

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

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

Fair values have been determined as follows:

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

(ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Employer Sponsor Receivable

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

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Foreign Currency Transactions

The Scheme does not undertake transactions denominated in foreign currencies.

(e) Payables

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

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

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

(f) Member liabilities

Defined benefit member liabilities are measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due (Note 9).

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

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

(g) Contributions

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Operational risk reserve

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

(i) Derivatives

The Scheme does not directly enter into derivative financial instruments.

(j) Revenue

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

Investment revenue
Interest revenue is recognised on an accrual basis.

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

(k) Expenses

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

(l) Income Tax

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

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

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Income Tax (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

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

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

Receivables and payables are recognised inclusive of GST.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

4. OTHER RECEIVABLES

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

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

5. INVESTMENTS

	2018	2017
	$'000	$'000
Pooled Superannuation Trust - ARIA Investments Trust	**20 425 996**	19 135 854
	20 425 996	19 135 854

6. CHANGES IN FAIR VALUE OF INVESTMENTS

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS

(a) Contributions

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

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

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

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

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

(b) Benefits

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS (continued)

(b) Benefits (continued)

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

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

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

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

7. FUNDING ARRANGEMENTS (continued)

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

8. INCOME TAX

	2018 $'000	2017 $'000
(a) Income tax recognised in the Income Statement		
Income tax expense comprises:		
Current tax expense	**138**	139
Deferred tax expense relating to the origination and reversal of temporary differences	**5**	(2)
Total income tax expense	**143**	137

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

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

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

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

8. INCOME TAX (continued)

	2018	2017
	$'000	$'000
(c) Recognised deferred tax assets		
Deferred tax assets comprise:		
Temporary differences	**138**	152
	138	152

Taxable and deductible temporary differences arise from the following:

2018	**Opening balance $'000**	**Charged to income $'000**	**Closing balance $'000**
Gross deferred tax assets / (liabilities):			
Interest receivable	**(7)**	**(5)**	**(12)**
Insurance premiums payable	**159**	**(9)**	**150**
Net deferred tax assets	**152**	**(14)**	**138**

2017	Opening balance $'000	Charged to income $'000	Closing balance $'000
Gross deferred tax assets / (liabilities):			
Interest receivable	(9)	2	(7)
Insurance premiums payable	162	(3)	159
Net deferred tax assets	153	(1)	152

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

9. MEMBER LIABILITIES

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

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

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

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

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

9. MEMBER LIABILITIES (continued)

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

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

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

9. MEMBER LIABILITIES (continued)

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

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

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

9. MEMBER LIABILITIES (continued)

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

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

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

10. CASH FLOW INFORMATION

(a) Reconciliation of Cash	**2018**	2017
	$'000	$'000

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	**75 585**	43 484

(b) Reconciliation of operating results after income tax to net cash inflows / (outflows) from operating activities

Operating result after income tax	**950**	1 019
Net change in member benefits from investing activities	**1 749 541**	1 660 677
Changes in fair value of investments	**(1 749 681)**	(1 660 922)
(Increase)/decrease in interest receivable	**(30)**	12
(Increase)/decrease in deferred tax assets	**5**	1
Increase/(decrease) in other payables	**(85)**	(37)
Increase/(decrease) in income tax payable	**-**	(2 334)
Net cash inflows/(outflows) from operating activities	**700**	(1 584)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

11. AUDITOR'S REMUNERATION

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

	2018	2017
	$	$
Financial statements	**48 600**	68 825
Regulatory returns and compliance	**32 400**	35 175
Total	**81 000**	104 000

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

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

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

12. FINANCIAL INSTRUMENTS

(a) Financial instruments management

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

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

(b) Significant accounting policies

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

12. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

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

(d) Categories of financial instruments

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

(e) Financial risk management objectives

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

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

(f) Credit risk

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

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

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

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

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

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

(g) Liquidity risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk (continued)

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

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

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

Financial Liabilities maturity profile:

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk

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

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

Foreign currency risk

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

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

Interest rate risk

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Interest rate risk (continued)

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

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

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

Other price risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

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

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

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

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

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

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2018				
Financial Assets				
Pooled superannuation trust	**-**	**20 425 996**	**-**	**20 425 996**
2017				
Financial Assets				
Pooled superannuation trust	-	19 135 854	-	19 135 854

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. RELATED PARTIES

(a) Trustee

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

(b) Key Management Personnel

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

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

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

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

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

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

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

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

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

(d) Investing entities

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

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

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

14. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

15. SUBSEQUENT EVENTS

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

MilitarySuper financial statements

10

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and the Public Service and Members of Military Superannuation and Benefits Scheme

Opinion

I have audited the financial statements of the Military Superannuation and Benefits Scheme for the year ended 30 June 2018, which comprise the following statements:

- Statement by the Trustee of the Military Superannuation and Benefits Scheme;
- Statement of Financial Position;
- Income Statement;
- Statement of Changes in Member Benefits;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to the financial statements, comprising a Summary of Principal Accounting Policies and other explanatory information.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of the Military Superannuation and Benefits Scheme as at 30 June 2018 and the results of its operations, cash flows, changes in equity and changes in member benefits for the year ended 30 June 2018.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Military Superannuation and Benefits Scheme in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code.

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

Trustee's Responsibilities for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards and the form agreed with the Minister for Finance and the Public Service 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 they determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the Military Superannuation and Benefits Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

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19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- concluded on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Carla Jago

Group Executive Director

Delegate of the Auditor-General

Canberra

24 September 2018

Military Superannuation and Benefits Scheme (ABN 50 925 523 120)

Statement by the Trustee of the Military Superannuation and Benefits Scheme ('Scheme')

The Board of Directors hereby states that in its opinion:

(a) the accompanying financial statements of the Military Superannuation and Benefits Scheme are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2018 and the financial performance, changes in equity, changes in member benefits and cash flows of the Scheme for the year ended on that date;

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

(c) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with 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;

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

(e) the operations of the Scheme 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 Scheme, the requirements of the *Superannuation Industry (Supervision) Act 1993* and regulations, and the relevant requirements of the *Corporations Act 2001* and regulations (to the extent applicable).

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

Patricia Cross
Chair

Margaret Staib
Director

Military Superannuation & Benefits Scheme
Statement of Financial Position
As at 30 June 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents		**54 098**	59 726
Employer sponsor receivable		**41 612 999**	35 213 002
Other receivables	4	**5 573**	7 119
Investments in pooled superannuation trust	5	**9 324 043**	8 293 640
Total assets		**50 996 713**	43 573 487
Liabilities			
Benefits payable		**(8 872)**	(4 372)
Income tax payable		**(27 067)**	(31 631)
Other payables		**(447)**	(478)
Deferred tax liabilities	8c	**(5)**	(6)
Total liabilities excluding member benefits		**(36 391)**	(36 487)
Net assets available for member benefits		**50 960 322**	43 537 000
Member liabilities	9	**(50 927 624)**	(43 509 215)
Net assets		**32 698**	27 785
Equity			
Operational risk reserve		**(32 698)**	(27 785)
Total equity		**(32 698)**	(27 785)

The attached notes form part of these financial statements.

Military Superannuation & Benefits Scheme
Income Statement
For the Financial Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Investment revenue			
Interest		**455**	532
Changes in fair value of investments	6c	**784 821**	716 321
Total revenue		**785 276**	716 853
Total expenses		**-**	-
Operating results		**785 276**	716 853
Net change in member benefits from investing activities		**(784 767)**	(716 356)
Operating result before income tax expense		**509**	497
Income tax expense	8a	**(68)**	(80)
Operating result after income tax		**441**	417

The attached notes form part of these financial statements.

Military Superannuation & Benefits Scheme
Statement of Changes in Member Benefits
For the Financial Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Opening balance of member benefits at the beginning of the financial year		**43 509 215**	39 203 316
Contributions:			
Member contributions	7a	**275 705**	277 663
Employer contributions	7a	**180 514**	211 061
Government co-contributions	7a	**1 106**	2 525
Low income superannuation tax offset	7a	**642**	770
Income tax on contributions	8b	**(27 078)**	(31 660)
Net after tax contributions		**430 889**	460 359
Net appropriation from Consolidated Revenue Fund	7b	**641 893**	574 672
Benefits to members	7b	**(834 668)**	(723 736)
Net change in member benefits from investing activities		**784 767**	716 356
Net change in member benefits to be funded by employers		**6 395 528**	3 278 248
Closing balance of member benefits at the end of the financial year		**50 927 624**	43 509 215

The attached notes form part of these financial statements.

Military Superannuation & Benefits Scheme
Statement of Changes in Equity
For the Financial Year Ended 30 June 2018

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2016	25 614	25 614
Operating result	417	417
Net transfers to / (from) reserves	1 754	1 754
Closing balance as at 30 June 2017	27 785	27 785
Opening balance as at 1 July 2017	**27 785**	**27 785**
Operating result	**441**	**441**
Net transfers to / (from) reserves	**4 472**	**4 472**
Closing balance as at 30 June 2018	**32 698**	**32 698**

Military Superannuation & Benefits Scheme
Statement of Cash Flows
For the Financial Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Interest received		**462**	541
Superannuation surcharge paid		**21**	19
Income tax (paid)/received		**(81)**	4 500
Net cash inflows from operating activities	10b	**402**	5 060
Cash flows from investing activities			
Purchase of investments		**(432 367)**	(469 003)
Proceeds from sale of investments		**186 803**	153 503
Net cash (outflows) from investing activities		**(245 564)**	(315 500)
Cash flows from financing activities			
Contributions received			
Employer contributions		**180 464**	211 010
Member contributions		**275 705**	277 663
Government co-contributions		**1 106**	2 525
Low income superannuation tax offset		**642**	770
Income tax paid on contributions		**(31 630)**	(31 660)
Benefits paid		**(830 168)**	(723 759)
Net appropriation from Consolidated Revenue Fund		**643 415**	571 510
Net cash inflows from financing activities		**239 534**	308 059
Net (decrease) in cash held		**(5 628)**	(2 381)
Cash at the beginning of the financial year		**59 726**	62 107
Cash at the end of the financial year	10a	**54 098**	59 726

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

1. DESCRIPTION OF THE SCHEME 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) manages and invests the assets of the Scheme until such time as a benefit is paid. The 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.

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

The Scheme was closed to new members from 30 June 2016 and a new accumulation plan, Australian Defence Force Superannuation Scheme (ADF) was established for new members of the Australian Defence Force from 1 July 2016, together with a new invalidity scheme, Australian Defence Force Cover.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no significant impact on the financial statements

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards in issue but not yet effective

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation

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

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

(c) Use of judgements and estimates

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

(a) Cash and Cash Equivalents

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

(b) Financial assets

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

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

Fair values have been determined as follows:

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

(ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Employer Sponsor Receivable

The Commonwealth Government is obliged under the *Military Superannuation and Benefits Act 1991* to meet any funding shortfall for the defined benefit member liabilities of the Scheme. The asset is measured at its 'intrinsic value' (i.e. the amount of the difference between member liability and the fair value of assets available to meet that liability). The value of the employer sponsor receivable will not necessarily be the same as the value of the corresponding liability in the accounts of the employer sponsor and the Australian Government Long Term Cost Report due to the application of different accounting standards which may result in different valuation assumptions from those set out in Note 9.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Foreign Currency Transactions

The Scheme does not undertake transactions denominated in foreign currencies.

(e) Payables

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

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

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

(f) Member liabilities

Defined benefit member liabilities are measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due (Note 9).

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

(g) Contributions

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

(h) Operational risk reserve

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

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Derivatives

The Scheme does not directly enter into derivative financial instruments.

(j) Revenue

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

Investment revenue
Interest revenue is recognised on an accrual basis.

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

(k) Expenses

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

(l) Income Tax

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

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Income Tax (continued)

Deferred tax (continued)

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

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

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

Current and deferred tax for the period

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

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

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

Receivables and payables are recognised inclusive of GST.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

4. OTHER RECEIVABLES

	2018	2017
	$'000	$'000
Receivable from the ARIA Investments Trust	**31**	48
Interest receivable	**33**	40
Amount to be appropriated from Consolidated Revenue Fund	**5 509**	7 031
	5 573	7 119

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

5. INVESTMENTS

	2018	2017
	$'000	$'000
Pooled Superannuation Trust - ARIA Investments Trust	**9 324 043**	8 293 640
	9 324 043	8 293 640

6. CHANGES IN FAIR VALUE OF INVESTMENTS

	2018	2017
	$'000	$'000
(a) Investments held at 30 June:		
Pooled Superannuation Trust - ARIA Investments Trust	**775 875**	709 797
(b) Investments realised during the year:		
Pooled Superannuation Trust - ARIA Investments Trust	**8 946**	6 524
(c) Total changes in net market values of investments	**784 821**	716 321

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS

(a) Contributions

Member Contributions
Members contribute to the Scheme 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 Scheme 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 Scheme on behalf of members.

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

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

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

(b) Benefits

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 Member Benefits is the net amount after taking into account transfers from the Fund to the CRF.

7. FUNDING ARRANGEMENTS (continued)

(b) Benefits (continued)

Of the total benefits payable as at 30 June 2018, $3.26 million (2017: $0.78 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:

	2018	2017
	$'000	$'000
Gross Appropriation from Consolidated Revenue Fund	**767 061**	675 285
less: Transfers from Fund to Consolidated Revenue Fund	**(125 168)**	(100 613)
Net Appropriation	**641 893**	574 672
Consolidated Revenue Fund		
Lump-sum benefits	**143 133**	152 161
Pensions	**623 928**	523 124
	767 061	675 285
Military Superannuation & Benefits Fund		
Lump-sum benefits	**67 607**	48 451
Total benefits paid and payable	**834 668**	723 736

(c) Costs of managing, investing and administering the Fund

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS (continued)

(c) Costs of managing, investing and administering the Fund (continued)

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

	2018 $'000	2017 $'000
Investment		
Investment manager fees	**11 091**	14 488
Custodian fees	**1 278**	1 179
Investment consultant and other service provider fees	**1 556**	1 088
Other investment expenses	**544**	600
Total direct investment expenses	**14 469**	17 355
Regulatory fees	**876**	901
Other operating expenses	**9 143**	6 626
Total costs	**24 488**	24 882

Administrative fees are paid to CSC by the Department of Defence to meet costs other than those incurred in managing and investing Fund assets. Sponsoring employer has contributed further administration funding of $22.46 million (2017: $21.89 million). Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

8. INCOME TAX

	2018	2017
	$'000	$'000
(a) Income tax recognised in the Income Statement		
Tax expense comprises:		
Current tax expense	**69**	82
Deferred tax expense relating to the origination and reversal of temporary differences	**(1)**	(2)
Total tax expense	**68**	80

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

Operating result before income tax expense	**509**	497
Income tax expense / (benefit) calculated at 15%	**76**	75
Net change in member benefits from investing activities	**117 715**	107 453
Investment revenue already taxed	**(117 723)**	(107 448)
Total tax expense	**68**	80

(b) Income tax on contributions recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	**275 705**	277 663
Employer contributions	**180 514**	211 061
Government co-contributions	**1 106**	2 525
Low income superannuation tax offset	**642**	770
Total contributions received	**457 967**	492 019
Contributions tax calculated at 15%	**68 695**	73 803
Member contributions not subject to tax	**(41 356)**	(41 649)
Government co-contributions not subject to tax	**(166)**	(379)
Low income superannuation tax offset not subject to tax	**(96)**	(116)
No-TFN-quoted contributions subject to additional tax	**1**	1
Total contributions tax expense	**27 078**	31 660

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

8. INCOME TAX (continued)

	2018	2017
	$'000	$'000
(c) Recognised deferred tax assets and liabilities		
Deferred tax liabilities comprise:		
Temporary differences	**5**	6
	5	6

Taxable and deductible temporary differences arise from the following:

2018	**Opening balance**	**Charged to income**	**Closing balance**
	$'000	**$'000**	**$'000**
Gross deferred tax liabilities:			
Interest receivable	**6**	**(1)**	**5**
	6	**(1)**	**5**
Net deferred tax liabilities	**6**	**(1)**	**5**

2017	Opening balance	Charged to income	Closing balance
	$'000	$'000	$'000
Gross deferred tax liabilities:			
Interest receivable	8	(2)	6
	8	(2)	6
Net deferred tax liabilities / (assets)	8	(2)	6

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

9. MEMBER LIABILITIES

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

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

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

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

- The assumed annual salary adjustment has been determined by historical observations over a long term period and in consultation with the employer sponsor. There has been no change to this assumption from the prior year.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

9. MEMBER LIABILITIES (continued)

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

Key assumptions	Assumed at reporting date	Reasonably Possible Change	(Increase) / Decrease in member liabilities ($'000)
30 June 2018			
Discount rate / investment returns	6%	+ 1% - 1%	**(7 641 000)** **10 397 000**
Salary adjustment rate	4%	+ 1% - 1%	**1 414 000** **(1 356 000)**
Inflation rate	2.5%	+ 1% - 1%	**8 004 000** **(6 486 000)**
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	**(232 000)** **233 000**
30 June 2017			
Discount rate / investment returns	6%	+ 1% - 1%	6 830 000 (9 404 000)
Salary adjustment rate	4%	+ 1% - 1%	(1 570 000) 1 373 000
Inflation rate	2.5%	+ 1% - 1%	(7 349 000) 5 633 000
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	201 000 (208 000)

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

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 2018 is $45.2 billion (2017: $40.5 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2018 and elected the option which maximised their benefit entitlement.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

10. CASH FLOW INFORMATION

(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:

	2018	2017
	$'000	$'000
Cash at bank	**54 098**	59 726

(b) Reconciliation of operating results after income tax to net cash inflows / (outflows) from operating activities

Operating result after income tax	**441**	417
Net change in member benefits from investing activities	**784 767**	716 356
Changes in fair value of investments	**(784 821)**	(716 321)
(Increase)/decrease in interest receivable	**7**	9
Increase/(decrease) in other payables	**20**	17
Increase/(decrease) in income tax	**(12)**	4 582
Net cash inflows from operating	**402**	5 060

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

11. AUDITOR'S REMUNERATION

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

	2018	2017
	$	$
Financial statements	**48 600**	68 825
Regulatory returns and compliance	**32 400**	35 175
Total	**81 000**	104 000

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 to the Scheme during the reporting period.

12. FINANCIAL INSTRUMENTS

(a) Financial instruments management

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

The investments of the 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.

12. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

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

(d) Categories of financial instruments

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

(e) Financial risk management objectives

The 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 Scheme 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

The 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.

(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 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 2018 or 30 June 2017.

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:

	2018	2017
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**9 324 043**	8 293 640
Other financial assets		
Cash and cash equivalents	**54 098**	59 726
Other receivables	**5 573**	7 119
	9 383 714	8 360 485

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.

12. 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 2018

12. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk (continued)

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

Financial Liabilities maturity profile:

	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
30 June 2018					
Other payables	**447**	**-**	**-**	**-**	**447**
Benefits payable	**8 872**	**-**	**-**	**-**	**8 872**
Member liabilities	**227 000**	**718 000**	**4 400 000**	**45 582 624**	**50 927 624**
Total financial liabilities	**236 319**	**718 000**	**4 400 000**	**45 582 624**	**50 936 943**
30 June 2017					
Other payables	478	-	-	-	478
Benefits payable	4 372	-	-	-	4 372
Member liabilities	197 000	623 000	3 484 000	39 205 215	43 509 215
Total financial liabilities	201 850	623 000	3 484 000	39 205 215	43 514 065

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.

(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 2017 reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Foreign currency risk

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

The Scheme does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Fund is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee's approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from 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 Scheme is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2018 and 30 June 2017 had a maturity profile of less than one month.

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

	Carrying amount $'000	Interest rate risk $' 000			
		Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
2018		**-0.2%**		**+0.2%**	
Cash and cash equivalents	**54 098**	**(108)**	**(108)**	**108**	**108**
2017		-0.3%		+0.3%	
Cash and cash equivalents	59 726	(179)	(179)	179	179

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

Other price risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

The Fund's investment in AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in AIT is carried at fair value through profit or loss, 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 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 0.2% (2017: 0.3%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as follows:

	Change in price	Carrying amount $'000	Price risk $' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
			(Lower price)		Higher price	
2018						
Financial Assets						
ARIA Investments Trust :						
Balanced option	-/+4.0%	8 472 995	(338 920)	(338 920)	338 920	338 920
Cash option	-/+0.2%	64 463	(129)	(129)	129	129
Income focused option	-/+1.7%	47 887	(814)	(814)	814	814
Aggressive option	-/+4.9%	706 031	(34 596)	(34 596)	34 596	34 596
Operational risk reserve	-/+0.2%	32 667	(65)	(65)	65	65
Total increase / (decrease)		9 324 043	(374 524)	(374 524)	374 524	374 524
2017						
Financial Assets						
ARIA Investment Trust :						
Balanced option	-/+4.2%	7 603 153	(319 332)	(319 332)	319 332	319 332
Cash option	-/+0.3%	61 336	(184)	(184)	184	184
Income focused option	-/+1.7%	44 252	(752)	(752)	752	752
Aggressive option	-/+5.2%	557 162	(28 972)	(28 972)	28 972	28 972
Operational risk reserve	-/+0.3%	27 737	(83)	(83)	83	83
Total increase / (decrease)		8 293 640	(349 323)	(349 323)	349 323	349 323

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurement

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

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

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

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2018				
Financial Assets				
Pooled superannuation trust	**-**	**9 324 043**	**-**	**9 324 043**
2017				
Financial Assets				
Pooled superannuation trust	-	8 293 640	-	8 293 640

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. RELATED PARTIES

(a) Trustee

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

(b) Key Management Personnel

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

Ariane Barker
Patricia Cross (Chair)
Christopher Ellison
Nadine Flood
Winsome Hall
Garry Hounsell
Sunil Kemppi
Anthony Needham
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 2018:

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

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

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

Anthony Needham is a member of the Scheme. The terms and conditions of his membership, or those of any related parties, is the same as for any other member who is not part of the key management personnel of the the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

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

	2018	2017
	$	$
Short-term employee benefits	**480 935**	388 227
Post-employment benefits	**40 975**	39 805
Other long-term benefits	**38 583**	29 977
Termination benefits	**-**	21 136
	560 493	479 145

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 2018, 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, the Public Sector Superannuation Accumulation Plan and the Australian Defence Force Superannuation Scheme. 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, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. 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 7(c)). No fees were charged for acting as Trustee during the year ended 30 June 2018 (2017: $nil).

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

	Fair Value of Investment	Fair Value of Investment	Share of Net Income after tax	Share of Net Income after tax
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**9 324 043**	8 293 640	**784 821**	716 321
	9 324 043	8 293 640	**784 821**	716 321

14. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

15. SUBSEQUENT EVENTS

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

PSSap financial statements

11

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and the Public Service and Members of Public Sector Superannuation Accumulation Plan

Opinion

I have audited the financial statements of the Public Sector Superannuation Accumulation Plan for the year ended 30 June 2018, which comprise the following statements:

- Statement by the Trustee of the Public Sector Superannuation Accumulation Plan;
- Statement of Financial Position;
- Income Statement;
- Statement of Changes in Member Benefits;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to the financial statements, comprising a Summary of Principal Accounting Policies and other explanatory information.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of the Public Sector Superannuation Accumulation Plan as at 30 June 2018 and the results of its operations, cash flows, changes in equity and changes in member benefits for the year ended 30 June 2018.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Public Sector Superannuation Accumulation Plan in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code.

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

Trustee's Responsibilities for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards and the form agreed with the Minister for Finance and the Public Service 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 they determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee are responsible for assessing the Public Sector Superannuation Accumulation Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- concluded on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Carla Jago

Group Executive Director

Delegate of the Auditor-General

Canberra

24 September 2018

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 accompanying financial statements of the Public Sector Superannuation Accumulation Plan are properly drawn up so as to present fairly the financial position of the Plan as at 30 June 2018 and the financial performance, changes in equity, changes in member benefits and cash flows of the Plan for the year ended on that date;

(b) 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;

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

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

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

Patricia Cross
Chair

Margaret Staib
Director

Public Sector Superannuation Accumulation Plan
Statement of Financial Position
As at 30 June 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents		**196 225**	197 448
Deferred tax asset	9c	**1 018**	1 075
Investments in pooled superannuation trust	5	**12 489 552**	10 565 179
Other receivables	4	**543**	926
Total assets		**12 687 338**	10 764 628
Liabilities			
Benefits and pensions payable		**(2 175)**	(1 267)
Income tax payable		**(161 608)**	(160 135)
Other payables	8	**(8 085)**	(8 221)
Total liabilities excluding member benefits		**(171 868)**	(169 623)
Net assets available for member benefits		**12 515 470**	10 595 005
Defined contribution member liabilities			
Allocated to members	10	**(12 430 848)**	(10 519 655)
Unallocated to members	10	**(41 169)**	(40 786)
Total defined contribution member liabilities		**(12 472 017)**	(10 560 441)
Net assets		**43 453**	34 564
Equity			
Operational risk reserve		**(43 453)**	(34 564)
Total equity		**(43 453)**	(34 564)

The attached notes form part of these financial statements.

Public Sector Superannuation Accumulation Plan
Income Statement
For the Financial Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Investment revenue			
Interest		**2 059**	2 264
Changes in fair value of investments	6c	**1 005 985**	852 869
Other revenue		**87**	495
Total revenue		**1 008 131**	855 628
Other administration expenses		**(10 402)**	(10 646)
Total expenses		**(10 402)**	(10 646)
Operating results		**997 729**	844 982
Net benefits allocated to members' accounts		**(998 379)**	(845 684)
Operating result before income tax benefit		**(650)**	(702)
Income tax benefit	9a	**1 218**	1 208
Operating result after income tax benefit		**568**	506

The attached notes form part of these financial statements.

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

	Note	2018 $'000	2017 $'000
Opening balance of member benefits allocated at the beginning of the financial year		**10 519 655**	8 751 495
Contributions:			
Member contributions	7a	**55 203**	74 082
Employer contributions	7a	**1 154 146**	1 135 053
Transfers from other funds	7a	**423 555**	324 330
Government co-contributions	7a	**205**	259
Low income superannuation tax offset	7a	**2 974**	3 538
Income tax on contributions	9b	**(174 864)**	(170 658)
Net after tax contributions		**1 461 219**	1 366 604
Benefits to members	7b	**(504 018)**	(400 482)
Insurance premiums paid to insurer		**(79 647)**	(65 936)
Insurance claim payments received from insurer		**32 017**	30 921
Tax rebate on insurance premiums paid to insurer	9b	**11 947**	9 890
Net benefits allocated to members' accounts		**998 379**	845 684
Net transfers to reserves		**(8 321)**	(3 098)
Net increase in amounts not yet allocated to members' accounts		**(383)**	(15 423)
Closing balance of member benefits allocated at the end of the financial year		**12 430 848**	10 519 655

The attached notes form part of these financial statements.

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

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2016	30 960	30 960
Operating result	506	506
Net transfers to / (from) reserves	3 098	3 098
Closing balance as at 30 June 2017	34 564	34 564
Opening balance as at 1 July 2017	**34 564**	**34 564**
Operating result	**568**	**568**
Net transfers to / (from) reserves	**8 321**	**8 321**
Closing balance as at 30 June 2018	**43 453**	**43 453**

The attached notes form part of these financial statements.

Public Sector Superannuation Accumulation Plan
Statement of Cash Flows
For the Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Interest received		**2 058**	2 294
Income tax (paid) / received		**1 062**	1 107
Other revenue received		**462**	22
Other administration expenses paid		**(11 206)**	(12 074)
Net cash (outflows) / inflows from operating activities	11b	**(7 624)**	(8 651)
Cash flows from investing activities			
Purchase of investments		**(1 061 058)**	(1 019 214)
Proceeds from sale of investments		**142 689**	81 208
Net cash (outflows) from investing activities		**(918 369)**	(938 006)
Cash flows from financing activities			
Contributions received			
Employer		**1 154 224**	1 134 964
Member		**55 203**	74 082
Transfers from other funds		**423 555**	324 330
Government co-contributions		**205**	259
Low income superannuation tax offset		**2 974**	3 538
Income tax paid on contributions		**(171 478)**	(167 575)
Insurance claim payments received from insurer		**32 017**	30 921
Insurance premiums paid to insurer		**(79 116)**	(62 869)
Tax rebate received on insurance premiums		**10 296**	5 726
Benefits and pensions paid		**(503 110)**	(400 475)
Net cash inflows from financing activities		**924 770**	942 901
Net (decrease) / increase in cash held		**(1 223)**	(3 756)
Cash at the beginning of the financial year		**197 448**	201 204
Cash at the end of the financial year	11a	**196 225**	197 448

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

1. DESCRIPTION OF THE 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).

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

Contributions of the employers and the employees are made in accordance with the terms of the Trust Deed. The members' accounts are credited or debited each year with contributions and their proportionate share of the net investment income, expenses and income tax expense of the Plan.

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 Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993*. 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 of the Trustee on 24 September 2018.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no significant impact on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. 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 1048 'Interpretation of Standards'	ending on or after 31 December 2017
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	beginning on or after 1 January 2017
AASB 2016-7 'Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities'	beginning on or after 1 January 2017

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards in issue but not yet effective

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

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', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', **AASB 2014-5** 'Amendments to Australian Accounting Standards arising from AASB 15', **AASB 2015-8** 'Amendments to Australian Accounting Standards - Effective Date of AASB 15', and **AASB 2016-3** 'Amendments to Australian Accounting Standards - Clarifications to AASB 15'	1 January 2019	30 June 2020
AASB 1058 'Income of Not-for-Profit Entities'	1 January 2019	30 June 2020
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities '	1 January 2019	30 June 2020
AASB 2017-4 'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'	1 January 2019	30 June 2020
AASB 2017-6 'Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation'	1 January 2019	30 June 2020
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', **AASB 2015-10** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128', **AASB 2017-5** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.'	1 January 2019	30 June 2020

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional currency of the 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 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2018 and the comparative information presented in these financial statements for the year ended 30 June 2017. Where necessary, disclosures of comparative numbers have been restated to be consistent with the current period.

(a) Cash and Cash Equivalents

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

(b) Financial assets

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

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

Fair values have been determined as follows:

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

(ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Foreign Currency Transactions

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 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Payables

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

Other payables
Other payables represent liabilities for 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.

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

(e) Defined contribution member liabilities

Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date (Note 10).

(f) Contributions

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

(g) Operational risk reserve

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

(h) Derivatives

The Plan does not directly enter into derivative financial instruments.

(i) 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 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Revenue (continued)

Investment revenue

Interest revenue is recognised on an accrual basis.

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

(j) Expenses

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

(k) Insurance Premiums

Death and total and permanent disability insurance premiums are charged to member accounts on a monthly basis and then remitted to the life insurer in arrears.

(l) Income Tax

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

Current tax

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Income Tax (continued)

Deferred tax (continued)
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 Income Statement, except for tax on contributions, which is recognised in the Statement of Changes in Member Benefits.

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

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

Receivables and payables are recognised inclusive of GST.

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

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

4. OTHER RECEIVABLES

	2018	2017
	$'000	$'000
Receivable from the ARIA Investments Trust	**69**	88
Interest receivable	**188**	187
GST receivable	**188**	178
Administrator lag loss receivable	**63**	108
Compensation receivable	**35**	365
	543	926

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

5. INVESTMENTS

	2018	2017
	$'000	$'000
Pooled superannuation trust - ARIA Investments Trust	**12 489 552**	10 565 179
	12 489 552	10 565 179

6. CHANGES IN FAIR VALUE OF INVESTMENTS

		2018	2017
		$'000	$'000
(a)	**Investments held at 30 June:**		
	Pooled superannuation trust - ARIA Investments Trust	**993 265**	843 108
(b)	**Investments realised during the year:**		
	Pooled superannuation trust - ARIA Investments Trust	**12 720**	9 761
(c)	**Total changes in fair value of investments**	**1 005 985**	852 869

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS

(a) Contributions

Employer Contributions
Employers contribute at least 15.4% (2017: 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 2018 and 30 June 2017, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Plan up to a maximum of $500 per member.

Low income superannuation tax offset
The low income super contribution (LISC) was a Commonwealth Government superannuation payment of up to $500 for the financial years 2012-13 to 2016-17. The LISC was renamed the Low Income Superannuation Tax Offset (LISTO) and applies from the 2017-18 year onwards. LISC/LISTO payments 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:

	2018	2017
	$'000	$'000
Lump sum benefits paid and payable	**486 274**	385 922
Pensions paid and payable	**17 744**	14 560
Total	**504 018**	400 482

7. FUNDING ARRANGEMENTS (continued)

(c) Costs of Managing, Investing and Administering the Plan

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

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

	2018	2017
	$'000	$'000
Investment		
Investment manager fees	**14 514**	18 012
Custodian fees	**1 673**	1 466
Investment consultant and other service provider fees	**2 036**	1 352
Other investment expenses	**712**	746
Total direct investment expenses	**18 935**	21 576
Regulatory fees	**1 095**	1 066
Other operating expenses	**11 965**	8 238
Total costs	**31 995**	30 880

Administration fees are paid by members and used to pay costs other than those incurred in managing and investing Plan assets. Costs funded by these administration fees are disclosed as 'other administration expenses' in the Income Statement and include $1,286,179 (2017: $1,233,802) charged to the Plan by CSC for acting as Trustee of the Plan during the reporting period.

8. OTHER PAYABLES

	2018	2017
	$'000	$'000
Insurance premiums payable	**6 974**	6 443
Employer contributions refundable	**95**	13
Witholding tax payable	**101**	52
Accrued expenses	**915**	1 713
	8 085	8 221

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

9.	**INCOME TAX**	**2018**	2017
		$'000	$'000
(a)	**Income tax recognised in operating results**		
	Tax benefit comprises:		
	Current tax benefit	**(1 354)**	(1 067)
	Deferred tax income relating to the origination and reversal of temporary differences	**136**	(141)
	Total tax benefit	**(1 218)**	(1 208)

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

Operating result before income tax	**(650)**	(702)
Income tax benefit calculated at 15%	**(98)**	(105)
Net benefits allocated to members during the year	**149 757**	126 853
Non-deductible administration expenses	**35**	54
Investment revenue already taxed	**(150 898)**	(127 930)
Other revenue not taxable	**(8)**	(72)
Investment revenue not taxable	**(6)**	(8)
Total tax benefit	**(1 218)**	(1 208)

9. INCOME TAX (continued)	**2018**	2017
	$'000	$'000
(b) Income tax recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	**55 203**	74 082
Employer contributions	**1 154 146**	1 135 053
Transfers from other funds	**423 555**	324 330
Government co-contributions	**205**	259
Low income superannuation tax offset	**2 974**	3 538
Total Contributions	**1 636 083**	1 537 262
Contributions tax calculated at 15%	**245 412**	230 589
Member contributions not subject to tax	**(8 280)**	(11 102)
Government co-contributions not subject to tax	**(31)**	(39)
Low income superannuation tax offset not subject to tax	**(446)**	(531)
Transfers from other funds not subject to tax	**(61 589)**	(47 645)
Anti Detriment deduction	**-**	(865)
Net tax on contributions for which no TFN was provided	**(132)**	225
Under / (over) relating to prior year	**(70)**	26
Total income tax on contributions	**174 864**	170 658
Tax rebate on insurance premiums paid to insurer		
Current tax rebate on deductible group life insurance	**(11 868)**	(9 430)
Deferred tax rebate relating to deductible group life insurance	**(79)**	(460)
Total tax rebate on insurance premiums paid to insurer	**(11 947)**	(9 890)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

9. INCOME TAX (continued)

	2018	2017
	$'000	$'000
(c) Deferred tax balances		
Deferred tax asset:		
Temporary differences	**1 018**	1 075
	1 018	1 075

Taxable and deductible temporary differences arise from the following:

2018	**Opening balance**	**Charged to income**	**Closing balance**
	$'000	**$'000**	**$'000**
Gross deferred tax assets / (liabilities):			
Interest receivable	**(28)**	**-**	**(28)**
Insurance premiums payable	**967**	**79**	**1 046**
Accrued expenses	**136**	**(136)**	**-**
	1 075	**(57)**	**1 018**

2017	Opening balance	Charged to income	Closing balance
	$'000	$'000	$'000
Gross deferred tax assets / (liabilities):			
Interest receivable	(33)	5	(28)
Insurance premiums payable	507	460	967
Accrued expenses	-	136	136
	474	601	1 075

10. DEFINED CONTRIBUTION MEMBER LIABILITIES

Defined contribution members bear the investment risk relating to the underlying assets and unit prices used to measure defined contribution member liabilities. Unit prices are updated on a daily basis for movements in investment markets.

At 30 June 2018 $41,169,000 (2017: $40,786,000) has not been allocated to members' at balance date. The amount not yet allocated to members' accounts relates to timing differences, which includes contributions received by the Plan that have not been able to be allocated to members as at balance date and valuation differences.

The Plan's management of the investment market risks is as disclosed in Note 13.

11. CASH FLOW INFORMATION

	2018	2017
	$'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	**196 225**	197 448

(b) Reconciliation of operating results after income tax to net cash inflows / (outflows) from operating activities

Operating result after income tax expense	**568**	506
Net benefits allocated to members' accounts	**998 379**	845 684
Changes in fair value of investments	**(1 005 985)**	(852 869)
Decrease/(increase) in other receivables	**364**	(448)
Decrease/(increase) in deferred tax asset	**136**	(141)
Increase/(decrease) in other payables	**(794)**	(1 423)
Increase/(decrease) in income tax payable	**(292)**	40
Net cash (outflows) / inflows from operating activities	**(7 624)**	(8 651)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. AUDITOR'S REMUNERATION

	2018	2017
	$	$
Amounts paid or payable to the Australian National Audit Office for audit services:		
Financial statements	**48 600**	77 000
Regulatory returns and compliance	**32 400**	34 500
Total	**81 000**	111 500

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

13. 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 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.

13. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

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

(d) Categories of financial instruments

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

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

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.

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

The credit risk on the 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:

	2018	2017
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**12 489 552**	10 565 179
Other financial assets		
Cash and cash equivalents	**196 225**	197 448
Other receivables	**355**	748
Total financial assets	**12 686 132**	10 763 375

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(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.

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. 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 2018					
Benefits and pensions payable	**2 175**	**-**	**-**	**-**	**2 175**
Other payables	**8 085**	**-**	**-**	**-**	**8 085**
Member liabilities	**12 472 017**	**-**	**-**	**-**	**12 472 017**
Total financial liabilities	**12 482 277**	**-**	**-**	**-**	**12 482 277**
30 June 2017					
Benefits and pensions payable	1 267	-	-	-	1 267
Other payables	8 221	-	-	-	8 221
Member liabilities	10 560 441	-	-	-	10 560 441
Total financial liabilities	10 569 929	-	-	-	10 569 929

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 2018

13. 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 2017 reporting period.

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

The Plan does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Plan is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee's approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of 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 2018

13. 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 2018 and 30 June 2017 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 0.2% p.a. (2017: 0.3%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of the reasonably possible change in interest rates as at that date. Had interest rates been lower or higher by 0.2% (2017: 0.3%) at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as demonstrated:

	Carrying amount $'000	Interest rate risk $' 000			
		Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
2018		-0.2%		+0.2%	
Cash and cash equivalents	196 225	(392)	(392)	392	392
2017		-0.3%		+0.3%	
Cash and cash equivalents	197 448	(592)	(592)	592	592

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 2018

13. 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 and unit trusts. As the investment in AIT is carried at fair value through profit or loss, 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 0.2% (2017: 0.3%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at the reporting date, and all other variables were held constant, the financial result would have improved/ (deteriorated) as follows:

Financial Assets ARIA Investments Trust:	Change in price	Carrying amount $'000	Price risk $' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
			(Lower price)		Higher price	
2018						
Balanced option	-/+4.0%	125 863	(5 035)	(5 035)	5 035	5 035
Aggressive option	-/+4.9%	1 060 222	(51 951)	(51 951)	51 951	51 951
Cash option	-/+0.2%	150 394	(301)	(301)	301	301
Income focused option	-/+1.7%	256 005	(4 352)	(4 352)	4 352	4 352
MySuper balanced option	-/+4.0%	10 554 156	(422 166)	(422 166)	422 166	422 166
CSCri cash option	-/+0.2%	11 347	(23)	(23)	23	23
CSCri aggressive option	-/+5.2%	17 862	(929)	(929)	929	929
CSCri balanced option	-/+4.1%	90 949	(3 729)	(3 729)	3 729	3 729
CSCri income focused option	-/+1.8%	109 319	(1 968)	(1 968)	1 968	1 968
Operational risk reserve	-/+0.2%	43 384	(87)	(87)	87	87
CSCri cash option-TRIS	-/+0.2%	2 747	(5)	(5)	5	5
CSCri aggressive option-TRIS	-/+4.9%	6 793	(333)	(333)	333	333
CSCri balanced option-TRIS	-/+4.0%	31 649	(1 266)	(1 266)	1 266	1 266
CSCri income focused option-TRIS	-/+1.7%	28 862	(491)	(491)	491	491
Total		12 489 552	(492 636)	(492 636)	492 636	492 636

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. 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**			
			Operating Result Before Tax	**Net Assets Available to Pay Benefits**	**Operating Result Before Tax**	**Net Assets Available to Pay Benefits**
			(Lower price)		**Higher price**	
2017						
Balanced option	-/+4.2%	97 789	(4 107)	(4 107)	4 107	4 107
Aggressive option	-/+5.2%	725 888	(37 746)	(37 746)	37 746	37 746
Cash option	-/+0.3%	144 707	(434)	(434)	434	434
Income focused option	-/+1.7%	217 089	(3 691)	(3 691)	3 691	3 691
MySuper balanced option	-/+4.2%	9 106 794	(382 485)	(382 485)	382 485	382 485
CSCri cash option	-/+0.3%	14 925	(45)	(45)	45	45
CSCri aggressive option	-/+5.6%	18 218	(1 020)	(1 020)	1 020	1 020
CSCri balanced option	-/+4.5%	94 689	(4 261)	(4 261)	4 261	4 261
CSCri income focused option	-/+1.9%	110 604	(2 101)	(2 101)	2 101	2 101
Operational risk reserve	-/+0.3%	34 476	(103)	(103)	103	103
Total		10 565 179	(435 993)	(435 993)	435 993	435 993

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

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

Fair value measurements recognised in the Statement of Financial Position
The following table provides an analysis of the 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: fair value measurements are those derived from quoted prices in active markets.

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2018				
Financial Assets				
Pooled superannuation trust	**-**	**12 489 552**	**-**	**12 489 552**
2017				
Financial Assets				
Pooled superannuation trust	-	10 565 179	-	10 565 179

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

14. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. Included in 'other administration expenses' is an amount of $1,286,179 (2017: $1,233,802) charged to the Plan 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 2018 and to the date of the report were:

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

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

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

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

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

Paul Abraham, Christopher Ellison, Robert Firth, Nadine Flood, Philip George, Richard Hill, Sunil Kemppi, Bronwyn McNaughton, Christine Pearce, Alana Scheiffers, Alison Tarditi and Andy Young are members of the Plan. The terms and conditions of their membership, or those of any related parties, are the same as for any other member who is not part of the key management personnel of the Plan.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

14. 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:

	2018	2017
	$	$
Short-term employee benefits	**628 964**	482 249
Post-employment benefits	**53 587**	49 445
Other long-term benefits	**50 458**	37 237
Termination benefits	**-**	26 255
	733 009	595 186

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 AIT 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 2018, 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, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme. All investing transactions are conducted under normal industry terms and conditions.

The Trustee of the 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, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme.

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

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

	Fair Value of Investment	**Fair Value of Investment**	**Share of Net Income after tax**	**Share of Net Income after tax**
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**12 489 552**	10 565 179	**1 005 985**	852 869
	12 489 552	10 565 179	**1 005 985**	852 869

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Plan had no capital commitments at 30 June 2018 (2017: $nil).

The Plan had the following commitments for other expenditure as at 30 June 2018 :

	2018	2017
	$'000	$'000
BY TYPE		
Commitments receivable		
Net GST recoverable on commitments[1]	**1 487**	2 147
	1 487	2 147
Commitments payable		
Administration expenses[2]	**(21 804)**	(31 490)
	(21 804)	(31 490)
Net commitments by type	**(20 317)**	(29 343)
BY MATURITY		
One year or less	**(9 871)**	(9 226)
From one to three years	**(10 446)**	(20 117)
Total commitments	**(20 317)**	(29 343)

[1] Commitments payable are GST inclusive.
[2] Administration expenses are estimates of project commitments and operational activities, including the outsourcing of administration of the Plan. These expenses will be met through the collection of member administration fees received from members through the redemption of member benefits held by the Plan. Actual expenses will depend on future member numbers.

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 (including insurance benefits) 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 (2017: $nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

16. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2018 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.

ADF Super financial statements

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Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and the Public Service and Members of Australian Defence Force Superannuation Scheme

Opinion

I have audited the financial statements of the Australian Defence Force Superannuation Scheme for the year ended 30 June 2018, which comprise the following statements:

- Statement by the Trustee of the Australian Defence Force Superannuation Scheme;
- Statement of Financial Position;
- Income Statement;
- Statement of Changes in Member Benefits;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to the financial statements, comprising a Summary of Principal Accounting Policies and other explanatory information.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of the Australian Defence Force Superannuation Scheme as at 30 June 2018 and the results of its operations, cash flows, changes in equity and changes in member benefits for the year ended 30 June 2018.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Australian Defence Force Superannuation Scheme in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code.

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

Trustee's Responsibilities for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards and the form agreed with the Minister for Finance and the Public Sector 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 they determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee are responsible for assessing the Australian Defence Force Superannuation Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

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19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- concluded on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Carla Jago

Group Executive Director

Delegate of the Auditor-General

Canberra

24 September 2018

Australian Defence Force Superannuation Scheme (ABN 90 302 247 344)

Statement by the Trustee of the Australian Defence Force Superannuation Scheme ('Scheme')

The Board of Directors hereby states that in its opinion:

(a) The accompanying financial statements are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2018 and the financial performance, changes in equity, changes in member benefits and cash flows of the Scheme for the year ended on that date;

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

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

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

(e) the operations of the Scheme were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011,* the *Australian Defence Force Superannuation Act 2015,* the Trust Deed establishing the Scheme, the requirements of the *Superannuation Industry (Supervision) Act 1993* and regulations, and the relevant requirements of the *Corporations Act 2001* and regulations (to the extent applicable).

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

Patricia Cross
Chair

Margaret Staib
Director

Australian Defence Force Superannuation Scheme
Statement of Financial Position
As at 30 June 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents		**11 478**	4 404
Other receivables	4	**24**	9
Investments in pooled superannuation trust	5	**124 812**	33 330
Total assets		**136 314**	37 743
Liabilities			
Benefits payable		**(9)**	(3)
Income tax payable		**(10 899)**	(4 071)
Other payables	8	**(94)**	(48)
Total liabilities excluding member benefits		**(11 002)**	(4 122)
Net assets available for member benefits		**125 312**	33 621
Defined contribution member liabilities			
Allocated to members	10	**(124 555)**	(33 343)
Unallocated to members	10	**(757)**	(278)
Total defined contribution member liabilities		**(125 312)**	(33 621)
Net assets		**-**	-
Equity			
Total equity		**-**	-

The attached notes form part of these financial statements.

Australian Defence Force Superannuation Scheme
Income Statement
For the Financial Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Investment revenue			
Interest		**97**	23
Changes in fair value of investments	6c	**6 092**	749
Total revenue		**6 189**	772
Other administration expenses		**(403)**	(117)
Total expenses		**(403)**	(117)
Operating results		**5 786**	655
Net benefits allocated to members' accounts		**(5 832)**	(669)
Operating result before income tax benefit		**(46)**	(14)
Income tax benefit	9a	**46**	14
Operating result after income tax benefit		**-**	-

The attached notes form part of these financial statements.

Australian Defence Force Superannuation Scheme
Statement of Changes in Member Benefits
For the Financial Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Opening balance of member benefits allocated at the beginning of the financial year		**33 343**	-
Contributions:			
Member contributions	7a	**1 573**	667
Employer contributions	7a	**72 460**	27 121
Transfers from other funds	7a	**25 377**	9 618
Government co-contributions	7a	**74**	-
Low income superannuation contributions	7a	**595**	-
Income tax on contributions	9b	**(10 997)**	(4 085)
Net after tax contributions		**89 082**	33 321
Benefits to members	7b	**(3 223)**	(369)
Net benefits allocated to members' accounts		**5 832**	669
Net (decrease) in amounts not yet allocated to members' accounts		**(479)**	(278)
Closing balance of member benefits allocated at the end of the financial year		**124 555**	33 343

The attached notes form part of these financial statements.

Australian Defence Force Superannuation Scheme
Statement of Changes in Equity
For the Financial Year Ended 30 June 2018

	Total equity $'000
Opening balance as at 1 July 2016	-
Operating result	-
Net transfers to / (from) reserves	-
Closing balance as at 30 June 2017	-
Opening balance as at 1 July 2017	-
Operating result	-
Net transfers to / (from) reserves	-
Closing balance as at 30 June 2018	-

The attached notes form part of these financial statements.

Australian Defence Force Superannuation Scheme
Statement of Cash Flows
For the Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Interest received		**89**	19
Other administration expenses paid		**(388)**	(75)
Income tax benefit received		**14**	-
Net cash (outflows) from operating activities	11b	**(285)**	(56)
Cash flows from investing activities			
Purchase of investments		**(86 993)**	(32 763)
Proceeds from sale of investments		**1 603**	183
Net cash (outflows) from investing activities		**(85 390)**	(32 580)
Cash flows from financing activities			
Contributions received			
Employer		**72 484**	27 121
Member		**1 573**	667
Transfers from other funds		**25 377**	9 618
Government co-contributions		**74**	-
Low income superannuation tax offset		**595**	-
Income tax paid on contributions		**(4 137)**	-
Benefits paid		**(3 217)**	(366)
Net cash inflows from financing activities		**92 749**	37 040
Net increase in cash held		**7 074**	4 404
Cash at the beginning of the financial year		**4 404**	-
Cash at the end of the financial year	11a	**11 478**	4 404

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

1. DESCRIPTION OF THE SCHEME

The Australian Defence Force Scheme ('Scheme') is a defined contribution scheme constituted by Trust Deed dated 17 September 2015 under the *Australian Defence Force Superannuation Act 2015* and is domiciled in Australia. The Trustee of the Scheme is the Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243).

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

The Scheme was established on 1 July 2016 for members of the Australian Defence Force, together with a new invalidity scheme, the Australian Defence Force Cover Scheme.

Contributions of the employer and the employees are made in accordance with the terms of the Trust Deed. The members' accounts are credited or debited each year with contributions and their proportionate share of the net investment income, expenses and income tax expense of the Scheme.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no significant impact on the financial statements

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

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

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards in issue but not yet effective

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

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

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

(c) Use of judgements and estimates

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2018 and the comparative information presented in these financial statements for the year ended 30 June 2017. Where necessary, disclosures of comparative numbers have been restated to be consistent with the current period.

(a) Cash and Cash Equivalents

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

(b) Financial assets

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

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

Fair values have been determined as follows:

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

(ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Foreign Currency Transactions

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 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Payables

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

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

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

(e) Defined contribution member liabilities

Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date (Note 10).

(f) Contributions

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

(g) Operational risk reserve

The Scheme's operational risk reserve (ORR) is held as Trustee Capital in the financial statements of the Trustee. The purpose of the ORR is to provide adequate financial resources to address potential losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Scheme.

(h) Derivatives

The Scheme does not directly enter into derivative financial instruments.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Revenue

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

Investment revenue
Interest revenue is recognised on an accrual basis.

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

(j) Expenses

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

(k) Income Tax

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

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Income Tax (continued)

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

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

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

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

(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 Financial Position.

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

4. OTHER RECEIVABLES

	2018	2017
	$'000	$'000
Interest receivable	**12**	4
GST receivable	**12**	5
	24	9

There are no receivables that are past due or impaired.

5. INVESTMENTS

	2018	2017
	$'000	$'000
Pooled superannuation trust - ARIA Investments Trust	**124 812**	33 330
	124 812	33 330

6. CHANGES IN FAIR VALUE OF INVESTMENTS

		2018	2017
		$'000	$'000
(a)	**Investments held at 30 June:**		
	Pooled superannuation trust - ARIA Investments Trust	**5 939**	739
(b)	**Investments realised during the year:**		
	Pooled superannuation trust - ARIA Investments Trust	**153**	10
(c)	**Total changes in fair value of investments**	**6 092**	749

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS

(a) Contributions

Employer Contributions
The Department of Defence contributes at least 16.4% (2017: 16.4%) of a member's superannuation salary to the Scheme, subject to superannuation law. The employer may also make salary sacrifice contributions (before tax) to the Scheme on behalf of members.

Member Contributions
Members may make voluntary contributions to the Scheme 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 Scheme.

Spouse Contributions
Additional contributions can be made by a spouse on behalf of a member of the Scheme.

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

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

(b) Benefits paid

Where a member meets a condition of release and a valid application is received, the benefit is paid to the beneficiary from the Scheme.

Benefits paid by the Scheme during the year are as follows:

	2018	2017
	$'000	$'000
Lump sum benefits paid and payable	**3 223**	369
Total	**3 223**	369

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

7. FUNDING ARRANGEMENTS (continued)

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

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.

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

	2018	2017
	$'000	$'000
Investment		
Investment manager fees	**100**	31
Custodian fees	**11**	3
Investment consultant and other service provider fees	**14**	2
Other investment expenses	**5**	1
Total direct investment expenses	**130**	37
Regulatory fees	**6**	3
Other operating expenses	**82**	14
Total costs	**218**	54

Administration fees are paid by members and used to pay costs other than those incurred in managing and investing Scheme assets. Costs funded by these administration fees are disclosed as ‘other administration expenses’ in the Income Statement and include $73,813 (2017: $24,148) charged to the Scheme by CSC for acting as Trustee of the Scheme during the reporting period. As the Scheme is yet to reach the sufficient scale required to cover its total administration costs from the administration fees paid by members, the Department of Defence has contributed further administration funding of $808,231 (2017: $808,231). Transactions in respect of the receipt of this additional funding and the associated administration costs have been brought to account in the financial statements of the Trustee.

8. OTHER PAYABLES

	2018	2017
	$'000	$'000
Employer contributions refundable	**24**	-
Accrued expenses	**70**	48
	94	48

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

9. INCOME TAX

	2018 $'000	2017 $'000
(a) Income tax recognised in operating results		
Income tax benefit comprises:		
Current tax benefit	**(46)**	(14)
Total tax benefit	**(46)**	(14)

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

Operating result before income tax	**(46)**	(14)
Income tax benefit calculated at 15%	**(7)**	(2)
Net benefits allocated to members during the year	**875**	100
Investment revenue already taxed	**(914)**	(112)
Total tax benefit	**(46)**	(14)

(b) Income tax recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	**1 573**	667
Employer contributions	**72 460**	27 121
Government co-contributions	**74**	-
Low income superannuation tax offset	**595**	-
Transfers from other funds	**25 377**	9 618
Total Contributions	**100 079**	37 406
Contributions tax calculated at 15%	**15 012**	5 611
Member contributions not subject to tax	**(236)**	(100)
Government co-contributions not subject to tax	**(11)**	-
Low income superannuaion tax offset not subject to tax	**(89)**	-
Transfers from other funds not subject to tax	**(3 745)**	(1 443)
Net No-TFN-quoted contributions subject to additional tax	**14**	17
Under/(over) relating to prior year	**52**	-
Total income tax on contributions	**10 997**	4 085

10. DEFINED CONTRIBUTION MEMBER LIABILITIES

Defined contribution members bear the investment risk relating to the underlying assets and unit prices used to measure defined contribution member liabilities. Unit prices are updated on a daily basis for movements in investment markets.

At 30 June 2018 $756,999 (2017: $277,654) has not been allocated to members' at balance date. The amount not yet allocated to members' accounts relates to timing differences, which includes contributions received by the Scheme that have not been able to be allocated to members as at balance date and valuation differences.

The Scheme's management of the investment market risks is as disclosed in Note 13.

11. CASH FLOW INFORMATION

	2018	2017
	$'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	**11 478**	4 404

(b) Reconciliation of operating result after income tax to net cash inflows / (outflows) from operating activities

Operating result after income tax expense	**-**	-
Net benefits allocated to members' accounts	**5 832**	669
Changes in fair value of investments	**(6 092)**	(749)
(Increase)/decrease in other receivables	**(15)**	(9)
Increase/(decrease) in other payables	**22**	47
Increase/(decrease) in income tax payable	**(32)**	(14)
Net cash (outflows) from operating activities	**(285)**	(56)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

12. AUDITOR'S REMUNERATION

	2018 $	2017 $
Amounts paid or payable to the Australian National Audit Office for audit services:		
Financial statements	**48 600**	30 442
Regulatory returns and compliance	**32 400**	15 558
Total	**81 000**	46 000

The audits and reviews 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 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 Scheme during the reporting period.

13. 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 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.

13. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

The RSE licence of the Trustee of the Scheme requires the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect registrable superannuation entities within its business operations in the form of operational risk reserve(s), operational risk trustee capital or a combination thereof to meet the target amount of financial resources that the RSE licensee determines is necessary to respond to these losses. The Trustee of the Scheme was in compliance with this requirement throughout the reporting period.

(d) Categories of financial instruments

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

(e) Financial risk management objectives

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

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

(f) Credit risk

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

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

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

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

	2018	2017
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**124 812**	33 330
Other financial assets		
Cash and cash equivalents	**11 478**	4 404
Receivables	**12**	4
Total financial assets	**136 302**	37 738

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. 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 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 withdrawals. The Scheme allows members to withdraw benefits, and it is therefore exposed to the liquidity risk of meeting member withdrawals at any time. The Scheme 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 Scheme to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements.

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

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

Financial Liabilities maturity profile:

	Less than 3 months $'000	**3 months to 1 year $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**
30 June 2018					
Benefits payable	**9**	**-**	**-**	**-**	**9**
Other payables	**94**	**-**	**-**	**-**	**94**
Member liabilities	**125 312**	**-**	**-**	**-**	**125 312**
Total financial liabilities	**125 415**	**-**	**-**	**-**	**125 415**
30 June 2017					
Benefits payable	3	-	-	-	3
Other payables	48	-	-	-	48
Member liabilities	33 621	-	-	-	33 621
Total financial liabilities	33 672	-	-	-	33 672

There has been no change to the Scheme'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 2018

13. 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.

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

The Scheme does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Scheme is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee's approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of 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 2018

13. 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 2018 and 30 June 2017 had a maturity profile of less than one month.

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

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

	Carrying amount $'000	Interest rate risk $' 000			
		Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
2018		-0.2%		+0.2%	
Cash and cash equivalents	11 478	(23)	(23)	23	23
2017		-0.3%		+0.3%	
Cash and cash equivalents	4 404	(13)	(13)	13	13

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)
The Scheme's investment in AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in AIT is carried at fair value through profit or loss, 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 factors represent the average annual historical volatility in the investment option unit prices. For the Cash option a factor of 0.2% (2017: 0.3%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at the reporting date, and all other variables were held constant, the financial result would have improved/ (deteriorated) as follows:

Financial Assets ARIA Investments Trust:	Change in price	Carrying amount $'000	Price risk $' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
			(Lower price)		Higher price	
2018						
Cash option	-/+0.2%	268	(1)	(1)	1	1
Income focused option	-/+1.7%	360	(6)	(6)	6	6
MySuper balanced option	-/+4.0%	116 894	(4 676)	(4 676)	4 676	4 676
Aggressive option	-/+4.9%	7 290	(357)	(357)	357	357
Total		124 812	(5 040)	(5 040)	5 040	5 040

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. 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			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
			(Lower price)		Higher price	
2017						
Cash option	-/+0.3%	54	-	-	-	-
Income focused option	-/+1.7%	51	(1)	(1)	1	1
MySuper balanced option	-/+4.2%	32 066	(1 347)	(1 347)	1 347	1 347
Aggressive option	-/+5.2%	1 159	(60)	(60)	60	60
Total		33 330	(1 408)	(1 408)	1 408	1 408

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

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

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

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

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2018				
Financial Assets				
Pooled superannuation trust	**-**	**124 812**	**-**	**124 812**
2017				
Financial Assets				
Pooled superannuation trust	-	33 330	-	33 330

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

14. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. Included in 'other administration expenses' is an amount of $73,813 (2017: $24,148) charged to the Scheme by CSC for acting as Trustee of the Scheme during the reporting period.

(b) Key Management Personnel

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

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

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

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

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

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

The terms and conditions of membership for any related parties are the same as for any other member who is are not related parties of the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2018

14. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

The aggregate compensation of the key management personnel in relation to the Scheme is set out below:

	2018	2017
	$	$
Short-term employee benefits	**4 325**	836
Post-employment benefits	**369**	86
Other long-term benefits	**347**	65
Termination benefits	**-**	45
	5 041	1 032

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 the assets of the ARIA Investments Trust that are referable to the Scheme.

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

(d) Investing entities

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

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

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

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

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

	Fair Value of Investment	**Fair Value of Investment**	**Share of Net Income after tax**	**Share of Net Income after tax**
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**124 812**	33 330	**6 092**	749
	124 812	33 330	**6 092**	749

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

The Scheme had the following commitments for other expenditure as at 30 June 2018:

	2018	2017
	$'000	$'000
BY TYPE		
Commitments receivable		
Net GST recoverable on commitments[1]	**155**	205
	155	205
Commitments payable		
Administration expenses[2]	**(2 270)**	(3 006)
	(2 270)	(3 006)
Net commitments by type	**(2 115)**	(2 801)
BY MATURITY		
One year or less	**(945)**	(709)
From one to three years	**(1 170)**	(2 092)
Over three years	**-**	-
Total commitments	**(2 115)**	(2 801)

[1] Commitments payable are GST inclusive.

[2] Administration expenses are estimates of operational activities, including the outsourcing of administration of the Scheme. These expenses will be met through the collection of member administration fees received from members through the redemption of member benefits held by the Scheme and through funding received from the Department of Defence. Actual expenses will depend on future member numbers.

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 as at the reporting date (2017: $nil).

16. SUBSEQUENT EVENTS

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

CSC financial statements

13

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and the Public Service

Opinion

In my opinion, the financial statements of the Commonwealth Superannuation Corporation for the year ended 30 June 2018:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Commonwealth Superannuation Corporation as at 30 June 2018 and its financial performance and cash flows for the year then ended.

The financial statements of the Commonwealth Superannuation Corporation, which I have audited, comprise the following statements as at 30 June 2018 and for the year then ended:

- Statement by the Chair, Chief Executive Officer and Chief Operating Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Commonwealth Superannuation Corporation in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Directors' Responsibilities for the Financial Statements

As the Acountable Authority of the Commonwealth Superannuation Corporation, the Directors are responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Commonwealth Superannuation Corporation's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Directors are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- concluded on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern;
- evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Grant Hehir

Auditor-General

Canberra

25 September 2018

STATEMENT BY THE CHAIR, CHIEF EXECUTIVE OFFICER, AND CHIEF OPERATING OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2018 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that Commonwealth Superannuation Corporation will be able to pay its debts as and when they fall due.

The statement is made in accordance with a resolution of the directors.

Patricia Cross	Peter Carrigy-Ryan	Andy Young
Chair	Chief Executive Officer	Chief Operating Officer
24 September 2018	24 September 2018	24 September 2018

13. CSC financial statements

CONTENTS

Statement of Comprehensive Income
for the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000	Original 2018 Budget $'000	Notes
NET CONTRIBUTION BY/(COST OF) SERVICES					
Expenses					
Employee benefits	2.1	**59,987**	55,046	58,591	a
Suppliers	2.2	**47,430**	45,202	34,540	b
Depreciation and amortisation	5.1	**7,129**	7,053	13,433	c
Finance costs		**29**	1	12	
Write-down and impairment of assets	2.3	**12**	4,100	-	
Total expenses		**114,587**	111,402	106,576	
LESS:					
Own-Source Income					
Own-source revenue					
Sale of goods and rendering of services	3.1	**121,763**	108,855	106,496	d
Interest	3.2	**134**	79	80	
Total own source revenue		**121,897**	108,934	106,576	
Gains					
Gains from sale of assets		**-**	1	-	
Total gains		-	1	-	
Total own-source income		**121,897**	108,935	106,576	
Net contribution by/(cost of) services		**7,310**	(2,467)	-	
Surplus/(deficit) for the year		**7,310**	(2,467)	-	
OTHER COMPREHENSIVE INCOME					
Items not subject to subsequent reclassification to net contribution by/(cost of) services					
Changes in asset revaluation reserve		**(1)**	(693)	-	
Total other comprehensive income		**(1)**	(693)	-	
Total comprehensive income		**7,309**	(3,160)	-	

The above statement should be read in conjunction with the accompanying notes.

Budget Variances Commentary

Statement of Comprehensive Income

a. Employee benefits are higher than budget due to voluntary redundancy costs.

b. Supplier expenses are higher than budget due to one off expenses associated with the co-location of CSC's Canberra offices. In addition, CSC took the opportunity of the co-location to upgrade its technology capabilities, requiring the purchase of additional software licences, and installed a new communication system for the call centre.

c. Depreciation and amortisation expenses are lower than budget as a result of lower than budgeted capital expenditure associated with the co-location of CSC's Canberra offices . This also resulted in an increase in cash and cash equivalents and a decrease in leasehold improvements versus budget.

d. The ARIA Investments Trust (AIT) is a pooled superannuation trust under CSC's trusteeship. CSC invoices the AIT for the portion of expenses that are referable to the AIT. Revenue from the AIT is higher than budget due to reimbursements received for expenditure incurred relating to the co-location of CSC's Canberra offices that was referable to the AIT. This has also resulted in an increase in trade and other receivables versus budget. Increased revenue in the current year is also related to externally funded project revenue.

Statement of Financial Position
as at 30 June 2018

	Notes	2018 $'000	2017 $'000	Original 2018 Budget $'000	Notes
ASSETS					
Financial Assets					
Cash and cash equivalents	4.1	**50,540**	51,313	34,237	a
Trade and other receivables	4.2	**6,117**	8,163	3,442	b
Total financial assets		**56,657**	59,476	37,679	
Non-Financial Assets					
Leasehold improvements	5.1	**11,324**	1,284	17,162	c
Property, plant and equipment	5.1	**5,371**	2,334	2,997	d
Intangibles	5.1	**17,082**	18,802	20,129	e
Other non-financial assets	5.2	**4,113**	3,012	2,023	f
Total non-financial assets		**37,890**	25,432	42,311	
Total assets		**94,547**	84,908	79,990	
LIABILITIES					
Payables					
Suppliers	6.1	**6,863**	3,916	4,220	g
Other payables	6.2	**10,999**	12,923	16,182	h
Total payables		**17,862**	16,839	20,402	
Provisions					
Employee provisions	7.1	**12,815**	12,367	11,779	i
Other provisions	7.2	**14,706**	14,217	13,208	j
Total provisions		**27,521**	26,584	24,987	
Total liabilities		**45,383**	43,423	45,389	
Net assets		**49,164**	41,485	34,601	
EQUITY					
Contributed equity		**35,475**	35,475	35,475	
Operational risk reserve		**500**	130	258	
Asset revaluation reserve		**478**	479	-	
Retained surplus		**12,711**	5,401	(1,132)	
Total equity		**49,164**	41,485	34,601	

The above statement should be read in conjunction with the accompanying notes.

Statement of Financial Position (continued)
as at 30 June 2018

Budget Variances Commentary

Statement of Financial Position

a. Refer to Statement of Comprehensive Income note c. Cash and cash equivalents are also higher than budget due to changes in the timing of incurring expenditure on internally funded projects.

b. Refer to Statement of Comprehensive Income note d.

c. Refer to Statement of Comprehensive Income note c.

d. Property, plant and equipment is higher than budget mostly due to the upgrade of CSC's technology capabilities undertaken at the time of the co-location of CSC's Canberra offices.

e. Intangibles are lower than budget due to a change in technology strategy resulting in more cloud based services than the purchase of software assets.

f. Other non-financial assets are higher than budget due to increased expense prepayments associated with the new cloud based software and systems.

g. Supplier payables are higher than budget due to increased operational expenditure from the co-location of CSC's Canberra Offices and the timing of invoices received at year end.

h. Other payables have decreased due to the recognition of previously unearned revenue associated with externally funded projects.

i. Employee provisions are higher than budget due to a higher average period of staff service.

j. Other provisions are higher than budget due to the recognition of the new Canberra office makegood provision.

Statement of Changes in Equity
for the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000	Original 2018 Budget $'000	Notes
CONTRIBUTED EQUITY					
Opening balance					
Balance carried forward from previous period		**35,475**	35,475	35,475	
Comprehensive income					
Other comprehensive income		**-**	-	-	
Total comprehensive income		**-**	-	-	
Closing balance as at 30 June		**35,475**	35,475	35,475	
RETAINED SURPLUS					
Opening balance					
Balance carried forward from previous period		**5,401**	10,868	(1,132)	
Comprehensive income					
Surplus/(deficit) for the year		**7,310**	(2,467)	-	
Other comprehensive income		**-**	-	-	
Total comprehensive income		**7,310**	(2,467)	-	
Transactions with owners					
Distributions to owners					
Returns on capital					
Dividends		**-**	(3,000)	-	
Total transactions with owners		**-**	(3,000)	-	
Closing balance as at 30 June		**12,711**	5,401	(1,132)	
ASSET REVALUATION RESERVE					
Opening balance					
Balance carried forward from previous period		**479**	1,172	-	
Comprehensive income					
Other comprehensive income		**(1)**	(693)	-	
Total comprehensive income		**(1)**	(693)	-	
Closing balance as at 30 June		**478**	479	-	
OPERATIONAL RISK RESERVE					
Opening balance					
Balance carried forward from previous period		**130**	-	100	
Transfers to reserve					
Transfers from Department of Defence		**370**	130	158	
Total transfers to reserve		**370**	130	158	
Closing balance as at 30 June		**500**	130	258	

Statement of Changes in Equity (continued)
for the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000	Original 2017 Budget $'000	Notes
TOTAL EQUITY					
Opening balance					
Balance carried forward from previous period		**41,485**	47,515	34,443	
Comprehensive income					
Surplus/(deficit) for the year		**7,310**	(2,467)	-	
Other comprehensive income		**(1)**	(693)	-	
Total comprehensive income		**7,309**	(3,160)	-	a
Transfers to reserve					
Transfers from Department of Defence		**370**	130	158	
Total transfers to reserve		**370**	130	158	
Transactions with owners					
Distributions to owners					
Returns on capital					
Dividends		**-**	(3,000)	-	
Total transactions with owners		**-**	(3,000)	-	
Closing balance as at 30 June		**49,164**	41,485	34,601	

Accounting Policy

Dividends
Dividends are recognised on the date that the dividend is declared and, if not paid by the reporting date, are reflected in the Statement of Financial Position as payables. CSC paid no dividends in the current financial year (2016-17: $3.0m) to the Official Public Account.

Operational Risk Reserve
The operational risk reserve (ORR) represents trustee capital held for the purposes of meeting the operational risk financial requirement of the ADF Superannuation Scheme. The purpose of the operational risk reserve (ORR) is to provide adequate financial resources to address losses that may arise 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 ADF Superannuation Scheme. The assets underlying the ORR were funded by the Department of Defence and are held in a segregated bank account as Australian-dollar denominated cash.

Budget Variances Commentary

Statement of Changes in Equity

a. Refer to Statement of Comprehensive Income notes a, b, c & d.

Cash Flow Statement
for the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000	Original 2018 Budget $'000	Notes
OPERATING ACTIVITIES					
Cash received					
Sale of goods and rendering of services		**116,226**	103,685	101,654	a
Interest		**133**	75	80	
Net GST received		**-**	402	-	
Total cash received		**116,359**	104,162	101,734	
Cash used					
Employee benefits		**(59,557)**	(54,278)	(58,591)	
Suppliers		**(39,171)**	(33,898)	(34,613)	b
Net GST paid		**(288)**	-	-	
Total cash used		**(99,016)**	(88,176)	(93,204)	
Net cash from operating activities	8	**17,343**	15,986	8,530	
INVESTING ACTIVITIES					
Cash received					
Proceeds from sales of property, plant and equipment		**-**	1	-	
Total cash received		**-**	1	-	
Cash used					
Purchase of leasehold improvements		**(11,790)**	(60)	(12,067)	
Purchase of property, plant and equipment		**(4,431)**	(188)	(2,268)	c
Purchase and internal development of intangibles		**(2,265)**	(2,669)	(3,884)	d
Total cash used		**(18,486)**	(2,917)	(18,219)	
Net cash (used by) investing activities		**(18,486)**	(2,916)	(18,219)	
FINANCING ACTIVITIES					
Cash received					
Transfers to operational risk reserve		**370**	130	158	
Total cash received		**370**	130	158	
Cash used					
Dividend paid		**-**	(3,000)	-	
Total cash used		**-**	(3,000)	-	
Net cash from/(used by) financing activities		**370**	(2,870)	158	
Net increase/(decrease) in cash held		**(773)**	10,200	(9,531)	
Cash and cash equivalents at the beginning of the reporting period		**51,313**	41,113	43,768	
Cash and cash equivalents at the end of the reporting period	4.1	**50,540**	51,313	34,237	

The above statement should be read in conjunction with the accompanying notes.

Budget Variances Commentary

Cash Flow Statement
a. Refer to Statement of Comprehensive Income note d.
b. Refer to Statement of Comprehensive Income note b.
c. Refer to Statement of Financial Position note d.
d. Refer to Statement of Financial Position note e.

NOTE 1: Overview

Objectives of the Entity

Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243) is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* . The objective of CSC is to provide retirement and insurance benefits for scheme members and beneficiaries, including past, present and future employees of the Australian Government and other eligible employers and members of the Australian Defence Force, through investment and administration of their superannuation funds and schemes. CSC is a not-for-profit entity. The continued existence of the entity in its present form and with its present programs is dependent on Government policy.

CSC is the trustee responsible for 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'), Australian Defence Force Superannuation Scheme ('ADF Super'), Australian Defence Force Cover Scheme ('ADF Cover'), the Defence Force Retirement and Death Benefits Scheme ('DFRDB'), the Defence Forces 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 (AIT) - 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 activities are partly funded through the scheme administration charges collected from employers participating in PSS and CSS, and from members of PSSap and ADF Super, and through negotiated administration charges collected from the Department of Defence. Additional funding may be provided by Government to meet specific administration requirements.

The Basis of Preparation

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013.*

The financial statements have been prepared in accordance with:

a) *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) for reporting periods ending on or after 1 July 2017; 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 accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. 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.

NOTE 1: Overview (continued)

New 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.

All new or revised standards and/or interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a material effect, and are not expected to have a future material effect, on the entity's financial statements.

Future Australian Accounting Standard Requirements

The following new and revised standards were issued by the Australian Accounting Standards Board prior to the sign-off date and are expected to have a material impact on the entity's financial statements for future reporting period(s):

Standard/ Interpretation	Application date for the entity[1]	Nature of impending change/s in accounting policy and likely impact on initial application
AASB 16 'Leases'	1/07/2019	AASB 16 'Leases' was issued in February 2016 and replaces AASB 117 'Leases'. It introduces a single lessee accounting model and requires the lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. CSC has not elected to early adopt AASB 16 'Leases'. The key impacts on the Financial Statements of CSC are: • CSC will adopt the modified retrospective approach at the application date and will restate retained earnings at the implementation date, being 1 July 2019. • CSC will recognise a lease liability and a right of use asset on the statement of financial position for all of its leases captured by AASB 16: - The lease liability will initially be measured as the present value of future lease payments including any residual values. In subsequent periods, the lease liability will be accounted for similarly to a financial liability using the effective interest method. - The initial measurement of the right-of-use asset will be based on the lease liability, with adjustments for any prepaid rents, lease incentives received and initial direct costs incurred. The right-of-use asset will be accounted for similarly to a purchased asset and depreciated or amortised. • The annual rental expense within CSC's statement of comprehensive income will be replaced by an interest charge on the lease liability and subsequent depreciation charged on the right of use asset. Any cumulative difference will be adjusted against opening retained earnings at the date of initial application, being 1 July 2019. • CSC will provide additional qualitative and quantitative disclosures on its leasing activities in the notes to the financial statements.

[1.] The entity's expected initial application date is when the accounting standard becomes operative at the beginning of the entity's reporting period.

All other new or revised standards and/or interpretations that were issued prior to the sign-off date and are applicable to future reporting periods are not expected to have a material impact on the entity's financial statements.

Taxation

Under its legislation, the Income Tax Act is applicable to CSC, however in the normal course of its activities CSC does not generate taxable income under that Act. CSC is liable for Goods and Services Tax (GST) and Fringe Benefits Tax (FBT).

Revenues, expenses, assets and liabilities 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.

NOTE 1: Overview (continued)

Controlled entities

CSC is the parent and sole shareholder of ARIA Co Pty Ltd. ARIA Co Pty Ltd is the trustee of the ARIA Alternative Assets Trust and the PSS/CSS Investments Trust. ARIA Co Pty Ltd is not consolidated into CSC's financial statements as it is a shell company and is considered to be immaterial.

Reporting of Administered activities

The FRR requires disclosure where one entity has drawn against a Special Appropriation which is the responsibility of another entity.

Administered assets, liabilities, revenue and expenses are those items which are controlled by the Government and were managed or over sighted by the entity on its behalf including:

- Superannuation benefit payments; and
- Superannuation contributions.

In addition to CSC, the entities responsible for managing the appropriations, Department of Finance (Finance), Department of Defence (Defence) and Department of Foreign Affairs and Trade (DFAT) will make separate disclosures of the contributions and unfunded benefits paid under the 1922, CSS, PSS, PNG, DFRB, DFRDB, MSB and ADF Cover schemes.

1922, CSS and PSS schemes

Finance has responsibility to account for the Commonwealth's activities in relation to the 1922, CSS and PSS schemes.

Finance has responsibility for managing the legislation and has delegated third party access rights to the appropriations under the following Acts:

- *Superannuation Act 1922 ;*
- *Superannuation Act 1976 ;*
- *Superannuation Act 1990 ;*
- *Same Sex Relationships (Equal Treatment in Commonwealth Laws - Superannuation) Act 2008* ;
- *Governance of Australian Government Superannuation Schemes Act 2011* - s35(3)(a); and
- *Governance of Australian Government Superannuation Schemes Act 2011* - s35(4).

In addition, CSC was delegated third party access rights by Finance for the funding of legal and incidental costs of superannuation claims, and Act of Grace payments. These were appropriated under *Appropriation Act (No. 1) 2017-2018* and *Appropriation Act (No. 2) 2017-2018* .

The funded components of the CSS and PSS Schemes are reported in their respective financial statements.

DFRB, DFRDB, MSB and ADF Cover Schemes

Defence has responsibility for managing the legislation and has delegated third party access rights to the appropriations under the following Acts:

- *Defence Forces Retirement Benefits Act 1948* ;
- *Defence Force Retirement and Death Benefits Act 1973* ;
- *Military Superannuation Benefits Act 1991;* and
- *Australian Defence Force Cover Act 2015.*

The funded components of MSBS are reported in the MSBS financial statements. The DFRB, DFRDB and ADF Cover are unfunded Schemes.

PNG Scheme

DFAT delegated third party access rights to CSC in respect of Papua New Guinea Superannuation Schemes which are appropriated in *Appropriation Act (No. 1) 2017-2018* . CSC managed the payment of Pensions under the scheme on behalf of DFAT.

Administered Cash Transfers to and from the Official Public Account

Revenue collected by CSC for use by the Government rather than CSC was Administered Revenue. Collections are transferred to the Official Public Account (OPA) maintained by Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriations on behalf of Government.

NOTE 1: Overview (continued)

Events After the Reporting Period

Subsequent to balance date, CSC signed an agreement to surrender the lease on the former Canberra City Trustee office with effect from 12 September 2018. The lease surrender will result in a write back of the previously recognised onerous lease provision of $577,000 as at the surrender date, and will reduce future committed lease payments by $562,000.

There were no other subsequent events that have the potential to significantly affect the ongoing structure and financial activities of Commonwealth Superannuation Corporation.

Note 2: Expenses

	2018 $'000	2017 $'000
2.1: Employee Benefits		
Wages and salaries	**45,721**	42,998
Superannuation		
Defined contribution plans	**4,698**	4,455
Defined benefit plans	**2,371**	2,571
Leave and other entitlements	**5,557**	4,822
Separation and redundancies	**1,640**	200
Total employee benefits	**59,987**	55,046
2.2: Suppliers		
Goods and services supplied or rendered		
Consultants	**11,827**	5,109
Contractors	**7,713**	4,714
Information technology and communications	**10,366**	6,312
Insurance	**694**	655
Printing/stationery	**183**	521
Property (other than rent)	**2,316**	1,221
Training and development	**1,128**	679
Travel	**1,870**	1,493
Other goods and services	**6,904**	5,984
Total goods and services supplied or rendered	**43,001**	26,688
Goods supplied	**871**	668
Services rendered	**42,130**	26,020
Total goods and services supplied or rendered	**43,001**	26,688
Other supplier expenses		
Operating lease rentals		
Minimum lease payments	**3,095**	4,338
Onerous rent	**21**	12,865
Workers compensation expenses	**1,313**	1,311
Total other suppliers	**4,429**	18,514
Total suppliers	**47,430**	45,202

Leasing commitments

Operating leases are non-cancellable in the normal course of business. CSC in its capacity as lessee has leases for office accomodation in Canberra City (new and former trustee offices and former financial planning office), Belconnen, Melbourne, Sydney, Adelaide and Brisbane.

CSC entered into a new lease in the Canberra City commencing 1 January 2018 to co-locate staff from the Belconnen officeand the former Canberra City trustee and financial planning offices into one new Canberra City office. Lease payments are subject to annual increases of the higher of 3.25% or the movement in the Consumer Price Index in the existing Canberra City trustee office, 3.5% in the new Canberra City office, 3.75% fixed annual rate increases in the financial planning office, 3.6% fixed annual rate increases in the Belconnen office and 4% fixed rate annual increases in the Sydney office.

The Belconnen office, former Canberra City trustee and financial planning offices and Sydney office leases have no further option for renewal. The new Canberra City office lease has a further renewal option for 3 years. The Melbourne, Adelaide and Brisbane office leases are for fixed terms of twelve months.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within 1 year	**7,464**	5,801
Between 1 to 5 years	**24,190**	27,469
More than 5 years	**15,219**	24,027
Total operating lease commitments	**46,873**	57,297

Note 2: Expenses (continued)

Accounting Policy

Operating Lease

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

Surplus Lease Space

Surplus lease space is treated as an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. As a result of the co-location of CSC's Canberra offices, an onerous rent provision has been raised in relation to surplus lease space in the former Belconnen and Canberra City trustee and financial planning offices.

	2018	2017
	$'000	$'000
2.3: Write-Down and Impairment of Assets		
Impairment of financial instruments	**6**	6
Impairment of leasehold improvements	**-**	3,861
Impairment of property plant and equipment	**6**	221
Write-off of property, plant and equipment on disposal	**-**	12
Total write-down and impairment of assets	**12**	4,100

2.4: 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 ANAO's services are as follows:

Financial statement audit services	**81**	98
Regulatory audit services	**9**	11
	90	109

Audit fees are also payable to the ANAO by other entities under CSC's trusteeship. For the 2017-18 financial year the total fees payable for these entities is $625,000 (2017: $702,500).

The following additional services were provided by Deloitte:

Internal controls audit	**112**	110
Project risk advisory services	**68**	125
Financial planning business model advisory services	**204**	370
	384	605

No other services were provided to CSC by the ANAO or Deloitte.

Note 3: Own-Source Revenue

	2018 $'000	2017 $'000
Own-Source Revenue		
3.1: Sale of Goods and Rendering of Services		
Scheme administration fees	**78,255**	77,201
Services rendered to the ARIA Investments Trust	**43,146**	31,365
Other revenue	**362**	289
Total sale of goods and rendering of services	**121,763**	108,855

Accounting Policy

Revenue from rendering of services

CSC receives scheme administration fees collected from employers participating in PSS and CSS, and from members of PSSap and ADF Super, and through negotiated administration charges collected from the Department of Defence. Additional funding may be provided by Government to meet specific administration requirements. In addition, CSC's activities are funded through charges to the ARIA Investments Trust (AIT) to recover the cost of managing the investments of the schemes.

Revenue is recognised to the extent that is it 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 is shown as the liability 'unearned revenue'.

The stage of completion of contracts at the reporting date for the purpose of revenue recognition is determined by reference to:

a) services performed to date as a percentage of total services to be performed; or

b) the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at end of the reporting period. Allowances are made when collectability of the debt is no longer probable.

3.2: Interest		
Deposits	**134**	79
Total interest	**134**	79

Accounting Policy

Interest revenue is recognised using the effective interest method.

Note 4: Financial Assets

	2018 $'000	2017 $'000
4.1: Cash and Cash Equivalents		
Cash in special account	**35,233**	37,619
Cash on deposit	**15,307**	13,694
Total cash and cash equivalents	**50,540**	51,313

Accounting Policy

Cash is recognised at its nominal amount. Cash and cash equivalents includes:

a) 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; and

b) cash in special accounts.

4.2: Trade and Other Receivables		
Good and services receivables		
Goods and services	**5,677**	7,928
Total goods and services receivables	**5,677**	7,928
Other receivables:		
GST receivable	**407**	119
Interest receivable	**11**	10
Reimbursements	**32**	110
Total other receivables	**450**	239
Total trade and other receivables (gross)	**6,127**	8,167
Less impairment allowance	**(10)**	(4)
Total trade and other receivables (net)	**6,117**	8,163
Trade and other receivables (net) expected to be recovered in:		
No more than 12 months	**6,117**	8,159
More than 12 months	**-**	4
Total trade and other receivables (net)	**6,117**	8,163
Trade and other receivables (gross) are aged as follows:		
Not overdue	**6,103**	7,888
Overdue by		
0 to 30 days	**-**	6
31 to 60 days	**-**	258
61 to 90 days	**-**	-
More than 90 days	**24**	15
Total trade and other receivables (gross)	**6,127**	8,167

Note 4: Financial Assets (continued)

4.2: Trade and Other Receivables (continued)

	2018	2017
	$'000	$'000
Impairment allowance is aged as follows:		
Not overdue	**-**	-
Overdue by		
0 to 30 days	**-**	-
31 to 60 days	**-**	-
61 to 90 days	**-**	-
More than 90 days	**(10)**	(4)
Total impairment allowance	**(10)**	(4)

Credit terms for goods and services were within 30 days (2017: 30 days).

Accounting Policy
Loans and Receivables
Trade receivables, loans and other receivables that have fixed or determinable payments and 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.

Reconciliation of the Impairment Allowance

Movement in relation to 2018

	Goods and services	**Total**
	$'000	**$'000**
As at 1 July 2017	**(4)**	**(4)**
Amounts written off	**-**	**-**
Amounts recovered and reversed	**-**	**-**
Increase recognised in net cost of services	**(6)**	**(6)**
Total as at 30 June 2018	**(10)**	**(10)**

Movements in relation to 2017

	Goods and services	Total
	$'000	$'000
As at 1 July 2016	(6)	(6)
Amounts written off	6	6
Amounts recovered and reversed	-	-
Increase recognised in net contribution by services	(4)	(4)
Total as at 30 June 2017	(4)	(4)

Accounting Policy
Financial assets are assessed for impairment at the end of each reporting period.

Note 5: Non-Financial Assets

5.1: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles

Reconciliation of the opening and closing balances of property, plant and equipment and intangibles for 2018

	Leasehold Improvements	Property, Plant and Equipment	Intangibles - Computer Software[1]	Total
	$'000	$'000	$'000	$'000
As at 1 July 2017				
Gross book value	6,992	4,443	26,042	37,477
Accumulated depreciation, amortisation and impairment	(5,708)	(2,109)	(7,240)	(15,057)
Total as at 1 July 2017	1,284	2,334	18,802	22,420
Additions				
Purchased	11,790	4,438	-	16,228
Internally developed	-	-	2,265	2,265
Revaluations and impairments recognised in other comprehensive income	-	(1)	-	(1)
Impairments recognised in net cost of services	-	-	-	-
Depreciation and amortisation	(1,750)	(1,394)	(3,985)	(7,129)
Disposals				
Write off of property, plant and equipment	-	(6)	-	(6)
Write off of gross book value[2]	(6,080)	(1,257)	-	(7,337)
Write off of accumlated depreciation and impairment[2]	6,080	1,257	-	7,337
Total as at 30 June 2018	11,324	5,371	17,082	33,777
Total as at 30 June 2018 represented by:				
Gross book value	12,702	7,624	28,307	48,633
Accumulated depreciation, amortisation and impairment	(1,378)	(2,253)	(11,225)	(14,856)
Total as at 30 June 2018 represented by:	11,324	5,371	17,082	33,777

[1] The carrying amount of computer software includes $0.085 million of purchased software and $16.997 million of internally generated software.

[2] During the current financial year CSC disposed of assets based at the former Belconnen, Canberra City trustee and financial planning offices for nil value.

Revaluations of non-financial assets

All revaluations were conducted in accordance with the fair value measurement policy stated at Note 15.1. Independent valuers conducted the last fair value assessment of the carrying values of all leasehold improvements and property, plant and equipment assets as at 30 June 2017.

Contractual commitments for the acquisition of property, plant, equipment and intangible assets

CSC have contractual commitments totalling $0.139 million (2017: $1.151 million) for the acquisition of property, plant and equipment and intangible assets.

5.1: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles (continued)

Reconciliation of the opening and closing balances of property, plant and equipment for 2017

	Leasehold Improvements[1]	Property, Plant and Equipment[1]	Intangibles - Computer Software[2]	Total
	$'000	$'000	$'000	$'000
As at 1 July 2016				
Gross book value	6,932	4,117	23,373	34,422
Accumulated depreciation, amortisation and impairment	-	-	(3,244)	(3,244)
Total as at 1 July 2016	6,932	4,117	20,129	31,178
Additions				
Purchased	60	353	150	563
Internally developed	-	-	2,519	2,519
Acquired through restructuring			-	-
Revaluations and impairments recognised in other comprehensive income	(408)	(285)	-	(693)
Impairments recognised in net contribution by services	(3,861)	(221)	-	(4,082)
Depreciation and amortisation	(1,439)	(1,618)	(3,996)	(7,053)
Disposals				
Write off of property, plant and equipment	-	(12)	-	(12)
Total as at 30 June 2017	1,284	2,334	18,802	22,420
Total as at 30 June 2017 represented by				
Gross book value	6,992	4,443	26,042	37,477
Accumulated depreciation, amortisation and impairment	(5,708)	(2,109)	(7,240)	(15,057)
Total as at 30 June 2017 represented by	1,284	2,334	18,802	22,420

1. Due to the co-location of CSC's Canberra offices, impairment losses of $0.241 million for property, plant and equipment and $4.269 million for leashold improvements were recognised to reflect shorter useful lives of the assets.

2. The carrying amount of computer software includes $0.323 million of purchased software and $18.479 million of internally generated software.

Note 5: Non-Financial Assets (continued)

Accounting Policy
Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

Asset Recognition Threshold
Purchases of property, plant and equipment are recognised initially at cost in the statement of financial position, except for purchases costing less than $2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions where there exists an obligation to the lessor. These costs are included in the value of the entity's leasehold improvements with a corresponding provision for the 'make good' recognised.

Revaluations
Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation
Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the entity using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2018	2017
Leasehold Improvements	Lease term	Lease term
Plant and Equipment	3 to 10 years	3 to 10 years

Impairment
All assets were assessed for indicators of impairment at 30 June 2018. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the entity were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Intangibles
CSC's intangibles comprise internally developed software and purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the entity's software are 1 to 10 years.

Purchased or internally developed intangibles are recognised initially at cost in the Statement of Financial Position, except for purchased intangibles costing less than $50,000 or internally developed assets costing less than $100,000. These items are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Software assets under development but not yet available for use have been tested for impairment as at 30 June 2018. All software assets in use were assessed for indications of impairment as at 30 June 2018.

Accounting Judgements and Estimates
CSC has also made judgements in relation to the carrying value of internally generated software. The carrying amount is based on the recoverability as assessed by management given the most recent information available, including an impairment assessment as at 30 June 2018.

Note 5: Non-Financial Assets (continued)

	2018 $'000	2017 $'000
5.2: Other Non-Financial Assets		
Prepayments	**4,113**	3,012
Total other non-financial assets	**4,113**	3,012
Other non-financial assets expected to be recovered in:		
No more than 12 months	**3,459**	2,510
More than 12 months	**654**	502
Total other non-financial assets	**4,113**	3,012

No indicators of impairment were found for other non-financial assets (2017: Nil).

Note 6: Payables

	2018 $'000	2017 $'000
6.1: Suppliers		
Trade creditors and accruals	**6,863**	3,916
Total suppliers	**6,863**	3,916
Supplier payables expected to be settled in:		
No more than 12 months	**6,863**	3,916
More than 12 months	**-**	-
Total suppliers	**6,863**	3,916

Settlement is usually made within 30 days.

6.2: Other Payables		
Wages and salaries	**399**	437
Unearned revenue	**2,585**	10,451
Lease liabilities	**7,976**	2,016
Other	**39**	19
Total other payables	**10,999**	12,923
Other payables expected to be settled in:		
No more than 12 months	**2,738**	10,736
More than 12 months	**8,261**	2,187
Total other payables	**10,999**	12,923

Note 7: Provisions

	2018 $'000	2017 $'000
7.1: Employee Provisions		
Leave	**12,747**	12,287
Separations and redundancies	**68**	80
Total employee provisions	**12,815**	12,367
Employee provisions expected to be settled in:		
No more than 12 months	**5,167**	4,974
More than 12 months	**7,648**	7,393
Total employee provisions	**12,815**	12,367

Accounting policy

Liabilities for short-term employee benefits and termination benefits expected within twelve months of the end of reporting period are measured at their nominal amounts.

Leave

The liability for employee benefits includes provision for annual leave and long service leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to the Australian Government short hand method. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and Redundancy

The entity recognises a provision for separation and redundancy benefit payments when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

Staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap), or other non Australian Government superannuation funds.

The CSS and PSS are defined benefit schemes for Australian Government employees. The PSSap is a defined contribution scheme.

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 in the Department of Finance's administered schedules and notes.

CSC makes employer contributions to the employees' defined benefit superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. CSC accounts for the contributions as if they were contributions to defined contribution plans.

Any liability for superannuation recognised as at 30 June represents outstanding contributions.

	2018 $'000	2017 $'000
7.2: Other Provisions		
Provision for onerous rent	**12,247**	13,653
Provision for restoration obligations	**2,459**	564
Total other provisions	**14,706**	14,217

	Provision for onerous rent	Provision for restoration obligations	Total other provisions
	$'000	$'000	$'000
As at 1 July 2017	**13,653**	**564**	**14,217**
Additional provisions made	**21**	**1,893**	**1,914**
Amounts used	**(1,427)**	**-**	**(1,427)**
Amounts reversed	**-**	**(25)**	**(25)**
Unwinding of discount or change in discount rate	**-**	**27**	**27**
Total as at 30 June 2018	**12,247**	**2,459**	**14,706**

Note 7: Provisions (continued)

	2018	2017
	$'000	$'000
7.2 Other Provisions (Continued)		
Other provisions are expected to be settled in:		
No more than 12 months	**3,667**	1,302
More than 12 months	**11,039**	12,915
Total other provisions	**14,706**	14,217

The entity currently has 4 (2017: 3) agreements for the leasing of premises which have provisions requiring the entity to restore the premises to their original condition at the conclusion of the lease. The entity has made a provision to reflect the present value of these obligations.

As a result of the co-location of CSC's Canberra offices, an onerous rent provision has been raised in relation to surplus lease space in the former Belconnen, Canberra City trustee and financial planning offices.

Note 8: Cash Flow Reconciliation

	2018 $'000	2017 $'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	**50,540**	51,313
Statement of Financial Position	**50,540**	51,313
Difference	**-**	-
Reconciliation of net contribution by/(cost of) services to net cash from/(used by) operating activities		
Net contribution by/(cost of) services	**7,310**	(2,467)
Adjustments for non-cash items		
Depreciation and amortisation	**7,129**	7,053
Write down and impairment of assets	**12**	4,100
Movements in assets and liabilities		
Assets		
(Increase) / decrease in trade and other receivables	**2,040**	(4,727)
(Increase) / decrease in other non-financial assets	**(1,101)**	(994)
Liabilities		
Increase / (decrease) in supplier payables	**2,940**	(416)
Increase / (decrease) in other payables	**(1,924)**	(16)
Increase / (decrease) in employee provisions	**448**	588
Increase / (decrease) in other provisions	**489**	12,865
Net cash from operating activities	**17,343**	15,986

Note 9: Appropriations

9.1: Special Appropriations[1]

Authority	Type	Purpose	Appropriation applied 2018 $'000	2017 $'000
Superannuation Act 1922 , Administered	Unlimited Amount	An Act to provide superannuation benefits for persons employed by the Commonwealth and by certain Commonwealth Authorities and to make provision for the families of those persons.	**(74,160)**	(81,985)
Superannuation Act 1976 , Administered	Unlimited Amount	An Act to make provision for and in relation to an occupational superannuation scheme, known as the Commonwealth Superannuation Scheme, for persons employed by the Commonwealth and for certain other persons.	**(4,353,503)**	(4,296,123)
Superannuation Act 1990 , Administered	Unlimited Amount	An Act to make provision for and in relation to an occupational superannuation scheme for persons employed by the Commonwealth, and for certain other persons.	**(2,059,918)**	(1,937,127)
Same Sex Relationships (Equal Treatment in Commonwealth Laws - Superannuation) Act 2008 , Administered	Unlimited Amount	An Act to address discrimination against same-sex couples and their children in Commonwealth laws, and for other purposes.	**(59)**	(60)
Governance of Australian Government Superannuation Schemes Act 2011 - s35(3)(a) in the case of the 1922 Scheme, DFRB, DFRDB, DFSPB or PNG schemes	Unlimited Amount	An Act to make provision for any money becoming payable by CSC in respect of an action, liability, claim or demand that relates to the 1922 Scheme, DFRB, DFRDB, DFSPB or PNG schemes.	**(72)**	(15)
Governance of Australian Government Superannuation Schemes Act 2011 - s35(4) to reimburse the superannuation funds administered by CSC	Unlimited Amount	An Act to make provision for any money becoming payable by Commonwealth Superannuation Corporation(CSC) in respect of an action, liability, claim or demand that relates to any other cases not covered in s35(3)(a) of Governance of Australian Government Superannuation Schemes Act 2011.	**(398)**	(1,253)
Defence Forces Retirement Benefits Act 1948 , Administered	Unlimited Amount	An Act to provide Retirement Benefits for Members of the Defence Force of the Commonwealth, and for other purposes.	**(41,144)**	(45,668)
Defence Force Retirement & Death Benefits Act 1973 , Administered	Unlimited Amount	An Act to make provision for and in relation to a Scheme for Retirement and Death Benefits for Members of the Defence Force.	**(1,560,425)**	(1,535,637)
Military Superannuation and Benefits Act 1991 , Administered	Unlimited Amount	An Act to make provision for and in relation to an occupational superannuation scheme for, and the payment of other benefits to, members of the Defence Force, and for related purposes.	**(766,098)**	(674,264)
Public Governance, Performance and Accountability Act 2013 Section 77	Refund	Repayments required or permitted by law (where no other appropriation for repayment exists).	**(142)**	(46)
Australian Defence Force Cover Act 2015.	Unlimited Amount	An Act to provide a new statutory death and invalidity scheme.	**(1,647)**	(21)
Total			**(8,857,566)**	(8,572,199)

1. Amounts exclude recoverable GST.

Note 9: Appropriations (continued)

9.2: Disclosure by Agent in Relation to Annual and Special Appropriations[1]

2018	DFAT[2] $'000	Department of Finance $'000	Department of Defence $'000
Total receipts	**-**	**3,236,466**	**1,564,035**
Total payments	**(6,084)**	**(6,489,288)**	**(2,369,314)**

2017	DFAT $'000	Department of Finance $'000	Department of Defence $'000
Total receipts	-	3,402,053	1,566,879
Total payments	(6,411)	(6,317,958)	(2,255,590)

1. Amounts exclude recoverable GST.
2. Department of Foreign Affairs and Trade.

Note 9: Appropriations (continued)

9.3: Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law.

CSC operates from the CSC Special Account established under the *Public Governance, Performance and Accountability Act 2013* Section 80 in providing superannuation administration for Australian Government sponsored superannuation schemes. CSC, as an Agent, has third party access rights for the following Special Appropriations (refer note 9.1):

Department of Finance (Finance)

1. *Superannuation Act 1922;*
2. *Superannuation Act 1976;*
3. *Superannuation Act 1990;*
4. *Superannuation Act 2005;*
5. *Same-Sex Relationships (Equal Treatment in Commonwealth Laws - Superannuation) Act 2008;*
6. *Governance of Australian Government Superannuation Schemes Act 2011;*
7. *Annual Appropriation Act 1* (for Compensation & Legal payments and Act of Grace payments); and
8. *Annual Appropriation Act 2* (for Act of Grace payments).

Department of Defence (Defence)

1. *Defence Forces Retirement Benefits Act 1948;*
2. *Defence Forces Retirement and Death Benefits Act 1973;*
3. *Military Superannuation and Benefits Act 1991; and*
4. *Australian Defence Force Cover Act 2015.*

Department of Foreign Affairs and Trade (DFAT)

1. *Annual Appropriation Act 1* (payments are made in accordance with the *Papua New Guinea (Staffing Assistance) Act 1973*).

Note 9: Appropriations (continued)

Both the *Financial Framework Legislation Amendment Act (No.2) 2012* (FFLA Act No.2 (2012)) and the *Financial Framework Legislation Amendment Act (No.1) 2013* (FFLA Act No.1 (2013)) require that CSC and the agency responsible for the special appropriation disclose, refer tables below, the number of recoverable overpayments made during the financial year and the balance recovered to 30 June. The following tables set out, as required by the FFLA Act No.2 and FFLA Act No.1, the number and amount of all payments made beyond legislative pre-conditions for the period 1 July 2017 to 30 June 2018:

Legislation / Authority to pay[1]	Recoverable death payments[2]					
	2018			2017		
	No.	**Value $'000**	**Recovered $'000**	No.	Value $'000	Recovered $'000
DFAT – Annual Administered Appropriation						
Papua New Guinea (Staffing Assistance) Act 1973	**7**	**14**	**13**	8	22	15
Defence - Special Appropriations						
Defence Forces Retirement Benefits Act 1948; and Defence Forces Retirement and Death Benefits Act 1973	**692**	**871**	**713**	709	1,214	975
Military Superannuation and Benefits Act 1973	**24**	**62**	**11**	19	60	47
Australian Defence Force Cover Act 2015	**-**	**-**	**-**	-	-	-
Finance - Special Appropriations						
Superannuation Act 1922; and Superannuation Act 1976	**2,489**	**3,617**	**2,888**	2,685	4,197	3,565
Superannuation Act 1990	**199**	**271**	**201**	141	293	213

	Recoverable payments[3]					
	No.	**Value $'000**	**Recovered $'000**	No.	Value $'000	Recovered $'000
DFAT – Annual Administered Appropriation						
Papua New Guinea (Staffing Assistance) Act 1973	**-**	**-**	**-**	-	-	-
Defence - Special Appropriations						
Defence Forces Retirement Benefits Act 1948; and Defence Forces Retirement and Death Benefits Act 1973	**37**	**638**	**169**	82	229	106
Military Superannuation and Benefits Act 1973	**42**	**331**	**137**	42	502	51
Australian Defence Force Cover Act 2015	**2**	**-**	**-**	-	-	-
Finance - Special Appropriations						
Superannuation Act 1922; and Superannuation Act 1976	**46**	**492**	**264**	31	199	182
Superannuation Act 1990	**34**	**212**	**126**	42	182	88

Note 9: Appropriations (continued)

[1] Legislation

Amounts paid under each Act are disclosed in Note 9.1 Special Appropriations and Note 10 Special Accounts.

[2]Recoverable death payments

Legislative changes made in the FFLA Act No.2 and FFLA Act No.1 provides a mechanism, called a 'recoverable death payment' that provides authority for the inadvertent overpayments of some benefits, and for their recovery in line with the duty to pursue recovery of a debt under rule 11 of the *Public Governance, Performance and Accountability Rule 2014* .

[3] Recoverable payments

Legislative changes made in the FFLA Act No.2 and FFLA Act No.1 provides a mechanism, called a 'recoverable payment', to address administrative issues common to CSC, that provides authority for the inadvertent overpayments of some benefits, and for their recovery in line with the duty to pursue recovery of a debt under rule 11 of the *Public Governance, Performance and Accountability Rule 2014.*

Note 10: Special Accounts

	CSC Special Account (Departmental)[1]		Services for Other Entities and Trust Moneys[2]	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Balance brought forward from previous period	**42,338**	32,273	**7,067**	62,109
Increases				
Other receipts	**116,066**	104,162	**125,632**	2,025,549
Total increases	**116,066**	104,162	**125,632**	2,025,549
Available for payments	**116,066**	104,162	**125,632**	2,025,549
Decreases				
Departmental				
Payments made to suppliers	**(57,657)**	(36,815)	**-**	-
Payments made to employees	**(59,377)**	(54,282)	**-**	-
Dividend paid	**-**	(3,000)	**-**	-
Total departmental decrease	**(117,034)**	(94,097)	**-**	-
Special Public Money				
Payments made to others	**-**	-	**(126,753)**	(2,080,591)
Total special public money decrease	**-**	-	**(126,753)**	(2,080,591)
Total decreases	**(117,034)**	(94,097)	**(126,753)**	(2,080,591)
Balance represented by:				
Cash held in entity bank accounts	**6,137**	4,719	**-**	-
Cash held in the official public account	**35,233**	37,619	**5,946**	7,067
Total balance carried to the next period[3]	**41,370**	42,338	**5,946**	7,067

[1] Appropriation: *Public Governance, Performance and Accountability Act 2013* section 80.
Establishing Instrument: Section 29E *Governance of Australian Government Superannuation Schemes Legislation Amendment Act 2015.*
Purpose: For the receipt and expenditure of monies in connection with the provision of administration, accounting and other support services.

[2] Appropriation: *Public Governance, Performance and Accountability Act 2013* section 78.
Establishing Instrument: *Financial Management and Accountability Determination 2011/06*
Purpose: For the receipt and expenditure of monies in connection with payments made on behalf of CSS, PSS, and MSBS, and for the receipt and expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth. The Trust monies represent returned benefits which have not yet been subsequently repaid to the member.

[3] Amounts differ to Note 4.1 as the balances do not include cash on deposit held outside the Special Account.

Note 11: Key Management Personnel Remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity. Key management personnel remuneration is reported in the table below:

	2018	2017
	$	$
Short-term employee benefits	**5,216,544**	4,362,425
Post-employment benefits	**444,440**	447,281
Other long-term employee benefits	**418,495**	336,847
Termination benefits	**-**	237,500
Total key management personnel remuneration	**6,079,479**	5,384,053

Key management personnel comprise the Directors of CSC and those Executives of CSC that have authority and responsibility for planning, directing and controlling the activities of the entity.

The total number of key management personnel that are included in the above table are 21 individuals (2017: 21 individuals).

The Directors of CSC throughout the year ended 30 June 2018 were:

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

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

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

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

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

Note 12: Related Parties Disclosure

Related Party Relationships:
Related parties to this entity are the Directors, the Executive, the Portfolio Minister and other Australian Government Entities.

Transactions with Related Parties
Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment or refunds of taxes, receipt of Medicare rebates or higher education loans. These transactions have not been disclosed in this note.

The following transactions with related parties occurred during the financial year:

- Commonwealth Superannuation Corporation transacts with other Australian Government controlled entities consistent with the normal day to day business operations under normal terms and conditions, including the payment of workers compensation insurance premiums (note 2.2), and the receipt of superannuation administration fees (note 3.1).

- Refer to Note 7 Employee Provisions for details on superannuation arrangements with the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme (PSS), and the Public Sector Superannuation Accumulation Plan (PSSap).

The following key management personnel are members of the schemes for which CSC is the Trustee:

Christopher Ellison (PSSap)
Nadine Flood (PSSap)
Winsome Hall (PSS)
Anthony Needham (MSBS)
Margaret Staib (DFRDB)

Paul Abraham (PSSap)
Peter Carrigy-Ryan (CSS)
Robert Firth (PSSap)
Philip George (PSSap)
Richard Hill (PSSap)
Bronwyn McNaughton (PSS & PSSap)
Christine Pearce (PSSap)
Alana Scheiffers (PSSap)
Alison Tarditi (PSSap)
Andy Young (PSSap)

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

During the financial year, Margaret Staib was a member of the Council of the Australian Strategic Policy Institute, which made superannuation contributions to the PSS and PSSap schemes for which CSC is the Trustee. 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.

Note 13: Contingent Assets and Liabilities

Quantifiable Contingencies

CSC is not aware of any events that require it to report quantifiable contingencies (2017: Nil).

Unquantifiable Contingencies

CSC is not aware of any events that require it to report unquantifiable contingencies (2017: Nil).

Accounting Policy

Contingent liabilities and contingent assets are not recognised in the statement of financial position but are reported in the notes. They may arise from uncertainty as to the existence of a liability or asset or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

Note 14: Financial Instruments

	2018 $'000	2017 $'000
14.1: Categories of Financial Instruments		
Financial Assets		
Loans and receivables		
Cash and cash equivalents	**50,540**	51,313
Trade and other receivables	**5,720**	8,048
Total loans and receivables	**56,260**	59,361
Total financial assets	**56,260**	59,361
Financial Liabilities		
Financial liabilities measured at amortised cost		
Trade creditors and accruals	**6,863**	3,916
Other payables	**438**	456
Total financial liabilities measured at amortised cost	**7,301**	4,372
Carrying amount of financial liabilities	**7,301**	4,372

The carrying amount of the financial assets and liabilities is equivalent to their fair value.

Accounting Policy

Financial assets

CSC classifies its financial assets as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon trade date.

Effective interest method

Income is recognised on an effective interest rate basis except for financial assets that are recognised at fair value through profit or loss.

Impairment of financial assets

Financial assets are assessed for impairment at the end of each reporting period.

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.

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 interest basis.

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).

	2018 $'000	2017 $'000
14.2: Net Gains on Financial Assets		
Loans and receivables		
Interest revenue	**134**	79
Net gains on loans and receivables	**134**	79

14.3: Net Income and Expense from Financial Liabilities

There is no interest expense from financial liabilities not at fair value through profit or loss in the year ending 30 June 2018 (30 June 2017: Nil).

Note 14: Financial Instruments (continued)

14.4: Fair Value of Financial Instruments

The carrying amount for all financial assets and liabilities is equal to their fair value in the years ending 30 June 2018 and 30 June 2017.

14.5: Credit Risk

CSC is exposed to minimal credit risk as loans and receivables are cash and trade receivables. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the balance of trade receivables, interest receivable and reimbursements (excluding GST receivable) 2018: $5,720,000 (2017: $8,048,000).

CSC has assessed the risk of the default on payment and has allocated $10,000 in 2018 (2017: $4,000) to an impairment allowance account. CSC also manages credit risk by following up debtors (the majority of which are Commonwealth agencies) before the due date to ensure payment. In addition, policies and procedures are in place that guide employee debt recovery techniques.

CSC holds no collateral to mitigate against credit risk.

Credit quality of financial assets not past due or individually determined as impaired

	Not past due nor impaired 2018 $'000	Not past due nor impaired 2017 $'000	**Past due or impaired 2018 $'000**	Past due or impaired 2017 $'000
Cash and cash equivalents	**50,540**	51,313	**-**	-
Receivables for goods and services	**5,664**	7,659	**24**	279
Reimbursements	**32**	110	**-**	-
Total	**56,236**	59,072	**24**	279

Ageing of financial assets that were past due but not impaired for 2018

	0 to 30 days $'000	**31 to 60 days $'000**	**61 to 90 days $'000**	**90+ days $'000**	**Total $'000**
Loans and receivables:					
Receivables for goods and services	**-**	**-**	**-**	**14**	**14**
Total	**-**	**-**	**-**	**14**	**14**

Ageing of financial assets that were past due but not impaired for 2017

	0 to 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	90+ days $'000	Total $'000
Loans and receivables:					
Receivables for goods and services	6	258	-	11	275
Total	6	258	-	11	275

Note 14: Financial Instruments (continued)

14.6: Liquidity Risk

CSC's financial liabilities are suppliers and other 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 due to funding received for specific projects and internal policies and procedures put in place to ensure there are appropriate resources to meet CSC's financial obligations.

Maturities for non-derivative financial liabilities 2018

	On demand $'000	**within 1 year $'000**	**1 to 2 years $'000**	**2 to 5 years $'000**	**> 5 years $'000**	**Total $'000**
Trade creditors and accruals	**-**	**6,863**	**-**	**-**	**-**	**6,863**
Other	**-**	**438**	**-**	**-**	**-**	**438**
Total	**-**	**7,301**	**-**	**-**	**-**	**7,301**

Maturities for non-derivative financial liabilities 2017

	On demand $'000	within 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	> 5 years $'000	Total $'000
Trade creditors and accruals	-	3,916	-	-	-	3,916
Other	-	456	-	-	-	456
Total	**-**	4,372	-	-	-	4,372

During 2017-18 the majority of CSC's activities were funded through direct charges for scheme administration services and trustee services. CSC manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, CSC has procedures in place to ensure timely payments are made when due and has no past experience of default.

14.7: Market Risk

CSC holds basic financial instruments that do not expose the agency to certain market risks, such as 'currency risk', 'interest rate risk' or 'other price risk'.

Note 15: Fair Value Measurements

The following tables provide an analysis of assets and liabilities that are measured at fair value. The remaining assets and liabilities disclosed in the Statement of Financial Position do not apply the fair value hierarchy.

The different levels of the fair value hierarchy are defined below.

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

Accounting Policy
Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

An independent valuer conducted a fair value assessment of the carrying values of all leasehold improvements and property, plant and equipment at 30 June 2017.

15.1: Fair Value Measurement

	Fair value measurements at the end of the reporting period			Valuation Technique(s) and Inputs Used		
	2018 $'000	2017 $'000	**Category (Level 1, 2 or 3)[3,4,5]**	**Valuation Technique [1]**	**Inputs used**	**Sensitivity Analysis**
Non-financial assets[2]						
Leasehold improvements	**11,324**	1,284	Level 3	Depreciated replacement cost	Replacement cost new Consumed economic benefit/Obsolescence of asset	Significant movements in any of the inputs in isolation would result in a significantly different fair value measurement. A change in the assumption used for replacement cost is accompanied by a directionally similar change in the fair value of leasehold improvements and PP&E. A change in the assumption used for consumed economic benefit/obsolescence of asset is accompanied by a directionally opposite change in the fair value of leasehold improvements and PP&E.
Property, plant and equipment (PP&E)	**5,371**	2,334	Level 3	Depreciated replacement cost	Replacement cost new Consumed economic benefit/Obsolescence of asset	
Total non-financial assets	**16,695**	3,618				
Total fair value measurements of assets in the Statement of Financial Position	**16,695**	3,618				

1. There were no changes in valuation technique used from previous years.
2. CSC's assets are held for operational purposes and are not held for the purposes of deriving a profit. The current use of all-non financial assets is considered their highest and best use.
3. The remaining assets and liabilities reported by CSC are not measured at fair value in the Statement of Financial Position.
4. CSC did not measure any non-financial assets at fair value on a non-recurring basis as at 30 June 2018.
5. There have been no transfers between level 1 and level 2 of the hierarchy during the year.

Note 15: Fair Value Measurements (continued)

15.1: Fair Value Measurement (continued)

Significant level 3 inputs utilised by CSC have been derived and evaluated as follows:

Consumed economic benefit/obsolescence of asset

Assets that do not transact with enough frequency or transparency to develop objective opinions of value from observable market evidence have been measured utilising the cost (depreciated replacement cost (DRC)) approach. Under the DRC approach the estimated cost to replace the asset is calculated and then adjusted to take into account its consumed economic benefit/asset obsolescence (accumulated depreciation). Consumed economic benefit/asset obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration.

15.2: Reconciliation for Recurring Level 3 Fair Value Measurements

	Non-financial assets					
	Leasehold Improvements		Property, Plant and Equipment		Total	
	2018	2017	**2018**	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
As at 1 July	**1,284**	6,932	**2,334**	4,117	**3,618**	11,049
Total gains/(losses) recognised in net cost of/contribution by services[a]	**(1,750)**	(5,300)	**(1,400)**	(1,851)	**(3,150)**	(7,151)
Total gains/(losses) recognised in other comprehensive income[b]	**-**	(408)	**(1)**	(285)	**(1)**	(693)
Purchases	**11,790**	60	**4,438**	353	**16,228**	413
Total as at 30 June	**11,324**	1,284	**5,371**	2,334	**16,695**	3,618

[a.] These gains/(losses) are presented in the Statement of Comprehensive income under depreciation and amortisation expense and write-down and impairment of assets.

[b.] These gains/(losses) are presented in the Statement of Comprehensive income under changes in asset revaluation reserve.

No assets were transferred into or out of level 3 during the year.

Note 16: 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, MSBS and ADF Super. The assets comprise units in the AIT, for which CSC is also Trustee, plus cash and cash equivalents and sundry debtors.

	2018	2017
	$'000	$'000
CSS		
Opening balance	**3,025,883**	3,343,013
Closing balance	**2,788,354**	3,025,883
PSS		
Opening balance	**19,182,996**	17,954,263
Closing balance	**20,503,057**	19,182,996
PSSap		
Opening balance	**10,764,628**	8,976,460
Closing balance	**12,687,338**	10,764,628
MSBS		
Opening balance	**8,360,485**	7,327,791
Closing balance	**9,383,714**	8,360,485
ADF Super		
Opening balance	**37,743**	-
Closing balance	**136,314**	37,743

Note 17: Reporting of Outcomes

	Outcome 1[1]	
	2018	2017
	$'000	$'000
Expenses		
Employees	**59,987**	55,046
Suppliers	**47,430**	45,202
Depreciation and amortisation	**7,129**	7,053
Finance costs	**29**	1
Write-down and impairment of assets	**12**	4,100
Total expenses	**114,587**	111,402
Own-source revenue		
Sale of goods and rendering of services	**121,763**	108,855
Interest	**134**	79
Gains		
Gains from sale of assets	**-**	1
Total own-source income	**121,897**	108,935
Assets		
Cash and cash equivalents	**50,540**	51,313
Trade and other receivables	**6,117**	8,163
Leasehold improvements	**11,324**	1,284
Property, plant and equipment	**5,371**	2,334
Intangibles	**17,082**	18,802
Other non-financial assets	**4,113**	3,012
Total Assets	**94,547**	84,908
Liabilities		
Supplier payables	**6,863**	3,916
Other payables	**10,999**	12,923
Employee provisions	**12,815**	12,367
Other provisions	**14,706**	14,217
Total liabilities	**45,383**	43,423

[1.] CSC has one outcome: Retirement and insurance benefits for scheme members and beneficiaries, including past, present and future employees of the Australian Government and other eligible employers and members of the Australian Defence Force, through investment and administration of their superannuation funds and schemes. Net costs shown included intra-government costs that were eliminated in calculating the actual Budget Outcome.

Appendices

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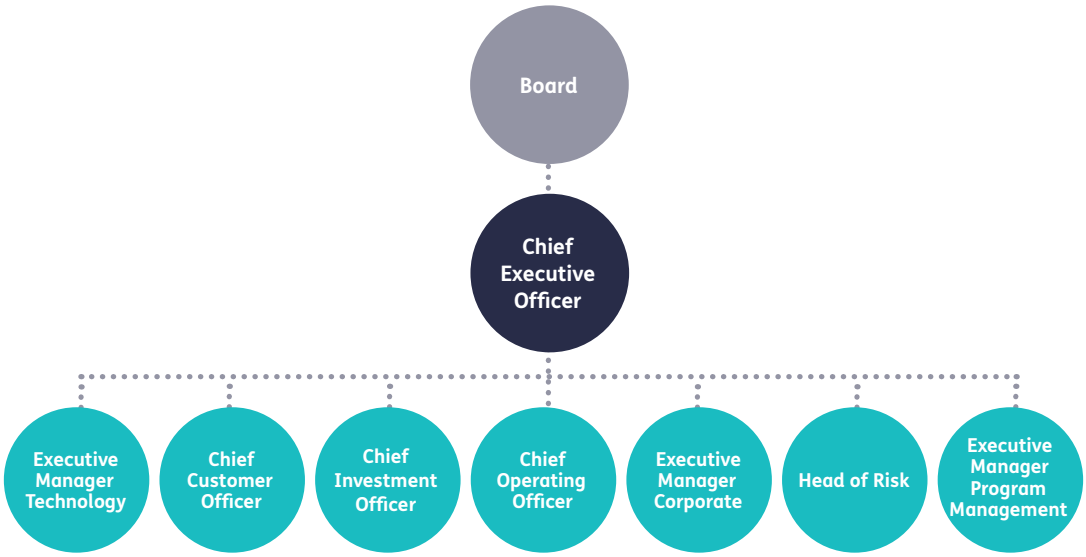
14. Appendices

Appendix 1 • CSC organisational chart



Appendix 2 • Scheme membership and transactions

Scheme membership at 30 June 2018		Scheme transactions 2017–18	$m
CSS (excluding 1922 and PNG schemes)			
Contributors	4,814	Contributions	57.320
Deferred	4,298	**Benefits paid**	
Pensioners*	105,828	Lump sum****	237.961
Total	**114,940**	Pensions	4,111.746
PSS			
Contributors	74,131	Contributions	771.806
Preserved	99,731	**Benefits paid**	
Pensioners*	51,887	Lump sum****	446.187
Total	**225,749**	Pensions	1,636.194
PSSap			
Contributors	101,473	Contributions***	1,636.083
Preserved	34,930	**Benefits paid**	
Pensioners*	1,175	Lump sum****	486,274
Total	**137,578**	Pensions	17,744
MilitarySuper			
Contributors	49,512	Contributions***	457.967
Preserved	112,791	**Benefits paid**	
Pensioners*	16,768	Lump sum****	210.740
Total	**176,688**	Pensions	623.928
ADF Super			
Contributors	10,044	Contributions	100.079
Preserved	629	**Benefits paid**	3.223
Total	**10,673**		
DFRDB (excluding DFRB)			
Contributors	1,487	Member contributions**	10.323
Preserved		**Benefits paid**	
Pensioners*	52,256	Lump sum****	88.886
Total	53,743	Pensions	1,479.229

* Pensioners figures indicate the number of pension accounts, not the number of individuals who get a pension (e.g. one account can have multiple children or spouses paid from it)

** DFRDB Contributions figures indicates member contributions only.

*** Ancillary members are not included in either PSSap or MilitarySuper contributor figures

**** Lump sum figures indicate lump sum amounts paid from the respective scheme Fund and from the Consolidated Revenue Fund (by the Australian Government)

1922 Scheme had 2,267 pensioner accounts at 30 June 2018; pension payments in 2017–18 totalled $74.16m

PNG Scheme had 116 pensioner accounts at 30 June 2018; pension payments in 2017–18 totalled $6.01m

DFRB had 2,305 pensioner accounts at 30 June 2018; pension payments in 2017–18 totalled $41.14m

Glossary

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15. Glossary

ABN	Australian Business Number
ADF Cover Act	*Australian Defence Force Cover Act 2015*
ACTU	Australian Council of Trade Unions
ADF	Australian Defence Force
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
AUM	In finance, assets under management (AUM), sometimes called funds under management (FUM), measures the total market value of all the financial assets which a financial institution such as a mutual fund, venture capital firm, or brokerage house manages on behalf of its client and themselves
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*
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
GAGSS Act	*Governance of Australian Government Superannuation Scheme Act 2011*
IFS	Industry Fund Services
IP	Income Protection
MilitarySuper	Military Superannuation and Benefits Scheme
MilitarySuper Act	*Military Superannuation and Benefits Scheme Act 1991*

PDS	Product Disclosure Statement
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PNG Act	*Papua New Guinea (Staffing Assistance) Act 1973*
PNG Scheme	Papua New Guinea Scheme
PRI	Principles for Responsible Investment
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
SIS Act	*Superannuation Industry (Supervision) Act 1993*
TPD	Total and permanent disability
1922 Act	*Superannuation Act 1922*

Reporting Requirements

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16. Reporting Requirements

Table 42. Index of CSC's annual reporting requirements

Requirements under *Governance of Australian Government Superannuation Schemes Act 2011*	
Information on the performance of CSC's functions in relation to each superannuation scheme and each superannuation fund administered by CSC (other than the 1922 scheme, DFRB, DFRDB, DFSPB, ADF Cover and PNG) during 2017–18 as set out in GAGSS Act.	Available on pages 60–77.
Information on the general administration of the DFRDB Act, the DFRB Act, the ADF Cover Act, the PNG Act and the 1922 Scheme Act during 2017–18 as set out in GAGSS Act.	Available on pages 78–83.
Information on the performance of CSC functions in relation to the DFSPB during 2017–18.	Available on pages 79–82.
Financial statements in respect of the management of each superannuation fund administered by CSC in a form agreed between the Minister and the CSC Board.	Available on pages 85–272.

Requirements under Public Governance Performance and Accountability Rule 2014	
Details of the legislation establishing CSC.	Available on page 10–11.
A summary of the objectives and functions of CSC as set out in the establishing legislation.	Available on page 10.
A summary of the purposes of CSC as included in CSC's corporate plan for the period.	Available on pages 18–25.
The names and titles of persons holding the position of responsible Minister or Ministers during 2017–18.	Responsible Ministers during 2017–18 were: Senator the Hon Mathias Cormann, Minister for Finance Senator the Hon Marise Payne, Minister for Defence
Any directions given to CSC by a Minister under an Act/instrument during 2017–18.	N/A – no directions were given during the year.
Any government policy orders that applied in relation to CSC under section 22 of the PGPA Act.	N/A – no government policy orders applied during the year.
Explanation of non-compliance with a direction or Government policy order (this requirement is intended to assist readers understand why a corporate Commonwealth entity has acted in a particular way.	N/A – no government policy orders applied during the year.

Requirements under Public Governance Performance and Accountability Rule 2014	
Annual performance statements for CSC for the period in accordance with section 39(1)(b) of the PGPA Act and section 16F of the PGPA Rule 2014.	Available on page 17.
A statement of any significant issue reported to the responsible Minister under section 19(1)(e) of the PGPA Act that relates to non-compliance with the finance law in relation to CSC (an outline of the action taken to remedy the non-compliance is also required).	N/A – no significant issue was reported to the responsible Minister during the year under this section.
Information on the accountable authority, or each member of the accountable authority, of CSC in 2017–18, which include the accountable authority/member's name/s, qualifications, experience, the number of meetings attended and if a non-executive or executive member.	Available on pages 28–37
An outline of the organisational structure of CSC (including any subsidiaries of CSC)	See Appendix 1: CSC organisational chart, page 318.
An outline of the location (whether or not in Australia) of major activities or facilities of CSC.	CSC has two office locations: Canberra and Sydney.
Information in relation to the main corporate governance practices used by CSC in 2017–18.	Available on pages 40–41.
CSC's decision-making process if: • the decision is to approve CSC paying for a good/ service from another Commonwealth entity/ company; or providing a grant to another Commonwealth • entity/company; and • CSC and the other Commonwealth entity/company are related entities; and • the value of the transaction (or if there is more than one transaction, the aggregate value of the transactions) is more than $10,000 (inclusive of GST). If there is only one transaction, the value of that transaction must be included. If there is more than one transaction, the number of transactions and the aggregate value of those transactions is also required. (Two Commonwealth entities are related if an individual is a member/director of the board of both entities.)	N/A – these circumstances did not apply to CSC during the year.
Any significant activities and changes that affected the operations or structure of CSC during 2017–18. Significant activities or changes may include: • significant events such as forming or participating in the formation of a company • operational and financial results of the entity • key changes to the entity's state of affairs or principal activities; and • amendments to the entity's enabling legislation and to any other legislation directly relevant to its operation.	N/A – no significant activities during the year.

Requirements under Public Governance Performance and Accountability Rule 2014	
Particulars of judicial decisions/administrative tribunals made during the period that have had, or may have, a significant impact on the operations of CSC.	No judicial or administrative tribunal decisions had a significant effect on CSC operations; CSC has a reconsideration process and a process for dealing with legal claims made by members.
Particulars of any report on CSC given in 2017–18 by the Auditor-General (other than a report under section 43 of the PGPA Act which deals with the Auditor-General's audit of annual financial statements); or a Committee of either House, or both Houses, of Parliament; or the Commonwealth Ombudsman; or the Office of the Australian Information Commissioner.	N/A
If the accountable authority has been unable to obtain information from a subsidiary of the entity required to be included in the annual report – an explanation of the information that was not obtained and the effect of not having this information on the report.	N/A – CSC has no subsidiaries.
Details of any indemnity that applied in 2017–18 to the accountable authority, any member of the accountable authority or officer of CSC against a liability (including premiums paid, or agreed to be paid, for insurance against the authority, member or officer's liability for legal costs).	N/A - no indemnity was applied.
An index of where CSC's mandatory annual reporting requirements can be found within this annual report.	This report's requirements table, see pages 326–328.
Details of how CSC's Annual Report (i.e. this report) was approved and when approval was given. This report must be approved by the CSC Board or a member of the Board, and must be signed by a member of the Board). A statement that the CSC Board is responsible for preparing and giving the annual report to the responsible Minister in accordance with section 46 of the PGPA Act is also required.	CSC's Board approved the report on 24 September 2018. Other details are shown on page 3.
CSC's Annual Report must comply with the presentation and printing standards required for documents which are to be presented to Parliament.	This requirement is met throughout the report.
CSC's Annual Report must be presented in plain English and clear design to accommodate the needs and interests of both Parliament and other persons potentially interested in CSC's report (which in specific terms means this report must be constructed in an accessible manner, with the information presented in relevant, reliable, concise, understandable and balanced way, using appropriate headings and adequate spacing, a glossary to define acronyms and technical terms, and tables, graphs, charts and diagrams instead of text wherever possible.	This requirement is met throughout the report (a HTML report version will also be available on the CSC website in late 2018 so the report content is accessible to people with a disability who are interested in CSC's report).

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