Australian Government

Commonwealth Superannuation Corporation

2016–17

ANNUAL REPORT

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Commonwealth Superannuation Corporation (CSC)

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Superannuation schemes

CSS	ABN:	19 415 776 361
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PSS	ABN:	74 172 177 893
	RSE:	R1004595
	USI:	74172177893001
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	Annual report:	pss.gov.au/forms-and-publications/publications
MilitarySuper	ABN:	50 925 523 120
	RSE:	R1000306
	USI:	50925523120001
	Website:	militarysuper.gov.au
	Annual report:	militarysuper.gov.au/forms-and-publications/publications
PSSap	ABN:	65 127 917 725
	RSE:	R1004601
	USI:	65127917725001
	Website:	pssap.gov.au
	Annual report:	pssap.gov.au/forms-and-publications/publications
ADF Super	ABN:	90 302 247 344
	RSE:	R1077063
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ADF Cover	ABN:	64 250 674 722
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DFRB	Website:	csc.gov.au
	Annual report:	csc.gov.au/reports-and-information/annual-reports
DFRDB	Website:	dfrdb.gov.au
	Annual report:	dfrdb.gov.au/forms-and-publications/publications
1922 Scheme	Website:	csc.gov.au
	Annual reports:	csc.gov.au/reports-and-information/annual-reports
PNG Scheme	Website:	csc.gov.au
	Annual reports:	csc.gov.au/reports-and-information/annual-reports

Note: All statistics are derived solely from records available to CSC 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
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 2017.

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 2016–17. This report was approved by the Board on 26 September 2017 and satisfies Division 2 of the *GAGSS Act 2011*, section 46 of the PGPA Act and *Public Governance, Performance and Accountability (Consequential and Transitional Provisions) 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

26 September 2017

Reader's guide

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

This report describes these activities in the 2016–17 financial year, satisfying the requirements of Division 2 of the *GAGSS Act 2011* section 46 of the PGPA Act and *Public Governance, Performance and Accountability (Consequential and Transitional Provisions) Rule 2014*.

The report is divided into the sections described below.

Introduction

This section outlines CSC, its superannuation schemes and members.

Performance

This section includes the Chair's review, and CSC's Annual Performance Statement, which is a legislative reporting requirement under the PGPA Act.

CSC Board

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 2016–17 are listed.

Governance

This section outlines the Board's governance framework and CSC's regulatory requirements, and explains CSC's approach to financial and risk management, compliance, fraud control and internal audit.

Investments

This section details how investment performance affects a member's superannuation benefit. It also provides information on CSC's investment approach, strategy, governance, environmental, social and governance practices, and investment options, and outlines investment performance to 30 June 2017.

Super schemes

This section outlines the functions CSC performs in relation to its super schemes (as set out under its governing legislation) and details CSC's performance in relation to each super scheme in 2016–17.

Financial statements

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

Reporting requirements

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

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INTRODUCTION

About CSC

CSC is a corporate Commonwealth entity established on 1 July 2011. CSC manages 11 government superannuation schemes (outlined on pages 53–54) and provides superannuation services to Australian Government employees and members of the Australian Defence Force (ADF).

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

Vision

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

Legislative objectives and functions

CSC's objectives and functions as set out under its 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 on proposed changes to the scheme legislation or trust deeds.

Outcome

Outcomes	Activity	Performance Criteria	Targets
			2016–17, 2017–18, 2018–19 & 2019–20
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	Manage and invest funds	CSC's investment performance for its default accumulation options over a rolling three years period 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	Default accumulation option annual real return of 3.5% over a rolling three year period Negative returns in no more than 4 out of every 20 years for the default accumulation option
	Administer the schemes	Achievement of operational objectives for benefit payments, pension and contributions processing, and the despatch of members' statement	90% of each operational objective achieved
	Provide services to members	Adequate satisfaction levels of members, beneficiaries and employers with the service provided	Net Promoter Score (industry standard satisfaction measure) survey result of +15

Regulated schemes

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

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

- the Commonwealth Superannuation Scheme (CSS) established on 1 July 1976 by the *Superannuation Act 1976* (the CSS Act)
- the Public Sector Superannuation Scheme (PSS) established on 1 July 1990 by the *Superannuation Act 1990* (the PSS Act)
- the Military Superannuation and Benefits Scheme (MilitarySuper) established on 1 October 1991 by the *Military Superannuation and Benefits Act 1991* (the MilitarySuper Act)
- the Public Sector Superannuation accumulation plan (PSSap) established on 1 July 2005 by the *Superannuation Act 2005* (the PSSap Act), which also offers under its trust deed an account-based pension product called Commonwealth Superannuation Corporation retirement income (CSCri)
- 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.

CSC administers six exempt public sector and military schemes:

- the scheme established under the *Superannuation Act 1922* (the 1922 Act)
- the Defence Forces Retirement Benefits Scheme (DFRB) established in 1948 by the *Defence Forces Retirement Benefits Act 1948* (the DFRB Act)
- the Defence Force Retirement and Death Benefits Scheme (DFRDB) established by the *Defence Force Retirement and Death Benefits Act 1973* (the DFRDB Act)
- the Papua New Guinea Scheme (PNG) constituted under the Superannuation (Papua New Guinea) Ordinance 1951 and administered in accordance with section 38 of the *Papua New Guinea (Staffing Assistance) Act 1973* (the PNG Act)
- the Defence Force (Superannuation) (Productivity Benefit) Determination (DFSPB), issued under the *Defence Act 1903* (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).

About CSC's members

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

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

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

Depending on scheme rules, scheme membership may also include former spouses following a family law split, 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), who are known in their second scheme as ancillary members.

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PERFORMANCE

Report from the Chair

The year under review was significant for structural changes in the superannuation industry. The fundamental tax changes to superannuation proposed by the Government were enacted for commencement on 1 July 2017. The Productivity Commission continued its work on superannuation arrangements in Australia and proposed default fund selection models, the implementation of any one of which will change the industry structure. Further intensive discussion occurred around the provision of appropriate comprehensive income products in retirement for Australia.

The investment environment over the last three year period may be broadly described as bullish for equity markets, supported by central bank liquidity accommodation around the world. Investment returns were stronger than forecast at the start of the year, and CSC continues to achieve its longer term performance objectives.

Tax changes

Major changes to the way in which superannuation is taxed were agreed in 2016–17, including the following important components that were implemented from 1 July 2017:

- A new lifetime cap on transfers to retirement income streams of $1.6 million. The transfer balance cap (TBC) is a new concept in superannuation – it is a limit applied to the total amount of superannuation that can be transferred into a superannuation income stream or pension product (a 'retirement phase account'). The TBC applies to all members who commence, or already had, a retirement phase account on or after 1 July 2017.
- A lower cap of $25,000 per annum for concessional contributions. Previously, it was $35,000 for people 49 years and older at the end of the previous financial year and $30,000 for everyone else.
- Removal of the tax exemption on earnings of assets supporting a Transition to Retirement Income Stream (TRIS). Transition-to-retirement income streams are available to assist individuals to gradually move to retirement by accessing a limited amount of super. Earnings from assets supporting a TRIS will be taxed at 15% regardless of the date the TRIS commenced. Members will also no longer be able to treat super income stream payments as lump sums for taxation purposes.

Many of these changes impact many CSC contributors and pensioners in our Australian Public Sector (APS) and Military schemes. It has been a significant piece of work to make the necessary system changes and to ensure our members were properly and adequately informed about the impact of these changes.

Productivity Commission report into default funds

The Productivity Commission is developing models for allocating default fund members to superannuation products that could be implemented by Government post-2020.

In its draft report, released on 29 March 2017, the Productivity Commission came up with four alternative models for the selection of default funds:

- Model 1: Assisted employee choice
- Model 2: Assisted employer choice (with employee protections)
- Model 3: Multi-criteria tender
- Model 4: Fee-based auction.

Should any one of the Productivity Commission's four options be implemented there will be a significant change of behaviour amongst super funds in the market. The CSC Board is confident the customer-focussed changes currently being rolled out across the business will place CSC in a strong position should any changes to the current default fund regime be implemented.

Comprehensive Income Products for Retirement

CSC recognises that it is the income that super generates in retirement that counts, so we have been an active participant in the policy discussions regarding a framework for retirement products. 'Comprehensive Income Products in Retirement' (CIPRs), or MyRetirement, are a complex but significant policy development for the superannuation industry.

At the end of 2016, Treasury released a discussion paper about the appropriate framework for CIPRs. The framework is intended to facilitate superannuation trustees' development of retirement products for members and to help guide members in the choices they have to make as they move into retirement. Broadly, the CIPR framework will seek to allow more tailored 'default' retirement solutions which better cater for retiring members and the various risks they face – for instance, the risk that a retiree might outlive their retirement savings, or longevity risk.

CSC has also partnered with the Committee for Sustainable Retirement Income (CSRI) to promote and support the development of a sound basis for providing Australians' retirement income. CSRI is an independent, non-partisan, non-profit think tank whose mission is to promote adequate incomes through all the years of retirement for all Australians on a fair and fiscally sustainable basis. Through this partnership, CSC has been, and will continue to be, actively involved in this policy design process with a view to delivering the optimal retirement outcomes for our members.

ADF Super and ADF Cover

ADF Super (a defined contribution scheme for members of the Australian Defence Force) and ADF Cover (a scheme for the provision of death and disability cover for members of the ADF) commenced on 1 July 2016.

These new superannuation arrangements for our Military personnel and their families have been implemented smoothly with a significant majority of new recruits choosing ADF Super as their preferred superannuation fund.

PSSap enhancements

In late June 2017 legislation to enable members who leave the APS to retain ongoing membership of PSSap was passed by Parliament. These enhancements will enable PSSap members who have left APS employment to continue to make contributions to their PSSap accounts, irrespective of who is employing them post APS employment.

This piece of legislation is an important development for CSC. It will enable us to operate on a similar basis to other defined contribution funds in the market place. CSC is very appreciative of the support provided by the Government and the Department of Finance in supporting these changes.

Scheme Administration

In late 2016 the NSW Government announced the sale of its State owned superannuation administration organisation (Pillar) to Mercer Administration. During the course of the sale there was much industry discussion about scheme administration services and the range of providers in the market.

CSC's PSSap, ADF Super and CSC Retirement Income (CSCri) products are administrated by Mercer Administration. During the course of the year, PSSap and CSCri were moved to a new administration platform – this caused some service delivery issues for some members. We have been very actively involved with Mercer to remedy these issues, the vast majority of which have now been resolved.

Investment performance

CSC achieved its rolling three-year investment return objective for the sixth consecutive financial year in 2016–17.

All of our investment options either met or exceeded their target returns over their investment horizons to 30 June 2017.

In particular, the investment returns to 30 June 2017 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:

	AUM $billion	1 Year %	3 Years % p.a	5 Years % p.a	7 Years % p.a
Australian inflation		1.9	1.5	2.0	2.1
Investment option					
CSS Default	2.68	9.6	7.8	9.8	8.3
PSS Default	19.11	9.5	7.7	9.7	8.2
MilitarySuper Balanced	7.63	9.6	7.8	9.6	7.2
PSSap MySuper Balanced	9.15	9.4	7.7	9.8	8.2
PSSap Balanced	0.10	9.4	7.6	9.3	8.2
CSCri Balanced	0.10	9.9	8.5	N/A	N/A
ADF Super MySuper Balanced	0.03	9.4	N/A	N/A	N/A

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, targeting 3.5% p.a. over rolling three year periods for the Default, Balanced and MySuper Balanced Options whilst keeping risk to an acceptable level, defined as a probability of loss in no more than three to four years out of 20. The investment objective has been met. This investment objective is designed to provide adequacy in retirement for our average member. "Adequacy" is defined by the ASFA (Australian Superannuation Fund Association) "comfortable standard", which accounts for post-retirement cost-of-living adjustments.

Despite the strong investment outcomes CSC has delivered its members, particularly in 2016–17, CSC is mindful of both the opportunities but also the risks ahead. The process of monetary-policy withdrawal in the developed world, led by the US, is underway, albeit at a very slow pace; global growth is improving but remains low by historical standards; debt levels around the world remain high; and there is much uncertainty around the impact of technology on productivity and inflation.

In short, CSC is mindful of the consensus view that real returns will be lower going forward, as the pace of asset reflation slows with higher interest rates. However, that said, this transition from monetary policy accommodation in the developed world is healthy and reflects improving economic fundamentals and corporate strength in several regions of the world. We are also very focused on the outlook for China and its implications for Australia. To date, China has successfully navigated the risks around rebalancing growth towards internal demand and progressing its ambitions to develop stable, deep domestic capital markets.

CSC's investment portfolio activities have included:

- Favouring cash over government bonds as our hedge against a period of adverse equity market conditions.
- Actively diversifying our portfolio's dependence on equity risk into other sources of real return, including some infrastructure assets and some hedged-fund strategies.
- Utilising our capability in protection strategies, to mitigate event risk in the portfolio. These strategies can come at a cost, akin to insurance premiums, and so are deployed opportunistically rather than systematically.

Collectively, the above activities are focused on reducing any potential losses in our members' funds through short-term periods of heightened risk, while maintaining our capacity to invest for the long-term, should prices fall below levels warranted by their fundamentals.

Our investment strategy focuses on capitalising on our hedging capability and our access to a full universe of investment opportunities across both private and public markets. We aim to avoid a higher proportion of the losses that result through weak-market cycles and capture most of the upside in strong markets. The strategy mitigates the risk of lower overall returns in the long-term. In this way, the cumulative return that we can generate for our members over the long term will be both very competitive and more consistent.

Investment performance is an important part of building towards adequacy of income in retirement, particularly in the mid-to-latter stages of the working lifecycle. This is why CSC offers three investment options, tailored to the phases of that working lifecycle (aggressive; balanced; and income-focused). It is also very important for superannuants to consider not just their investment returns, but also their contribution rates and years in the workforce, when planning for their retirement. To support this, CSC continues to focus on improving our understanding of the unique characteristics of our member base

– demographics; account balances at different work-life phases; life-stage-fit investment option choices; and adequacy rates, as defined by ASFA's "comfortable standard" in retirement. This helps us to refine and tailor our investment objectives and strategies to better service our unique member requirements at every point in their life-cycle.

Customer centricity

We continue our work to implement a customer-centric business model at CSC. This has included the development of an employer relationship strategy, the development of a Customer Relationship Management (CRM) system, and refining and developing our Vision, Mission and Customer Value Proposition – all of which provide the foundation for CSC's customer-centric culture.

Extensive work was undertaken in mapping key customer touch points to identify value and pain points for our multiple customer segments and ways to improve, whilst also better understanding our member base through member feedback and analytics.

In May 2017, a detailed online survey was distributed to our members and employer agency customers. Over 10,000 members completed the survey and a high proportion of our employers, and this will inform and prioritise our customer service initiatives in the 2017–18 year. A robust customer feedback loop that ensures a program of ongoing service improvement for our customers is a priority for our business.

Board and staff

It has been again a great pleasure to work with a highly skilled and competent Board of Directors in 2016–17. Their dedication and engagement in the work of CSC has been a significant factor in our ongoing success.

I also thank CSC staff for their efforts over the year. The rate and nature of change in our industry is ceaseless and the ongoing requirements to be flexible, adaptive and creative will continue.

Patricia Cross
Chair

26 September 2017

CSC's Annual Performance Statement

Introductory statement

This Annual Performance Statement is prepared for section 39(1) of the PGPA Act. In the opinion of the directors of CSC, the performance statement accurately presents CSC's performance for the financial year ended 30 June 2017 and complies with subsection 39(2) of the PGPA Act.

Vision

CSC's vision is to build, support and protect better retirement outcomes for all our members and their families. In CSC's 2016–17 PGPA Corporate Plan and in the 2016–17 Portfolio Budget Statements, CSC's stated Outcome is:

Outcome	Contributions to 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	**Programme 1.1: Superannuation scheme governance** The key objective for CSC in achieving its outcome is to maximise members' superannuation account balances.

Program 1.1 results: Superannuation scheme governance

Performance criteria	Results
> CSC's investment performance for its default accumulation options over a rolling three years period.	> Over the rolling three year period to 30 June 2017, CSC's default accumulation option achieved its annual real return target of 3.5% per annum.
> 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.	> Over the 20 year period to 30 June 2017, CSC's portfolio risk for its default option has been managed such that the number of negative returns has not exceeded the expectation of negative returns in no more than three to four years.
> Achievement of operational objectives for benefit payments, pension and contributions processing, and the despatch of members' statement.	Defined Benefit schemes > 92% of benefit payments were paid within five business days of CSC receiving all required documents (above target of 90%) > 100% of fortnightly pension payment files were lodged with bank on Wednesday morning prior to pay day (above target of 90%) > 99% of contributions were allocated to member accounts within four days of CSC accepting the contribution as valid (above target of 90%) > 95% of member statements were available for members by end October 2016 (above target of 90%) Defined Contribution schemes: > 94% of benefit payments were paid within three business days of Mercer Administration receiving all required documents (below target of 95%) > 97% of pension payments were completed by the 21st of each month (below target of 100%) > 93% of electronic contributions were allocated to member accounts within two business days of Mercer Administration accepting the contribution as valid (below target of 95%) > 98% of paper-based contributions were allocated to member accounts within four business days of Mercer Administration accepting the contribution as valid (above target of 95%) > 100% of member statements were available for members no later than eight weeks after 30 June 2016 (achieving target of 100%)
> Adequate satisfaction levels of members, beneficiaries and employers with the service provided.	> Net Promoter Score (industry standard satisfaction measure) was -9 averaged across seven schemes (below target of +15)

Criteria source: CSC's 2016–17 PGPA corporate plan (located at: **csc.gov.au/storage/2016–17_PGPA_corpplan.pdf**)

Analysis of performance against purpose

Investment performance

CSC's Default, Balanced and MySuper Balanced Options outperformed their investment objectives over the rolling three year period to 30 June 2017. 2016–17 marked the sixth consecutive financial year in which CSC has outperformed its rolling three year investment return objective.

The investment returns to 30 June 2017 for the Default, Balanced and MySuper Balanced Options, which represent the majority of our member's savings, comfortably exceeded their objectives:

	AUM $billion	1 Year %	3 Years % p.a	5 Years % p.a	7 Years % p.a
Australian inflation		1.9	1.5	2.0	2.1
Investment option					
CSS Default	2.68	9.6	7.8	9.8	8.3
PSS Default	19.11	9.5	7.7	9.7	8.2
MilitarySuper Balanced	7.63	9.6	7.8	9.6	7.2
PSSap MySuper Balanced	9.15	9.4	7.7	9.8	8.2
PSSap Balanced	0.10	9.4	7.6	9.3	8.2
CSCri Balanced	0.10	9.9	8.5	N/A	N/A
ADF Super MySuper Balanced	0.03	9.4	N/A	N/A	N/A

Note: Performance is presented net of fees and taxes with all performance referenced hereafter in the commentary below being in respect of the PSSap MySuper Balanced Option (open to new members).

The investment environment over the last three year period has favored equity markets because it has been characterised by low interest rates, ample central-bank liquidity, and slow but steady improvement in global growth.

With CSC's Default, Balanced and MySuper Balanced Options materially weighted towards equities, performance has been strong, delivering a real (i.e. above inflation) return of 6.2% p.a. over the most recent measured rolling three year period, 2.7% p.a. above the real return target.

Performance in the financial year to 30 June 2017 was particularly strong (9.4%, being 7.5% above inflation). As expected, government bond returns were poor as central bank's signalled their intention to normalise rates over the coming year. This validated our portfolio preference to hold cash instead, which outperformed bonds as our primary source of defence.
CSC's publicly listed equities portfolios all delivered returns in the high-teens, with developed world, Australia and emerging markets recording performances of 18%, 15% and 17% respectively (all net of fees).

Further analysis of CSC's investment performance is provided in the Chair's report on pages 14–18. Information on CSC's investment approach, strategy and governance is provided in the Investment section of this report on pages 43–51.

Portfolio risk

Portfolio risk was maintained within Board-approved risk parameters (i.e. within the targeted probability of negative returns).

The Default, Balanced and MySuper Balanced Options experienced three negative return years over the last 20 year period, being FY2001–02, FY2007–08 and FY2008–09. Each of these periods represented major equity market corrections across the world (the "Tech Wreck" and "Global Financial Crisis" respectively). Through these periods, while we were not able to generate a positive return, CSC was able to outperform the median super fund, consistent with our strategy to avoid more of the downside in markets. Over the long-term, relative to the median superfund, CSC captures around 88% of the upside in strong markets and avoids up to 46% of the losses through market downturns.

Further analysis of CSC's investment performance is provided in the Chair's report on pages 14–18. Information on CSC's investment approach, strategy and governance is provided in the Investment section of this report on pages 43–51.

Operational objectives

1. Payment of member benefits

Defined benefit schemes: CSC paid 92% of superannuation benefits in 2016–17 within five business days of receipt of all required documentation. However, where benefit payments related to death or invalidity benefits, the overall time taken to decide and pay these benefits was often perceived by benefit recipients (i.e. members or their family) as being too long. CSC aims to reduce the time taken to decide and pay death and invalidity benefits by:
1) implementing a new administrative platform for this function, and
2) continuing to streamline medical evidence requirements with external departments.

Defined contribution schemes: Mercer Administration paid 94% of superannuation benefits in 2016–17 within three business days of receiving all required documentation, which was below the target of paying 95% of benefits within three business days. Some challenges were experienced following Mercer Administration's transition to its new administration platform in late 2016. These challenges were rectified during the year.

2. Processing of pension payments

Defined benefit schemes: CSC lodged 100% of pension payment files with its bank for payment on each Wednesday morning prior to pay day in 2016-17. CSC's bank and the banks of pensioners are then responsible for paying pension payments into pensioner bank accounts on each fortnightly pension pay day.

Defined contribution schemes: Mercer Administration paid 97% of pension payments (for CSCri members) with its bank by the 21st of each month for payment, below the target of 100% of payments. A small number of pension payments were not paid on time because automated processes failed, which then required manual intervention. This happened because the relating CSCri accounts weren't set up in the system correctly. Mercer Administration has rectified this problem.

3. Processing of contributions for members

Defined benefit schemes: CSC processed 100% of contributions for members within four days of accepting the contribution as valid in 2016–17.

Defined contribution schemes: Mercer Administration achieved its target of allocating 95% of paper-based contributions

to member accounts within four business days of accepting the contribution as valid in 2016–17 (allocating 98% of valid contributions within this timeframe). However, Mercer Administration did not achieve its target of allocating 95% of electronic contributions to member accounts within two business days of accepting the contribution as valid. Instead, 93% of valid contributions were allocated within the two business day time-frame. A small number of valid contributions were not allocated on time following Mercer Administration's transition to its new administration platform in late 2016. This problem is now rectified and performance in this area has improved significantly.

4. Despatch of member statements

Defined benefit schemes: CSC despatched 95% of member statements by end October 2016, exceeding the target of 90% of statements.

Defined contribution schemes: Mercer Administration achieved its target of despatching 100% of member statements no later than eight weeks after 30 June 2016.

More information about CSC's operational performance is provided in the Super Schemes section of this report on pages 53–74.

Customer satisfaction

Satisfaction ratings measured by post interaction surveys were high for members who called our Customer Information Centre to receive general advice, attended a CSC seminar or webinar to learn more about their scheme, or obtained personal financial advice from an Industry Fund Services (IFS) financial planner.

Customer advocacy as measured by the Net Promoter Score (NPS) was significantly above target for five out of seven reported schemes but below for two of the schemes. CSC's recent member research has provided insights that will inform initiatives over the next 12 months that should result in an improvement in future ratings. CSC continues to experience member satisfaction impact from legislative and policy changes outside of CSC's control.

Information about CSC's customer-centric business model is included in the Chair's report on pages 14–18.

3

CSC BOARD

CSC 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 2016–17 are listed.

Composition

The Board consists of an independent Chair and 10 other directors. Of the 10 other directors, three directors are nominated by the President of the Australian Council of Trade Unions (ACTU) and two directors are nominated by the Chief of the Defence Force.

The Minister for Finance (the Minister) chooses the remaining five directors in consultation with the Defence Minister. The Minister appoints all directors.

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

Responsibilities

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

Performance review

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

All directors participate in ongoing professional development activities and 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.

Remuneration

Director remuneration is determined by the Remuneration Tribunal, established under the *Remuneration Tribunal Act 1973*. This includes remuneration for members of the Audit Committee and the reconsideration committees.

Remuneration is disclosed in CSC's annual financial statements included in this report.

Director indemnity

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

Diversity

CSC supports and encourages a diverse and inclusive workforce by fostering a culture and environment of respect, courtesy, honesty, integrity, working in a supportive and collaborative way, treating others how we wish to be treated, having an appreciation of difference and other perspectives, and having an openness to other cultures.

This commitment starts at the Board level. In 2016-17, CSC signed up to the Investors Statement of Intent of the Australian Chapter of the 30% Club, to support the vision of the Australian 30% Club: 'to achieve 30% of ASX 200 seats held by women by end 2018'. CSC believes that boards that genuinely embrace cognitive diversity, as manifested through gender equality and a broad spectrum of skills and experience, are more likely to achieve better outcomes for members and shareholders, a higher standard of corporate governance, improved financial performance and an enhanced capacity to attract and retain female talent.

In accordance with this commitment, CSC actively encourages its investment managers to engage with investee companies in support of achieving this target. CSC's Diversity Policy describes how CSC itself implements its commitment to diversity. This policy is available on the CSC website at **csc.gov.au**

The CSC Board in 2016–17

Mrs Patricia Cross

Re-appointed 1 July 2017 to 30 June 2020

- **Appointed 1 July 2014**
- **Chair of the Board**
- **Chair of the Board Governance Committee**
- **Chair of the Remuneration and HR Committee**

Mrs Cross is a director of Macquarie Group Limited (since 2013), Macquarie Bank Limited (since 2013), Aviva plc (since 2013). Having begun her career in public service with Congressman John Rousselot (1979–1981), Mrs Cross went on to gain extensive international financial services experience with Chase Manhattan Bank and Chase Investment Bank (1981–1987), Banque Nationale de Paris (1987–1988) and National Australia Bank (1988–1996). Since 1996 she has served as a public company director for Suncorp-Metway Limited (1996–2000), AMP Limited (2000–2003), Wesfarmers Ltd (2003–2010), Qantas Airways Limited (2004–2013) and National Australia Bank (2005–2013). She was also Chairman of Qantas Superannuation Limited (2002–2005), Deputy Chairman of the Transport Accident Commission of Victoria (1997–2001) and a founding director of the Grattan Institute (2008–2015).

Mrs Cross has held a number of honorary government positions, including with the Financial Sector Advisory Council, Companies and Securities Advisory Committee, Panel of Experts to Australia as a Financial Centre Forum and Sydney APEC Business Advisory Council.

She is an Australian Indigenous Education Foundation Ambassador, and has previously served on a wide range of not for profit boards, including the Murdoch Children's Research Institute (2002–2011). She is the Co-Chair of WomenCorporateDirectors in Australia (since 2014) and is the Chair of the 30% Club in Australia (since 2015). In 2001, Mrs Cross received the Australian Centenary Medal for service to Australian society through the finance industry. Mrs Cross has a BSc (Hons) from Georgetown University.

Ms Ariane Barker

Appointed 13 September 2016 to 12 September 2019

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

Mrs Barker is General Manager, Products and Markets at JBWere (since 2015). Mrs Barker is also 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 Childrens 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 (2011–2014). Mrs Barker has over 20 years of experience in international banking and finance, including roles as Director, Equities Division at HSBC (2005–2008); Executive Director,

Equities Division at Goldman Sachs (Asia) (2000–2002); and Associate – Capital Markets at Merrill Lynch International (1994–1999).

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.

Mr Anthony (Tony) Cole, AO

Appointment ended 30 June 2017

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

Mr Cole is a former Asia Pacific business leader of the global consulting, outsourcing and investment company, Mercer (1996–2011). He stood down from all management and board roles at Mercer in 2011, but continued to work with Mercer on a part time basis in a limited role until 2015. Before joining Mercer he was an executive director of the Life Investment and Superannuation Association of Australia (1994–1996). Mr Cole has also held a number of senior federal government appointments including Secretary to the Treasury (1990–1993).

Mr Cole is a director of the Board of Australian Ethical Investments Limited (since 2012), a panel member of the Fairwork Minimum Pay Group (since 2013), a member of the Business Investment Committee of the NSW Treasury Corporation (since 2015) and was formerly a member of the Advisory Board of the Northern Territory Treasury Corporation (1995-2017) and the Chairman of the Advisory Board of the Melbourne Institute of Applied Economic and Social Research (2002–2012). Mr Cole is also a director of ARIA Co Pty Ltd.

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

The Hon. Chris Ellison

Re-appointed 1 July 2017 to 30 June 2020

- **Director since 1 July 2014**
- **Member of the Board Governance Committee**
- **Member of the Remuneration and HR Committee**

The Hon. Chris Ellison is a director of the University of Notre Dame (since 2015) and The Australian Organisational Excellence Foundation (since 2014), advisor to Quintis Corporation (formerly TFS Corporation) (since March 2017), Governor of the University of Notre Dame in Western Australia (since 2009), Chair of Taylors College Academic Board, UWA (since 2010), a member of the Study Group Academic Council (since 2014) and Member of Trinity College Board, Perth (since 2010). He is also a member of the WA Law Society and Chair of the SAS Regiment Resources Fund fundraising committee (since 2014). He was previously a director of Doric Construction Group (2011–2015) and Chairman of Australia's North West Tourism Board (2011–2015). Mr Ellison is also a director of ARIA Co Pty Ltd.

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

Ms Nadine Flood

Reappointed 1 July 2017 to 30 June 2020

- **Director since 1 July 2011**
- **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 CPSU (since 2010), a director of Shared Advantage Pty Ltd (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 also a Board member of the Centre for Policy Development (2010–2015) and a member of the ALP National Policy Forum (2013–2016). Ms Flood has a Bachelor of Economics degree from Macquarie University.

Ms Lyn Gearing

Appointment ended 12 September 2016

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

Ms Gearing has many years of experience in superannuation, funds management, corporate finance and management consulting. Ms Gearing was a director of the Garvan Research Foundation (2005–2014) and a non-executive director of Queensland Investment Corporation (2008–2013), IMB Limited (2003–2012) and Hancock Natural Resources Australasia Limited (2003–2011). Ms Gearing is currently a Director of the Queens Club Limited.

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

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

Ms Winsome Hall

Reappointed 1 July 2016 to 30 June 2019

- **Director since1 July 2011**
- **Nominee of the President of the ACTU**
- **Member of the Board Governance Committee**
- **Member of the Remuneration and HR Committee**

Ms Hall was a trustee of the predecessor organisations ARIA and the CSS and PSS Boards (1996–2011). She is Chair of Zurich Australia Superannuation Pty Ltd (since 2010), is an independent non-executive director of the commercialisation fund Medical Research Commercialisation Fund (since 2007) as a nominee of AustralianSuper, 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 has previously been a non-executive director of various financial sector companies including Colonial First State Private Capital Limited (2001–2008), State Super Financial Services (2006–2009) and the Financial Industry Complaints Scheme (2004–2008) and was a non-executive director of the commercial fund Uniseed (2005–2015). She has also been a member of the Financial Complaints Scheme Panel, best practice advisor to the Association of Superannuation Funds Australia, Senior Advisor, Prime Minister and Cabinet, and Secretary of the ACT Branch of the CPSU. Ms Hall has a Bachelor of Arts degree from the Australian National University.

Mr Garry Hounsell

Appointed 1 July 2016 to 30 June 2019

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

Mr Hounsell is a non-executive director and Chair of the Audit Committee at Treasury Wine Estates Limited (since 2012); director and Chair of the Audit Committee at Dulux Group Limited (Since 2010); Chair of the board and Chair of the Audit Committee of at Spotless Group Holdings Limited (since 2017, having been a director since 2010); director at Investec Aircraft Syndicate Limited (since 2012), and McFarlane Burnet Institute of Public Research and Public Health (since 2013).

Mr Hounsell is also the Advisory Chairman for Acciona Australia and Asia (since 2015); Chairman of Helloworld Limited (since 2016), and an Advisory Board Member of Charter Keck Cramer (since 2013), and Investec Global Aircraft Fund (since 2007).

Mr Hounsell was previously executive director, Victoria at Investec Bank (2005–2007); Senior Partner at Ernst and Young Australia (2002–2004); Managing Partner Australia, Audit and Business Advisory at Arthur Andersen (1998–2001); and Partner at Arthur Andersen (1989–1998).

Mr Hounsell was previously the Chairman of Emitch Limited (2006–2008) and PanAust Limited (2008-2015). He was also previously an Advisory Board Member of PanAust Limited (2015–17), Rothschild Australia Limited (2012–2017), and a director at Orica Limited (2004–2013),

Nufarm Limited (2004–2012), Qantas Airways Limited (2005-2015), and Mitchell Communication Group Limited (2008–2010) and a director and Chair of the Audit Committee at Integral Diagnostics Limited (2015–2017).

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 to 30 June 2018

> **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 director for the Victorian Contract Cleaning Industry Portable Long Service Leave Fund Pty Ltd (2014–2015).

Mr Kemppi has been an Organiser, Industrial Officer and Lead Industrial Officer with United Voice (2009–2015), CSO and Trustee Service Consultant with Australian Administrative Services (2006–2009), and Market Research Interviewer for the National Australia Bank (2004–2006).

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 (2014–2015) 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 (2014–2015) and Chair of the Defence Force Recruiting Board of Management (2014–2015).

Air Vice-Marshal Needham holds a Master of Arts in Strategic Studies, Deakin University, 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 for the RAAF.

Ms Peggy O'Neal

Reappointed 1 July 2017 to 30 June 2020

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

Ms O'Neal is a former partner of law firm Herbert Smith Freehills (1995–2009) and then a consultant (2009–2011), specialising in superannuation and financial services law. She continues to act as a consultant to Lander & Rogers, Melbourne (since 2011). Ms O'Neal also serves as a director of NAB subsidiaries (all superannuation fund trustee companies), MLC Nominees (since 2011), NULIS Nominees (since 2011) and PFS Nominees (since 2011). She is an independent member of the Audit and Compliance Committee of UniSuper Ltd (since 2009), an independent member of the External Compliance Committee for Vanguard Investments Australia (since 2009), the President of the Richmond Football Club (since 2013, having been a director from 2005) and a director of Women's' Housing Limited (since 2013). Ms O'Neal was Chair of the Victorian Government Taskforce on Women in Sport and Recreation (2014–2016). 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 practice law in Australia at the University of Melbourne. She has also completed the ASFA Diploma in Superannuation Management.

Air Vice-Marshal Margaret Staib, AM, CSC

Reappointed 2 May 2017 to 1 May 2020

- **Director since 2 May 2014**
- **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 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). 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 (2012–2015). She was also a member of the Industry Advisory Board for the Centre for Aeronautical and Aviation Leadership of Embry-Riddle Aeronautical University (2010–2015). She is also a Certified Practicing Logistician and a Fellow of the Chartered Institute of Logistics and Transport.

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

New Director in 2017–18

Dr Michael John Vertigan, AC

Appointed from 1 July 2017 to 30 June 2020

- **Member 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 Chairman of the AGEST Superannuation Fund (2004–2008) and former Secretary of the Victorian (1993–1998) and Tasmanian (1989–1993) Departments of Treasury and Finance and has held a number of academic appointments.

Dr Vertigan holds a number of other appointments to government and private sector bodies including former Chairman of the Australian Maritime College Board (2012–2016). He is a former director of Aurora Energy (2010–2014) a former member of the Standing Committee on Energy and Resources Board Appointments Panel (2008–2014). He was an independent member of the Tasmanian Government GBE Director Appointments (2008–2015), Chair of the Panel of Experts for the NBN Cost Benefit Analysis and Review of Regulation (2013–2014), a member of the Australian Treasury Advisory Council (2014–2015) and former Chair of the Review of Governance of the Australian Energy Market (2015).

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 committees

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

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

Committee	Purpose	Membership
Audit Committee (From April 2017)	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 (Chairman) > Ariane Barker > Nadine Flood > Margaret Staib, AM, CSC
Risk Committee (From April 2017)	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
Audit & Risk Management Committee (To April 2017)	To assist the Board in discharging its responsibilities by providing an objective non-executive review of the financial reporting and risk management framework. Functions include: > integrity of financial reports > significant financial and accounting issues and policies > regulatory requirements and compliance > assurances on internal control and compliance systems > operational risk and risk management framework > audit effectiveness, independence, scope and planning > overseeing CSC's risk profile upon events of change.	To April 2017: > Michael Vertigan, AC (Chairman to October 2016) > Garry Hounsell (Chairman from November 2016 to April 2017) > Ariane Barker from 24 October 2016 > Nadine Flood > Lyn Gearing to 12 September 2016 > Margaret Staib, AM, CSC
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.	To June 2017: > Patricia Cross (Chair) > Tony Cole, AO > The Hon. Chris Ellison > Winsome Hall > Peggy O'Neal From July 2017: > Patricia Cross (Chair) > The Hon. Chris Ellison > Winsome Hall > Peggy O'Neal > Dr Michael Vertigan, AC

Committee	Purpose	Membership
Remuneration and HR Committee	To assist the Board by advising and making recommendations on issues relevant to its Remuneration Policy and human resource obligations. Functions include: > review and recommendations on the Remuneration Policy > recommendations on certain remuneration > compliance with relevant law and regulations > setting and monitoring CEO key performance objectives.	To June 2017: > Patricia Cross (Chair) > Tony Cole, AO > The Hon. Chris Ellison > Winsome Hall > Peggy O'Neal From July 2017: > Patricia Cross (Chair) > The Hon. Chris Ellison > Winsome Hall > Peggy O'Neal > Dr Michael Vertigan, AC

Table 1: Board and standing Board committee meeting attendance in 2016–17
Board meeting attendance

	Board meetings (8)	
	Attended	Eligible to attend
Patricia Cross	8	8
Ariane Barker	7	7
Tony Cole, AO	7	8
The Hon. Chris Ellison	8	8
Nadine Flood	5	8
Lyn Gearing	1	1
Winsome Hall	7	8
Garry Hounsell	7	8
Sunil Kemppi	7	8
Air Vice-Marshal Tony Needham, AM	7	8
Peggy O'Neal	8	8
Air Vice-Marshal Margaret Staib, AM, CSC	8	8

Audit & Risk Management committee meeting attendance:

	Audit & Risk Management Committee meetings (4) Up to April 2017		Audit Committee meetings (2) From April 2017		Risk Committee meetings (2) From April 2017	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Ariane Barker	2	2	2	2	2	2
Nadine Flood	4	4	0	2	0	2
Lyn Gearing	1	1	N/A	N/A	N/A	N/A
Garry Hounsell	4	4	2	2	2	2
Air Vice-Marshal Margaret Staib, AM, CSC	4	4	2	2	2	2

Board Governance & Remuneration & HR committee meeting attendance:

	Board Governance Committee meetings (4)		Remuneration and HR Committee meetings (4)	
	Attended	Eligible to attend	Attended	Eligible to attend
Patricia Cross	4	4	4	4
Tony Cole, AO	4	4	4	4
The Hon. Chris Ellison	4	4	4	4
Winsome Hall	3	4	2	4
Peggy O'Neal	4	4	4	4

Other Board committees

The Board has also established two reconsideration committees and the Defence Force Case Assessment Panel, pursuant to scheme legislation. These committees reconsider certain decisions made under scheme legislation on the application of affected members. The two reconsideration committees are:

- the APS (Australian Public Sector schemes) Reconsideration Advisory Committee
- the MSB (MilitarySuper) Reconsideration Committee.

The Board may establish other committees from time to time.

4

GOVERNANCE

Introduction

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

The Board's governance framework includes the following policies:

- Board Charter
- Board Performance Evaluation 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.

Most of these policies are available on CSC's website.

This section details CSC's regulatory requirements, approach to financial management and risk management, compliance program, and the fraud control and internal audit measures in place.

Regulatory requirements

CSC is established under the GAGSS Act and is responsible for the super schemes covered in this report. CSC's objectives and functions as set out in its governing legislation are outlined in this report on page 10. CSC's governing legislation also establishes accountability arrangements for CSC, including reporting annually to the Parliament and tabling audited financial statements.

CSC holds a licence and an Australian Financial Services (AFS) licence, meaning it is 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 its schemes. The regulated schemes must be managed and invested in accordance with the CSS Act, the PSS Act, the MilitarySuper Act and the PSSap Act, together with the relevant trust deeds under these Acts.

The unregulated schemes 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.

Financial management

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

Risk management

CSC's approach to managing risk comprises a:

- Risk Appetite Statement, which articulates the risk trade-offs CSC is prepared to make in pursuit of its objectives, and
- Risk Management Strategy, which sets out CSC's overarching risk management principles, CSC's risk management framework and the underlying components and processes to CSC uses to identify, assess and mitigate risks.

CSC's Risk Appetite Statement and Risk Management Strategy meet APRA's requirements under Prudential Standard SPS 220. Both are reviewed at least annually and updated as required.

Compliance

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

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

Fraud control

CSC has a Fraud Control and Corruption Plan in place. It sets out CSC's strategies to manage the risks of fraud and corruption. The plan is reviewed annually and updated as required.

Internal audit

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

5

INVESTMENTS

Introduction

CSC manages and invests five Funds:

- the CSS Fund
- the PSS Fund
- the MilitarySuper Fund
- the PSSap Fund (including CSCri)
- the ADF Super Fund.

This section details how investment performance of these Funds affects a member's superannuation benefit. It also provides information on CSC's investment approach, strategy, governance, environmental, social and governance practices, and investment options, and outlines investment performance to 30 June 2017.

How performance affects a member's benefit

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

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

For MilitarySuper, investment performance directly affects the member benefit for all members and a small part of the employer benefit for contributing members.

Benefits in PSSap, ADF Super and CSCri are directly affected by investment performance.

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

Investment approach

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

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

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

A target asset allocation and asset allocation ranges are set for each investment option.

Investment strategy

CSC's investment strategy is focused on the provision of financial adequacy in retirement for all scheme members. The level of risk taking is measured and focused on maximising the probability of achieving targeted return objectives for each investment option.

This approach should manifest in the following pattern of returns: CSC investment portfolios should help to preserve wealth, to some extent, through periods of negative equity market returns. The cost of this is that CSC's investment portfolio returns may lag other funds through periods of strong equity market returns. Note that through these periods of strong equity market returns, CSC member returns should be well in excess of their targeted objectives.

Over the full investment horizon, as more capital is preserved in weak markets and most of the returns are captured in strong markets, the cumulative return will be very competitive and the volatility of returns will be reduced.

Investment governance

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

The CSC Board

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

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

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

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

CSC's investment team

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

The team performs two major functions:

- Formulating investment strategy, option design, risk budget deployment and monitoring the evolving risks and opportunities in the Fund as well as the broader financial markets.
- Identifying the most efficient implementation channels for investment strategies, with 'efficiency' defined as the highest prospective, net (of fees) return per unit of risk.

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

CSC's Investment Operations team

Responsibilities of the Investment Operations team include:

- implementation of investment team decisions, in accordance with Board-approved delegations

- management of the custodial relationship and its associated activities
- attribution of investment performance, and
- investment manager compliance and operational due diligence.

The team is led by the General Manager (GM), Investment Operations. The GM, Investment Operations and the CIO report independently to the CEO.

Investment managers

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

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

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

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

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

Environmental, social and governance factors

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

Poor environmental, social and governance (ESG) performance in an investment can indicate poor corporate management and may lead to a decline in investment value.

CSC has implemented a number of investment governance practices, including:

- casting proxy votes in Australian and international companies in which we invest
- publicly communicating our ESG policy and practices
- governance research and corporate investee engagement through Regnan, which provides ESG research and engagement services to CSC and its other institutional investors.

Principles for Responsible Investment (PRI)

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

The six principles are:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.

- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

Montreal Carbon Pledge

CSC is also a signatory to the PRI Montreal Carbon Pledge which aims to increase investor awareness, understanding and management of climate change-related impacts, risks and opportunities. We commit to measuring and disclosing, on at least an annual basis, the carbon footprint of our public market equities portfolio.

As the table below indicates, CSC's public market equities carbon footprint (as at 30 June 2017) is estimated to be lower than its benchmark by 12 million tonnes of CO2 emissions per AUD million invested.

Table 2: CSC's public market equities carbon footprint at 30 June 2017

CSC listed equities	CSC	Benchmark	Difference
Carbon Footprint*	102	114	12
Coverage**	85%	91%	6%

* Carbon Footprint is measured in Tonnes of $C0^2e$ (Scope 1 + Scope 2) per AUD million invested (as at 30 June 2017).

** Carbon emissions data is sourced from MSCI ESG Research and covers the MSCI ACWI universe of companies. For more information visit **msci.com**

Investment options

Table 3: Investment options at 30 June 2017

Investment option (scheme)	Objective	Risk		Minimum suggested time frame	Target asset allocation (ranges)	CSCri 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%
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)**.

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 2016 to 30 June 2017 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 2016 to 30 June 2017 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 14–18 and in the Annual Performance Statement on pages 19–23.

Table 4: CSS investment performance to 30 June 2017

	Objective	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Australian Inflation		1.9	1.5	2.0	2.4
Options					
Default Fund	To outperform the CPI by 3.5% per annum over 10 years	9.6	7.8	9.8	4.8
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	1.7	1.8	2.1	3.2

Table 5: PSS investment performance to 30 June 2017

	Objective	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Australian Inflation		1.9	1.5	2.0	2.4
Options					
Default Fund	To outperform the CPI by 3.5% per annum over 10 years	9.5	7.7	9.7	4.8
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	1.6	1.8	2.1	3.2

Table 6: MilitarySuper investment performance to 30 June 2017

	Objective	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Australian Inflation		1.9	1.5	2.0	2.4
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	1.6	1.8	2.1	3.2
Income Focused	To outperform the CPI by 2% per annum over 10 years	6.1	6.4	6.0	3.8
Balanced (default)	To outperform the CPI by 3.5% per annum over 10 years	9.6	7.8	9.6	3.7
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	11.8	9.6	11.7	3.4

Table 7: PSSap investment performance to 30 June 2017

	Objective	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Australian Inflation		1.9	1.5	2.0	2.4
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	1.6	1.9	2.1	3.2
Income Focused	To outperform the CPI by 2% per annum over 10 years	5.8	6.1	6.5	4.8
MySuper Balanced (default)	To outperform the CPI by 3.5% per annum over 10 years	9.4	7.7	9.8	4.8
Ancillary Balanced	To outperform the CPI by 3.5% per annum over 10 years	9.4	7.6	9.3	5.7
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	11.6	9.5	11.8	5.1

Table 8: CSCri investment performance to 30 June 2017

Options	1 year (%)	3 years (%) pa	4 years (%) pa
Cash	1.9	2.2	2.3
Income Focused (default)	5.9	6.6	6.7
Balanced	9.9	8.5	9.6
Aggressive	12.4	10.4	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 9: ADFSuper investment performance to 30 June 2017

	Objective	1 year (%)
Australian Inflation		1.9
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	1.6
Income Focused	To outperform the CPI by 2% per annum over 10 years	5.9
MySuper Balanced (default)	To outperform the CPI by 3.5% per annum over10 years	9.4
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	11.6

6

SUPER SCHEMES

Introduction

CSC manages 11 super schemes for Australian Government employees and members of the ADF. The functions CSC performs in relation to its super schemes are set out in its governing legislation (outlined on page 10 of this report). This section details CSC's performance in relation to these functions for each scheme in 2016–17.

Scheme administration

Administering CSC's super schemes involves:

- allocating valid contributions to member accounts,
- managing death and invalidity benefit claims for members and their families,
- calculating and paying benefits,
- responding to member and employer enquiries, and
- maintaining accounts for contributors, preservers and pensioners.

These functions are performed directly by CSC for the defined benefit public sector and military schemes. Scheme administration functions for PSSap, CSCri and ADF Super are contracted to Mercer Administration.

To monitor and manage scheme administration performance, CSC has identified service levels for all its schemes, including in its contractual arrangements with Mercer Administration.

2016–17 performance against services levels for each super scheme is detailed below. Further detail is included in the Annual Performance Statement on pages 19–23.

Defined benefit schemes

Table 10: Defined benefit schemes service standards in 2016–17

	Service standard	CSS (incl. 1922 & PNG Schemes)	PSS	MilitarySuper	DFRDB (incl. DFRB)	All defined benefit schemes
Payment of member benefits	90% of benefit payments are made within five business days of CSC receiving all required documents	92%	85%	89%	79%	92%
Processing of pension payments	90% of fortnightly pension payment files lodged with bank on Wednesday morning prior to pay day	100%	100%	100%	100%	100%

Table 10: Defined benefit schemes service standards in 2016–17 (continued)

	Service standard	CSS (incl. 1922 & PNG Schemes)	PSS	MilitarySuper	DFRDB (incl. DFRB)	All defined benefit schemes
Processing of member contributions	90% of contributions allocated to member accounts within four days of CSC accepting contribution as valid	99%	99%	99%	98%	99%
Despatch of member statements	90% of statements available for members by end October 2016	96%	98%	91%	71%	95%

Defined contribution schemes

Table 11: Defined contribution schemes service standards in 2016–17

	Service standard	PSSap including ancillary members	CSCri	ADF Super	All defined contributions schemes
Payment of member benefits	95% of benefit payments made within three business days of Mercer Administration receiving all required documents	95%	89%	97%	94%
Processing of pension payments	100% of pension payments completed by 21st of each month	N/A	97%	N/A	97%

Table 11: Defined contribution schemes service standards in 2016–17(continued)

	Service standard	PSSap including ancillary members	CSCri	ADF Super	All defined contributions schemes
Processing of member contributions	95% of electronic contributions allocated to member accounts within two business days of being declared a valid contribution	92%	N/A	94%	93%
	95% of paper-based contributions allocated to member accounts within four business of being declared a valid contribution	96%	N/A	100%	98%
Despatch of member statements	100% of statements despatched no later than eight weeks after 30 June	100%	100%	N/A	100%

Review of decisions and complaints

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

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

The number of complaints received in 2016–17 is shown in the individual superannuation scheme sub-sections included below in this section of the report.

Information & advice

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

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

Personal financial advice

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

IFS is responsible for the advice provided generally on a fee-for-service basis to CSC scheme members. All IFS advisers are licensed financial planners and authorised representatives of IFS.

At 30 June 2017, there were six IFS advisers based in Canberra, Melbourne and Brisbane, dedicated to CSC scheme members (compared to nine advisers at 30 June 2016).

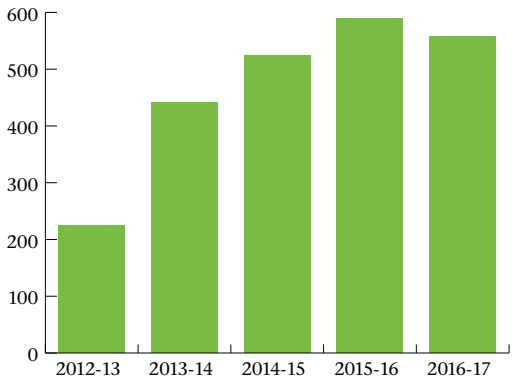
The services offered to CSC scheme members include face-to-face and phone-based personal financial advice.

During 2016–17, CSC scheme members reported on average a very good to high level of satisfaction with the personal financial advice and service provided to them.

Superannuation seminars

CSC scheme members can attend public and workplace seminars on their super scheme, as well as webinars. Members can also attend sessions on specific topics such as their annual statement, the online calculator for defined benefit schemes known as i-Estimator, and redundancy. Seminars and webinars are presented by CSC's team of Member Education Consultants. A main topic of interest in the past year was the tax changes being introduced from 1 July 2017.

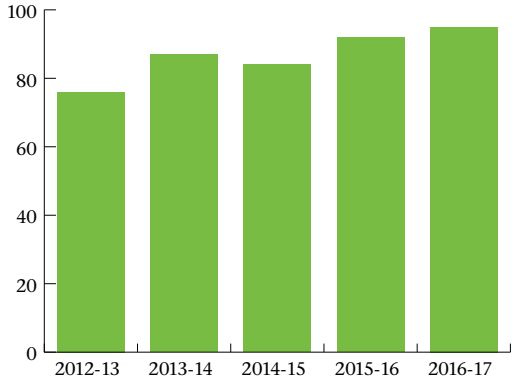
Chart 1: Seminars on public sector schemes



In 2016–17, over 16,500 members attended either a super seminar or viewed/participated in a webinar event. Members reported a high level of satisfaction with the quality of the service provided to them and a high level of satisfaction with the improvement in their knowledge about superannuation as a result of them attending their seminar or webinar.

More than nine in 10 members who evaluated a CSC seminar or webinar reported that they would recommend the seminar or webinar to another member.

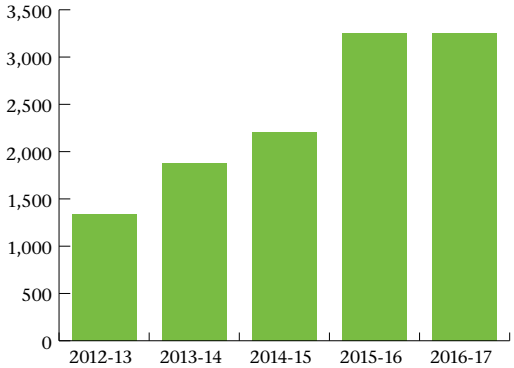
Chart 2: Seminars on military schemes



In 2016–17, over 6,000 members attended military scheme seminars run by CSC Members reported a high level of satisfaction with the quality of the service provided to them.

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

Chart 3: One-on-one information sessions for military scheme members



In 2016–17, 9 in 10 members who evaluated their one-on-one information session reported a high level of satisfaction with the service and said they would recommend CSC's one-on-one service to another member.

Scheme legislation & trust deeds

Changes are made to scheme legislation and trust deeds from time-to-time. Changes made during 2016–17 are detailed in the individual scheme sub-sections of this chapter.

CSS

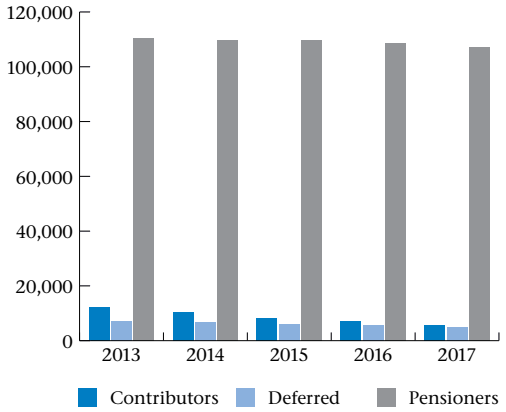
Overview of CSS

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 employer component.

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

CSS membership

Chart 4: CSS members & pensioners over five years



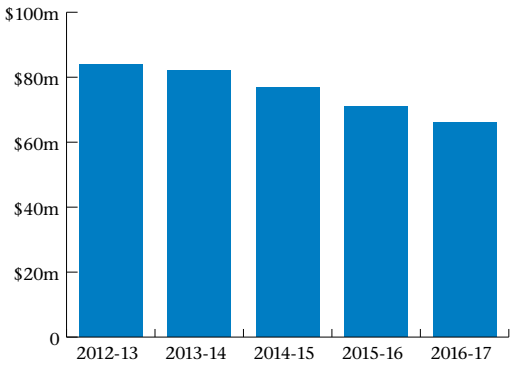
Note: figures are at 30 June of each year; 'pensioners' represent the number of pension accounts, not the exact number of pensions (eg multiple recipients such as a spouse and orphan children may be paid under one account).

CSS administration

Member contributions

Contributors can make basic and supplementary contributions, both of which are made from after-tax income. Contributors can also make voluntary payments into PSSap (refer to the PSSap part for details).

Chart 5: CSS member contributions

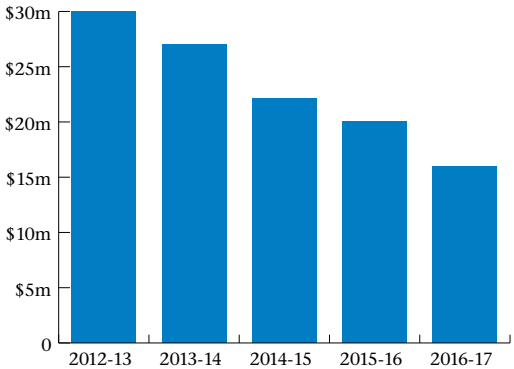


Note: this chart shows basic and supplementary contributions.

Employer contributions

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

Chart 6: CSS employer contributions



Benefit payments

Pensions and lump sums

Benefits in CSS are paid in most cases when a member exits the scheme at retirement. Generally benefits cannot be paid until minimum retirement age is reached. Pensions are generally paid to former scheme members who have exited CSS. Pension payments are paid by the Australian Government.

Chart 7: CSS pension payments over five years

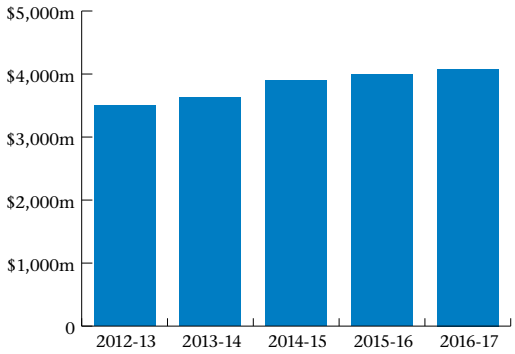
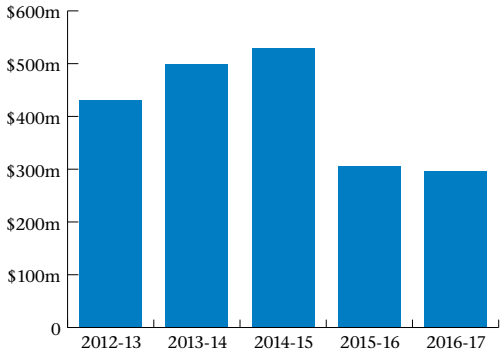


Chart 8: CSS lump sum payments over five years



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

Death and invalidity

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 (generally age 65), subject to any pre-existing medical conditions being assessed.

Table 12: Full invalidity pensions in CSS

	2015–16	2016–17
Full invalidity pensioners	21	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 benefit is paid as a partial invalidity pension, which is a form of income maintenance, when a member's salary is permanently reduced because of a medical condition.

Table 13: New partial invalidity applications in CSS

	2015–16	2016–17
New applications	1	3

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

Complaints

Table 14: Complaints received in CSS

	2015–16	2016–17
Complaints received	19	19

All 2016–17 complaints are now resolved. Most complaints related to communication between CSC and the complainant, generally focused on superannuation policy and/or legislative requirements.

Scheme legislation changes

The *Treasury Laws Amendment (Fair and Sustainable) Superannuation Act 2016* made consequential amendments to the *Superannuation Act 1976* in relation to release authorities issued by the Commissioner of Taxation. These amendments will commence on 1 July 2018.

The *Statute Update (A.C.T. Self-Government (Consequential Provisions) Regulations) Act 2017* made some minor technical amendments to the Superannuation Act 1976 to incorporate modifications made by the *A.C.T. Self-Government (Consequential Provisions) Regulations*. These amendments commenced on 22 March 2017.

PSS

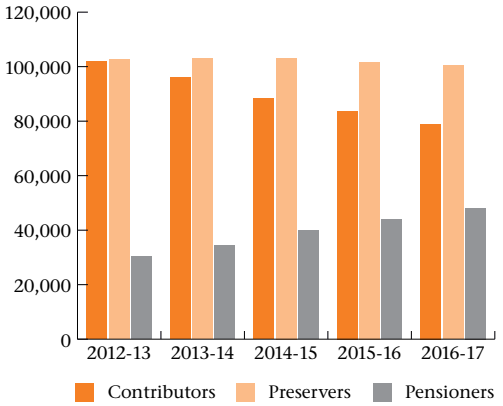
PSS is a public sector scheme established on 1 July 1990 by the PSS Act. It closed to new members on 30 June 2005. PSS is a defined benefit scheme where benefits generally derive from a member and employer component.

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

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

PSS membership

Chart 9: PSS members & pensioners over five years



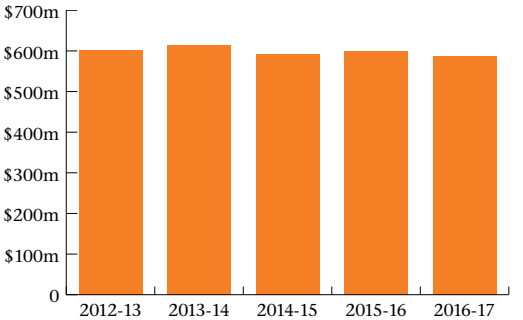
Note: figures are at 30 June of each year; 'pensioners' represent the number of pension accounts, not the exact number of pensions (eg multiple recipients such as a spouse and orphan children may be paid under one account).

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

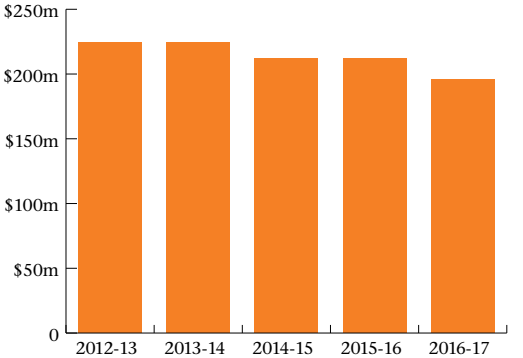
Chart 10: PSS member contributions over five years



Employer contributions

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

Chart 11: 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. Generally benefits cannot be paid until minimum retirement age is reached. Pensions are generally paid to former scheme members who have exited PSS. Pension payments are paid by the Australian Government.

Chart 12: PSS pension payments over five years

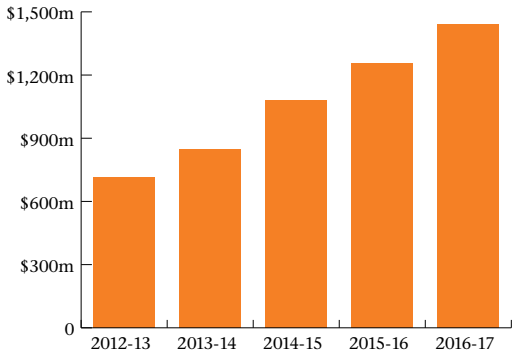
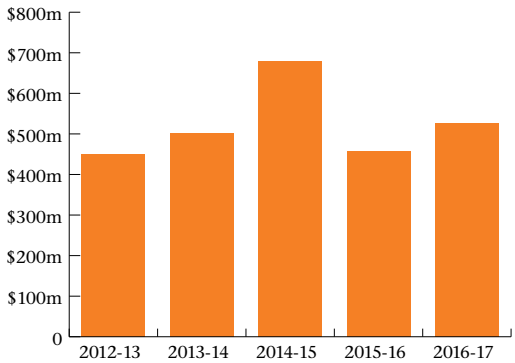


Chart 13: PSS lump sum payments over five years



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

Death and invalidity

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 15: New full invalidity pensions in PSS

	2015–16	2016–17
Full invalidity pensioners	234	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 benefit is paid as a partial invalidity pension, which is a form of income maintenance, when a member's salary is permanently reduced because of a medical condition.

Table 16: Partial invalidity applications in PSS

	2015–16	2016–17
New applications	81	74

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

Complaints

Table 17: Complaints received in PSS

	2015–16	2016–17
Complaints received	58	39

All complaints are now resolved. Most complaints related to information provided to members and how the information provided to members was communicated.

Scheme legislation & trust deed changes

No changes were made to the *Superannuation Act 1990* or the PSS Trust Deed.

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 members may choose to move to ADF Super or remain in MilitarySuper.

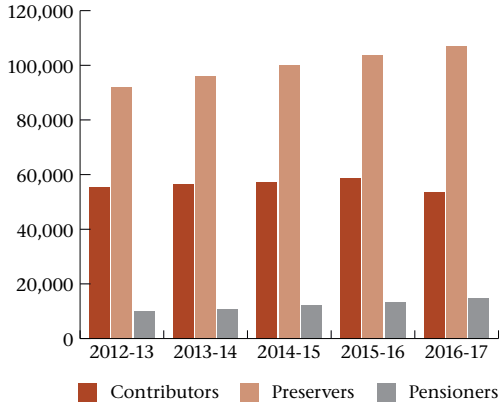
MilitarySuper is a hybrid scheme (part accumulation and defined benefit). Benefits derive from a member and employer component. The member component is the accumulation part. It consists of member contributions, any amounts notionally brought over from DFRDB, plus Fund earnings on those amounts. The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

MilitarySuper offers an Ancillary membership to eligible DFRDB members and their spouses who wish to make additional contributions and transfers.

MilitarySuper membership

Chart 14: MilitarySuper members & pensioners over five years



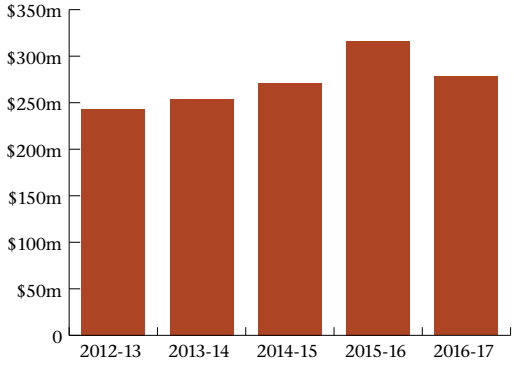
Note: figures are at 30 June of each year; Ancillary members are not included; 'pensioners' represent the number of pension accounts, not the exact number of pensions (eg multiple recipients such as a spouse and orphan children may be paid under one account).

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.

Chart 15: 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 employer portion of a member's DFRDB entitlement. Ancillary contributions are only paid as a cash lump sum at a member's preservation age, or can be rolled over to another superannuation fund.

Benefit payments

Pensions and lump sums

MilitarySuper members who exit the scheme are entitled to a preserved benefit, to roll out to another superannuation, 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.

Chart 16: MilitarySuper pension payments over five years

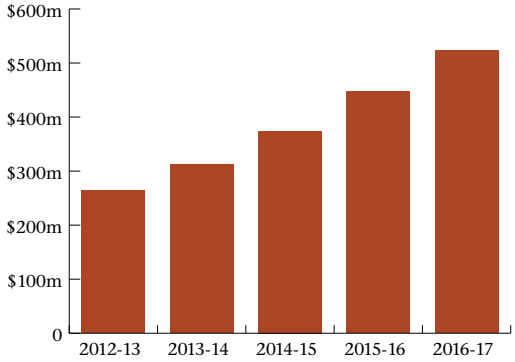
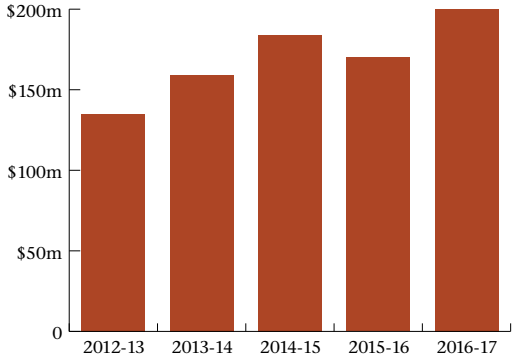


Chart 17: MilitarySuper lump sum payments over five years



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

Death and invalidity

MilitarySuper provides partial invalidity, full invalidity and death benefits.

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

Invalidity classifications

There are three levels of invalidity classifications:

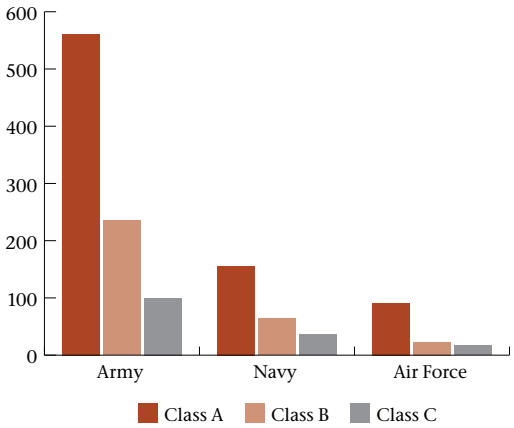
- Class A: Significant incapacity,
- Class B: Moderate incapacity,
- Class C: Low incapacity (no entitlement to an invalidity pension).

Table 18: Initial invalidity classifications in MilitarySuper

	2015–16	2016–17
Initial classifications	829	1,288
Pensions granted	749	1,130
Pensions not granted	80	158

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

Chart 18: Invalidity classifications in MilitarySuper



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

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

Complaints

Table 19: Complaints received in MilitarySuper

	2015–16	2016–17
Complaints received	32	188

All complaints are now resolved. Complaints increased significantly in 2016–17 compared to 2015–16 due to member dissatisfaction with the changes to taxation law preventing the treatment of superannuation income streams as superannuation lump sums in certain circumstances.

Scheme legislation & trust deed changes

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

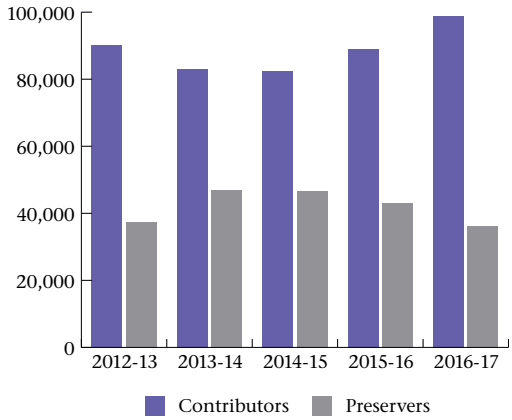
PSSap

PSSap is a public sector scheme established on 1 July 2005 by the PSSap Act. It is an accumulation plan. Members and employers pay money into the Fund, with investment returns calculated as a compound average rate of return after fees and taxes have been deducted. PSSap is open to eligible employees of participating employers under choice of fund legislation. Employers contribute 15.4% per annum on behalf of their employees. In June 2017, legislation passed that will allow certain members to continue to contribute to PSSap after leaving public sector employment.

PSSap also offers an Ancillary membership to eligible CSS and PSS members to make additional super 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

Chart 19: PSSap members over five years



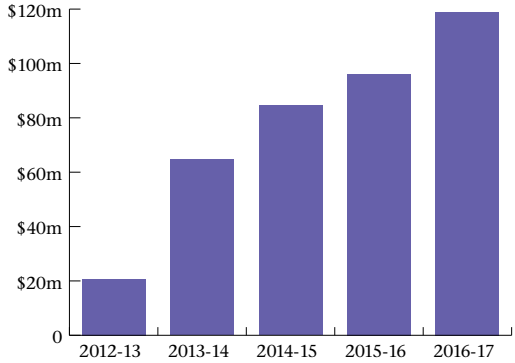
Note: figures are at 30 June of each year; Ancillary members are not included.

PSSap administration

Member contributions

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

Chart 20: PSSap member contributions over five years



Ancillary contributions

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

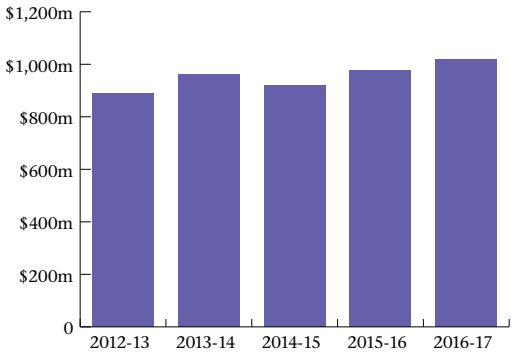
Ancillary memberships have been available since 1 July 2013.

In 2016–17, almost $130 million in Ancillary contributions (in the form of salary sacrifice, personal (after tax) contributions spouse contributions, and super transfers) were made (compared to $87 million in 2015–16).

Employer contributions

PSSap contributors receive 15.4% employer contributions.

Chart 21: PSSap employer contributions



Benefit payments

The two most common reasons why superannuation benefits are paid out of the PSSap Fund are for the purpose of retirement and to consolidate funds into another super fund.

Table 20: PSSap withdrawals

	2015–16	2016–17
Total withdrawals ($)	425.331m	448.275m

CSCri

CSCri is an account-based pension product offered to public sector scheme members. Lump sum amounts can be rolled into CSCri for the purpose of receiving regular income payments from superannuation in retirement or in the transition to retirement.

Table 21: CSCri roll ins

	2015–16	2016–17
Total roll ins ($)	103.954m	107.050m

Table 22: CSCri pension payments and lump sum withdrawals

	2015–16	2016–17
Payments and withdrawals ($)	24.763m	79.964m

Insurance benefits

Eligible PSSap members receive an automatic level of death, total and permanent disability (TPD) and income protection cover, and can apply to vary, increase, decrease or opt out of their cover. These insurance arrangements are detailed below.

From 1 October 2016, new insurance arrangements (called life*PLUS* cover) will be introduced, making the insurance cover offered through PSSap available to eligible PSSap preserved and Ancillary members for the first time. life*PLUS* cover has two offerings: life*PLUS* auto cover and life*PLUS* choice cover.

All insurance cover for PSSap members (including life*PLUS* cover) that is detailed in this report is provided by the Insurer, AIA Australia Limited ABN 79 004 837 861, AFSL 230043).

Death and TPD

This cover provides a lump sum payment on death or TPD. The level of cover changes automatically based on a member's age, unless the member has fixed cover in place and therefore the same level of cover remains in place until the cover ceases or until the member opts out of their level of cover.

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

Table 23: TPD claims in PSSap

	2015–16	2016–17
TPD claims assessed	153	143

Income protection cover

Cover provides an income stream, paid monthly in arrears. This income streams covers (by default) 90.4% of an eligible member's base salary. Seventy five percent of this amount is paid to the member directly and 15.4% is paid into the member's PSSap account for up to two years, with 65.4% of a member's base annual salary paid for a further three years.

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

Table 24: Income protection claims in PSSap

	2015–16	2016–17
IP claims assessed	247	253

Complaints

Table 25: Complaints received in PSSap

	2015–16	2016–17
Complaints received	123	243

All complaints are now resolved. Complaints increased in 2016–17 compared to 2015–16 due service delivery issues experienced by some members when Mercer, the administrator of PSSap, CSCri and ADF Super, implemented a new administration platform in 2016. Most issues are now fixed.

Scheme legislation & trust deed changes

The *Superannuation Amendment (PSSAP Membership) Act 2017* made amendments to the Superannuation Act 2005 to enable certain members of PSSap who move to non-Commonwealth employment to choose to remain contributory members of the scheme. The amendments will commence on a day fixed by Proclamation. If Proclamation does not occur within 6 months of Royal Assent, the amendments will commence on the day after the end of that period. Royal Assent occurred on 23 June 2017.

The *Superannuation (PSSAP Trust Deed) (Superannuation Reforms and Other Matters) Amendment Instrument 2017* made amendments to the PSSAP Trust Deed and Rules. The main purpose of the amendments was to make consequential changes because of the Government's 2016–17 Superannuation Reform Package. Most of the amendments commenced on 1 July 2017.

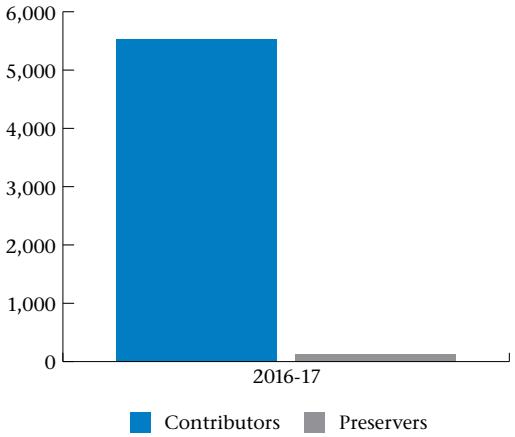
The *Superannuation (PSSAP Trust Deed) (Insurance and Other Matters) Amendment Instrument 2016* made amendments to the PSSAP Rules. The main purpose of the amendments was to further align the arrangements and products in PSSap with those available in defined contribution superannuation funds more broadly. Most of the amendments commenced on the day after the instrument was registered on the Federal Register of Legislation.

ADF Super

ADF Super is a military super scheme established on 1 July 2016 by the ADF Super Act. It is an accumulation scheme. Members and employers pay money into the Fund, with investment returns calculated as a compound average rate of return after fees and taxes have been deducted. ADF Super is open new ADF entrants and other eligible ADF members under choice of fund legislation.

ADF Super membership

Chart 22: ADF Super members at 30 June 2017



ADF Super administration

Member contributions

ADF Super contributors can make before and after-tax voluntary contributions. Contributions for the 2016–17 financial year were almost $900,000.

Employer contributions

The Department of Defence contributes 16.4% per annum on behalf of ADF Super members. Employer contributions for the 2016–17 financial year were almost $23 million.

Benefit payments

The most common reason why superannuation benefits are paid out of the ADF Super Fund is to consolidate funds into another super fund. ADF Super withdrawals in 2016–17 totalled almost $370,000.

Insurance benefits

There is no insurance in ADF Super. However, ADF Super members are eligible for death and invalidity cover through ADF Cover in the event of injury or death.

ADF Cover

Eligible members receive automatic invalidity benefits if discharged from the ADF due to invalidity. Invalidity benefits are paid as a pension. Eligible members also receive an automatic death benefit for their family in the event of their death.

Complaints

Two complaints were received during 2016–17. Both complaints are now resolved.

Scheme legislation and trust deed changes

No changes were made to the *Australian Defence Force Superannuation Act 2015*, the *Australian Defence Force Cover Act 2015* or the Australian Defence Force Superannuation Trust Deed 2015.

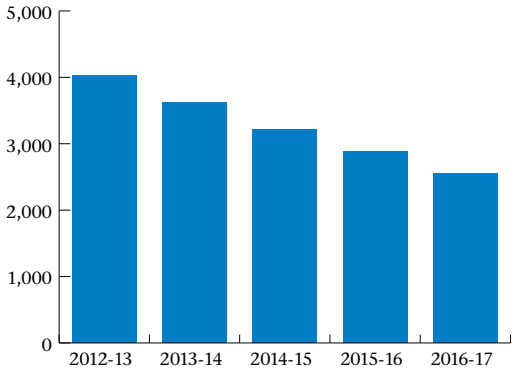
1922 scheme

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

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

1922 scheme membership

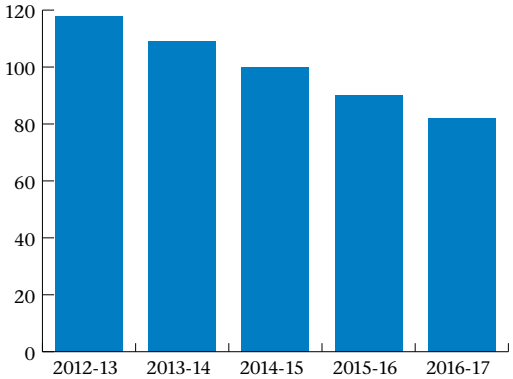
Chart 23: 1922 scheme pensioners over five years



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

1922 scheme benefit payments

Chart 24: 1922 scheme pension payments over five years



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

Scheme legislation & trust deed changes

The *Statute Update Act 2016* made amendments to the *Superannuation Act 1922* to update some provisions because of changes to drafting precedents and practice. The amendments commenced on 21 October 2016.

DFRB, DFRDB and DFSPB

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

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.

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

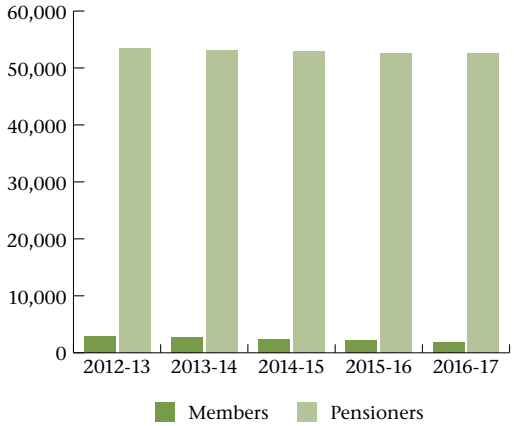
DFRB

Chart 25: 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 (eg multiple recipients such as a spouse and orphan children may be paid under one account).

DFRDB

Chart 26: DFRDB members & pensioners over five years



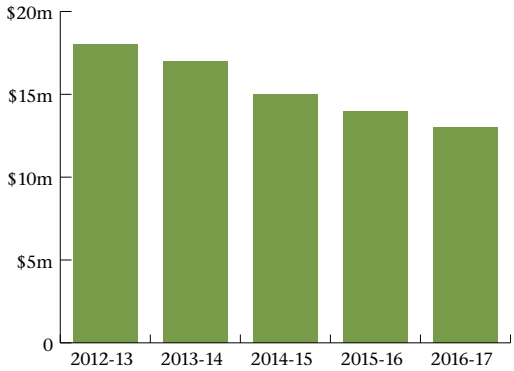
Note: figures are at 30 June of each year; 'pensioners' represent the number of pension accounts, not the exact number of pensions (eg multiple recipients such as a spouse and orphan children may be paid under one account); pensioners who re-enter for less than 12 months do not contribute to DFRDB, continue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

Chart 27: DFRDB member contributions over five years



DFRDB benefit payments

Lump sum payments

ADF 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.

Chart 28: DFRDB lump sum payments over five years

Invalidity benefits

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

There are three levels of invalidity classifications:

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

Table 26: Initial invalidity classifications in DFRDB

	2015–16	2016–17
Initial classifications	43	56
Pensions granted	42	56
Pensions not granted	1	0

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

Chart 29: New invalidity classifications by service in DFRDB

Note: this table shows the number of new invalidity retirement certificates issued in 2015–16 (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 27: Complaints received in DFRDB

	2015–16	2016–17
Complaints received	15	21

All complaints are now resolved. Complaints increased in 2016–17 compared to 2015–16 due to member dissatisfaction with the changes to taxation law preventing the treatment of superannuation income streams as superannuation lump sums in certain circumstances.

Scheme legislation & trust deed changes

The DFRB Act

The *Statute Update Act 2016* made changes to the *Defence Force Retirement and Death Benefits Act 1973* and the *Defence Forces Retirement Benefits Act 1948* to update references to penalties expressed as a number of dollars with penalties expressed as a number of penalty units.

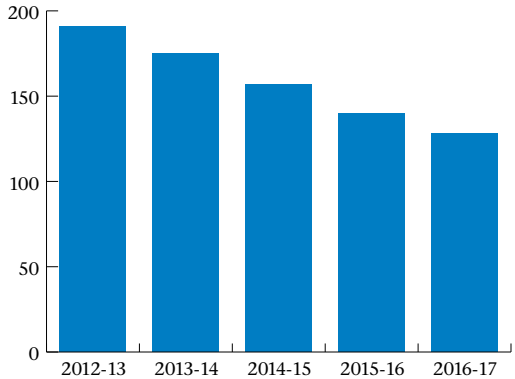
There was no changes made to the *Superannuation (Productivity) Benefits Act 1988.*

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

Chart 30: PNG pensioners over five years

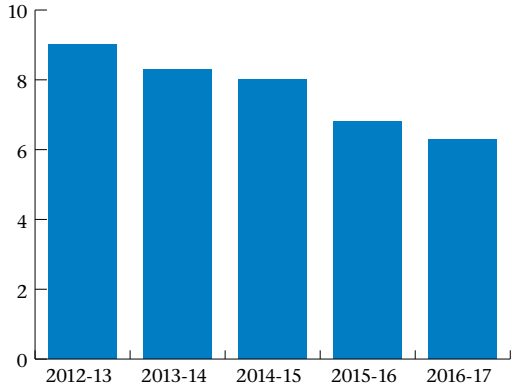


Note: figures are at 30 June of each year; 'pensioners' represent the number of pension accounts, not the exact number of pensions (eg multiple recipients such as a spouse and orphan children may be paid under one account).

PNG Administration

Benefit payments

Chart 31: PNG pension payments over five years



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

Scheme legislation & trust deed changes

The *Statute Update Act 2016* made amendments to the Papua New Guinea (Staffing Assistance) Act 1973 to update some provisions because of changes to drafting precedents and practice. The amendments commenced on 21 October 2016.

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

7

CSS FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Members of Commonwealth Superannuation Scheme

Opinion

In my opinion, the financial statements of the Commonwealth Superannuation Scheme for the year ended 30 June 2017 present fairly, in all material respects, the financial position of Commonwealth Superannuation Scheme as at 30 June 2017 and its financial performance, changes in equity, changes in member benefits and cash flows for the year then ended in accordance with Australian Accounting Standards and the form agreed with the Minister of Finance.

The financial statements of the Commonwealth Superannuation Scheme, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended :

- Declaration by the Trustee;
- 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.

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* 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.

Trustee's Responsibility 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 of Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as 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 matters related to going concern as applicable and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or has 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:

- identify and assess 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;
- obtain 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- conclude 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
- evaluate 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

26 September 2017

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 2017 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 26th day of September 2017 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

Garry Hounsell
Director

Commonwealth Superannuation Scheme
Statement of Financial Position
As at 30 June 2017

	Note	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents		**43 870**	43 110
Employer sponsor receivable		**62 213 695**	61 906 536
Other receivables	4	**461**	316
Investments in pooled superannuation trust	5	**2 981 552**	3 299 587
Total assets		**65 239 578**	65 249 549
Liabilities			
Benefits payable		**(9 712)**	(8 587)
Amounts due to the Public Sector Superannuation Scheme	6	**-**	(861)
Income tax payable		**(2 422)**	(2 981)
Deferred tax liabilities	9c	**(9)**	(11)
Total liabilities excluding member benefits		**(12 143)**	(12 440)
Net assets available for member benefits		**65 227 435**	65 237 109
Defined benefit member liabilities	10	**(65 216 133)**	(65 225 473)
Net assets		**11 302**	11 636
Equity			
Operational risk reserve		**(11 302)**	(11 636)
Total equity		**(11 302)**	(11 636)

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Income Statement
For the Financial Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Investment revenue			
Interest		**684**	890
Changes in fair value of investments	7c	**260 019**	69 811
Total revenue		**260 703**	70 701
Total expenses		**-**	-
Operating results		**260 703**	70 701
Net change in member benefits from investing activities		**(260 413)**	(70 406)
Operating result before income tax expense		**290**	295
Income tax expense	9a	**(103)**	(133)
Operating result after income tax		**187**	162

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 2017

	Note	2017 $'000	2016 $'000
Opening balance of member benefits at the beginning of the financial year		**65 225 473**	66 092 373
Contributions:			
Member contributions	8a	**66 114**	71 403
Employer contributions	8a	**16 022**	19 682
Government co-contributions	8a	**29**	53
Low income superannuation contributions	8a	**4**	6
Income tax on contributions	9b	**(2 408)**	(2 954)
Net after tax contributions		**79 761**	88 190
Net appropriation from Consolidated Revenue Fund	8b	**3 720 097**	3 699 888
Benefits to members	8b	**(4 377 291)**	(4 295 986)
Transfers to the Public Sector Superannuation Scheme	6	**-**	(861)
Net change in member benefits from investing activities		**260 413**	70 406
Net change in member benefits to be funded by employers		**307 680**	(428 537)
Closing balance of member benefits at the end of the financial year		**65 216 133**	65 225 473

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Statement of Changes in Equity
For the Financial Year Ended 30 June 2017

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2015	7 234	7 234
Operating result	162	162
Net transfers to / (from) reserves	4 240	4 240
Closing balance as at 30 June 2016	11 636	11 636
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**

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Statement of Cash Flows
For the Financial Year Ended 30 June 2017

		2017	2016
		$'000	$'000
Cash flows from operating activities			
Interest received		**695**	883
Superannuation surcharge paid		**(97)**	(7)
Income tax paid		**(664)**	(533)
Net cash inflows / (outflows) from operating activities	11b	**(66)**	343
Cash flows from investing activities			
Purchase of investments		**-**	-
Proceeds from sale of investments		**578 072**	533 489
Net cash inflows from investing activities		**578 072**	533 489
Cash flows from financing activities			
Contributions received			
Employer contributions		**16 022**	19 682
Member contributions		**66 114**	71 403
Government co-contributions		**29**	53
Low income superannuation contributions		**4**	6
Income tax paid on contributions		**(2 408)**	(2 954)
Benefits paid		**(4 376 166)**	(4 304 258)
Transfers to the Public Sector Superannuation Scheme		**(861)**	(216)
Net appropriation from Consolidated Revenue Fund		**3 720 020**	3 700 000
Net cash (outflows) from financing activities		**(577 246)**	(516 284)
Net increase in cash held		**760**	17 548
Cash at the beginning of the financial year		**43 110**	25 562
Cash at the end of the financial year	11a	**43 870**	43 110

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 8(c)).

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

2. BASIS OF PREPARATION

(a) Statement of Compliance

The financial report of the Scheme is a general purpose financial report which has been prepared in accordance with 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 26 September 2017.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(a) Statement of Compliance (continued)

Adoption of AASB 1056

The Trustee has adopted AASB 1056 *Superannuation Entities* (AASB 1056), which is applicable for annual reporting periods after 1 July 2016. The key impacts on the financial statements of the Scheme include:

- Preparation of five primary financial statements, being:
  - Statement of Financial Position;
  - Income Statement;
  - Statement of Changes in Equity;
  - Statement of Cash Flows; and
  - Statement of Changes in Member Benefits.
- The recognition of member benefits as a liability on the face of the Statement of Financial Position and the Statement of Changes on Member Benefits (30 June 2016: was $Nil, restated $65,225,473; 1 July 2015: was $Nil, restated $66,092,373).
- The recognition of an 'employer sponsor receivable' in the Statement of Financial Position to recognise the Commonwealth Government's legislated obligation under the *Superannuation Act 1976* (as amended) to meet the shortfall between the liability for accrued benefits and the fair value of the net assets available to meet that liability (30 June 2016: was $Nil, restated $61,906,536).
- Additional disclosures regarding the key assumptions used in measuring defined benefit member liabilities (Note 10).

AASB 1056 requires the measurement approach of 'fair value through profit or loss' for all assets and liabilities, except for specific exemptions including member benefits, tax assets and liabilities and employer sponsor receivable. The investments of the Scheme are measured at redemption price at the close of business on the last business day of the reporting period and therefore this change in measurement approach from "net market value" to " fair value" has had no impact on the valuation of the Scheme's investments. In accordance with the transitional provisions of AASB 1056, the Scheme has applied the new accounting Standard retrospectively from the start of the comparative period.

The adoption of AASB 1056 had the following overall impact on the Statement of Financial Position as at 30 June 2016:

Description	**As previously reported as at 30 June 2016** $'000	**Transition adjustment** $'000	**Restated total as at 30 June 2016** $'000
Total assets	3 343 013	61 906 536	65 249 549
Total liabilities	12 440	65 225 473	65 237 913
Net assets	3 330 573	(3 318 937)	11 636

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(a) Statement of Compliance (continued)

Standards adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also 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 1057 'Application of Australian Accounting Standards', **AASB 2015-9** 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'	beginning on or after 1 January 2016
AASB 2014-10 'Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	beginning on or after 1 January 2016
AASB 2015-1 'Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	beginning on or after 1 January 2016
AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101'	beginning on or after 1 January 2016
AASB 2015-5 'Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exemption'	beginning on or after 1 January 2016

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 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 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018
AASB 2016-7 'Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities'	1 January 2017	30 June 2019
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities'	1 January 2019	30 June 2020

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(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 2017

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 2017 and the comparative information presented in these financial statements for the year ended 30 June 2016.

(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 due to the application of different accounting standards which may result in different valuation assumptions from those set out in Note 10.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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.

Amounts due to the Public Sector Superannuation Scheme (PSS)
Amounts due to the PSS are recognised in the year the election to transfer is received, valued at the amount of contributions plus earnings accrued (Note 6).

(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 10).

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, 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 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 Statement of Financial Position except to the extent that it relates to items recognised directly in members' funds. 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).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 2017

4. OTHER RECEIVABLES

	2017	2016
	$'000	$'000
Receivable from the ARIA Investments Trust	**-**	18
Interest receivable	**61**	72
Surcharge tax	**220**	123
Amount to be appropriated from Consolidated Revenue Fund	**180**	103
Total	**461**	316

There are no receivables that are past due or impaired (2016: nil).

5. INVESTMENTS

	2017	2016
	$'000	$'000
Pooled Superannuation Trust - ARIA Investments Trust	**2 981 552**	3 299 587
	2 981 552	3 299 587

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

Certain former contributors to the Commonwealth Superannuation Scheme (CSS) who rejoin as members of the CSS are entitled to elect to transfer to the Public Sector Superannuation Scheme ('PSS'). There were no elections to transfer made during the year ended 30 June 2017 (2016: 5 elections).

The value of contributions transferrable for members who elected to transfer from CSS to PSS is $Nil at 30 June 2017 (2016: $861,061). Any transfer is payable to PSS.

7. CHANGES IN FAIR VALUE OF INVESTMENTS

	2017	2016
	$'000	$'000
(a) Investments held at 30 June:		
Pooled Superannuation Trust - ARIA Investments Trust	**232 698**	65 429
	232 698	65 429
(b) Investments realised during the year:		
Pooled Superannuation Trust - ARIA Investments Trust	**27 321**	4 382
	27 321	4 382
(c) Total changes in fair value of investments	**260 019**	69 811

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

8. 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 2017 and 30 June 2016, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

Low Income Superannuation Contributions
The low income super contribution (LISC) is a Commonwealth Government superannuation payment of up to $500 for the financial years 2012-13 to 2016-17. LISC 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 2017, $0.180 million (2016: $0.103 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 2017

8. 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:

	2017	2016
	$'000	$'000
Gross appropriation from Consolidated Revenue Fund	**4 375 522**	4 295 420
less: Transfers from CSS Fund to Consolidated Revenue Fund	**(655 425)**	(595 532)
Net appropriation from Consolidated Revenue Fund	**3 720 097**	3 699 888
Consolidated Revenue Fund		
Lump-sum benefits	**293 927**	305 436
Pensions	**4 081 595**	3 989 984
	4 375 522	4 295 420
CSS Fund		
Lump-sum benefits	**1 769**	566
Total benefits paid and payable	**4 377 291**	4 295 986

(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 2017

8. 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:

	2017	2016
	$'000	$'000
Investment		
Investment manager fees	**5 850**	3 505
Custodian fees	**476**	502
Investment consultant and other service provider fees	**439**	423
Other investment expenses	**242**	261
Total direct investment expenses	**7 007**	4 691
Regulatory fees	**404**	491
Other operating expenses	**2 676**	2 308
Total costs	**10 087**	7 490

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. 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.

Sponsoring employers contributed the following to Scheme administration costs:

	2017	2016
	$'000	$'000
Trustee costs	**14 232**	14 786
Total	**14 232**	14 786

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

9. INCOME TAX

	2017 $'000	2016 $'000
(a) Income tax recognised in the Income Statement		
Income tax expense comprises:		
Current tax expense	**105**	132
Deferred tax expense relating to the origination and reversal of temporary differences	**(2)**	1
Total income tax expense	**103**	133

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	**290**	295
Income tax expense / (benefit) calculated at 15%	**44**	44
Net change in member benefits from investing activities	**39 062**	10 561
Investment revenue already taxed	**(39 003)**	(10 472)
Total income tax expense	**103**	133

(b) Income tax on contributions recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	**66 114**	71 404
Employer contributions	**16 022**	19 682
Government co-contributions	**29**	53
Low income superannuation contributions	**4**	6
Transfers to the Public Sector Superannuation Scheme	**-**	(861)
Total contributions received	**82 169**	90 284
Contributions tax calculated at 15%	**12 325**	13 543
Member contributions not subject to tax	**(9 916)**	(10 711)
Government co-contributions not subject to tax	**(4)**	(8)
Low income super contributions not subject to tax	**(1)**	(1)
Transfers to the Public Sector Superannuation Scheme not subject to tax	**-**	129
Rollovers in subject to tax	**4**	2
Total income tax on contributions	**2 408**	2 954

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

9. INCOME TAX (continued)

	2017	2016
	$'000	$'000
(c) Recognised deferred tax assets and liabilities		
Deferred tax liabilities comprise:		
Temporary differences	**9**	11
	9	11

Taxable and deductible temporary differences arise from the following:

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**

2016	Opening balance	Charged to income	Closing balance
	$'000	$'000	$'000
Gross deferred tax liabilities:			
Interest receivable	10	1	11
	10	1	11
Net deferred tax liabilities	10	1	11

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

10. DEFINED BENEFIT MEMBER LIABILITIES

The Scheme engages qualified actuaries on an annual basis to measure defined benefit liabilities. The Scheme has no information that would lead it to adjust the assumptions in respect to discount rate, salary adjustment rate, resignations and mortality, which are all unchanged from the previous reporting period.

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, 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 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.
- The assumed annual salary adjustment has been determined by historical observations over a long term period and in consultation with the employer sponsor.
- The assumed inflation rate has been determined based on the mid-point of the Reserve Bank of Australia (RBA) inflation target.

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.

The following are sensitivity calculations on a univariate basis for the mortality rates, the discount rate, 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 benefit liability as at 30 June 2017 ($'000)
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%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

10. 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 2017 is $66.1 billion (2016: $66.2 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2017 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.

11. 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:

	2017	2016
	$'000	$'000
Cash at bank	**43 870**	43 110

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

Operating result after income tax	**187**	162
Net change in member benefits from investing activities	**260 413**	70 406
Changes in fair value of investments	**(260 019)**	(69 811)
(Increase)/decrease in interest receivable	**11**	(7)
(Increase)/decrease in surcharge tax receivable	**(97)**	(7)
Increase/(decrease) in income tax payable	**(559)**	(401)
Increase/(decrease) in deferred tax liabilities	**(2)**	1
Net cash inflows / (outflows) from operating activities	**(66)**	343

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

12. AUDITOR'S REMUNERATION

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

	2017	2016
	$	$
Financial statements	68 825	63 325
Regulatory returns and compliance	35 175	35 175
Total	104 000	98 500

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

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

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu 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 Commonwealth Superannuation Corporation as Trustee. This type of investment has been determined by the Trustee to be appropriate for the Scheme and is in accordance with the Scheme's published investment strategy. The Trustee applies strategies to manage the risk relating to the investment activities of AIT. The investments of AIT are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets in accordance with contractual investment mandates.

(b) Significant accounting policies

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 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 2017

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 2017 or 30 June 2016.

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:

	2017	2016
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	2 981 552	3 299 587
Other financial assets		
Cash and cash equivalents	43 870	43 110
Receivables	461	316
Total	3 025 883	3 343 013

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 2017

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 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 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**
30 June 2016					
Amounts due to other superannuation schemes	861	-	-	-	861
Benefits payable	8 587	-	-	-	8 587
Defined benefit member liabilities	1 055 141	3 165 422	15 339 036	45 665 874	65 225 473
Total financial liabilities	1 064 589	3 165 422	15 339 036	45 665 874	65 234 921

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 2017

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 Scheme's exposure to market risk or the manner in which it manages and measures that risk since the 2016 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 2017 and 30 June 2016 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 2017

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Interest rate risk (continued)

The following table illustrates the Scheme's sensitivity to a 0.3% p.a. (2016: 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 0.3% (2016: 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
2017		**-0.3%**		**+0.3%**	
Cash and cash	**43 870**	**(132)**	**(132)**	**132**	**132**
2016		-0.3%		+0.3%	
Cash and cash	43 110	(129)	(129)	129	129

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 2017

13. 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 4.2% (2016: 5.0%) 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 0.3% (2016: 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	
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
2016						
Financial Assets						
ARIA Investments Trust:						
Default option	-/+5.0%	2 967 973	(148 399)	(148 399)	148 399	148 399
Cash option	-/+0.3%	319 996	(960)	(960)	960	960
Operational risk reserve	-/+0.3%	11 618	(34)	(34)	34	34
Total increase / (decrease)		3 299 587	(149 393)	(149 393)	149 393	149 393

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 2017

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
2017 **Financial Assets** Pooled superannuation trust	**-**	**2 981 552**	**-**	**2 981 552**
2016 **Financial Assets** Pooled superannuation trust	-	3 299 587	-	3 299 587

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 2017

14. 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 2017 were:

Ariane Barker (appointed 13 September 2016)	Winsome Hall
Tony Cole (term ended 30 June 2017)	Garry Hounsell (appointed 1 July 2016)
Patricia Cross (Chair)	Sunil Kemppi (appointed 1 July 2016)
Christopher Ellison	Anthony Needham (appointed 1 July 2016)
Nadine Flood	Peggy O'Neal
Lyn Gearing (term ended 12 September 2016)	Margaret Staib

The following Director was appointed subsequent to year-end:

Michael Vertigan (appointed 1 July 2017)

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 2017:

Paul Abraham	General Manager, Investment Operations
Peter Carrigy-Ryan	Chief Executive Officer
Philip George	General Manager, Scheme Administration
Richard Hill	General Manager, Technology
Bronwyn McNaughton	General Manager, Corporate
Christine Pearce	General Manager, Member & Employer Services
Sarah Rodgers	General Manager, People & Culture (resigned 3 August 2016)
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance

Peter Carrigy-Ryan and Tony Cole are members of the Scheme. The terms and conditions of their membership 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 2017

14. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

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

	2017	2016
	$	$
Short-term employee benefits	**157 685**	198 762
Post-employment benefits	**16 168**	21 851
Other long-term benefits	**12 176**	15 755
Termination benefits	**8 585**	-
	194 614	236 368

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 2017, 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 2017 (2016: $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**
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**2 981 552**	3 299 587	**260 019**	69 811
	2 981 552	3 299 587	**260 019**	69 811

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital or other expenditure commitments at 30 June 2017 (2016: $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 2017 (2016: $nil).

16. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2017 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

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PSS FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

In my opinion, the financial statements of the Public Sector Superannuation Scheme for the year ended 30 June 2017 present fairly, in all material respects, the financial position of Public Sector Superannuation Scheme as at 30 June 2017 and its financial performance, changes in equity, changes in member benefits and cash flows for the year then ended in accordance with Australian Accounting Standards and the form agreed with the Minister of Finance.

The financial statements of the Public Sector Superannuation Scheme, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended :

- Declaration by the Trustee;
- 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.

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

Trustee's Responsibility 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 of Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as 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 matters related to going concern as applicable and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or has 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:

- identify and assess 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;
- obtain 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- conclude 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
- evaluate 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

26 September 2017

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 2017 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 26th day of September 2017 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

Garry Hounsell
Director

Public Sector Superannuation Scheme
Statement of Financial Position
As at 30 June 2017

	Note	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents		**43 484**	59 465
Employer sponsor receivable		**56 551 860**	53 511 571
Other receivables	4	**3 506**	2 989
Deferred tax assets	9c	**152**	153
Investments in pooled superannuation trust	5	**19 135 854**	17 891 656
Total assets		**75 734 856**	71 465 834
Liabilities			
Benefits payable		**(13 587)**	(11 562)
Income tax payable		**(29 488)**	(31 822)
Other payables		**(1 168)**	(1 226)
Total liabilities excluding member benefits		**(44 243)**	(44 610)
Net assets available for member benefits		**75 690 613**	71 421 224
Member liabilities	10	**(75 626 469)**	(71 358 099)
Net assets		**64 144**	63 125
Equity			
Operational risk reserve		**(64 144)**	(63 125)
Total equity		**(64 144)**	(63 125)

The attached notes form part of these financial statements.

Public Sector Superannuation Scheme
Income Statement
For the Financial Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Investment revenue			
Interest		**911**	851
Changes in fair value of investments		**1 660 922**	347 672
Total revenue		**1 661 833**	348 523
Total expenses		**-**	-
Operating results		**1 661 833**	348 523
Net change in member benefits from investing activities		**(1 660 677)**	(347 640)
Operating result before income tax expense		**1 156**	883
Income tax expense	9a	**(137)**	(128)
Operating result after income tax		**1 019**	755

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	8a	**183 056**	**402 660**	**585 716**
Employer contributions		**60 974**	**134 711**	**195 685**
Government co-contributions	8a	**-**	**1 398**	**1 398**
Low income superannuation contributions	8a	**-**	**371**	**371**
Transfers from the Commonwealth Superannuation Scheme	6	**-**	**-**	**-**
Income tax on contributions	9b	**(9 174)**	**(20 269)**	**(29 443)**
Net after tax contributions		**234 856**	**518 871**	**753 727**
Net appropriation from Consolidated Revenue Fund	8b	**318 807**	**459 434**	**778 241**
Benefits to members	8b	**(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 Member Benefits
For the Financial Year Ended 30 June 2016

	Note	Defined benefit members	Hybrid benefit members	Total
		$'000	$'000	$'000
Opening balance of member benefits at the beginning of the financial year		36 679 091	30 798 796	67 477 887
Contributions:				
Member contributions	8a	196 919	402 748	599 667
Employer contributions		69 281	142 637	211 918
Government co-contributions	8a	-	1 456	1 456
Low income superannuation contributions	8a	-	353	353
Transfers from the Commonwealth Superannuation Scheme	6	-	861	861
Income tax on contributions	9b	(10 413)	(21 437)	(31 850)
Net after tax contributions		255 787	526 618	782 405
Net appropriation from Consolidated Revenue Fund	8b	299 839	346 331	646 170
Benefits to members	8b	(795 683)	(919 060)	(1 714 743)
Insurance premiums paid to insurer		(1 244)	(1 437)	(2 681)
Insurance premiums charged to members		1 244	1 437	2 681
Insurance claim payments received from insurer		1 090	1 260	2 350
Net change in member benefits from investing activities		130 190	217 450	347 640
Net change in member benefits to be funded by employers		2 808 746	1 007 644	3 816 390
Closing balance of member benefits at the end of the financial year		39 379 060	31 979 039	71 358 099

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 2017

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2015	30 648	30 648
Operating result	755	755
Net transfers to / (from) reserves	31 722	31 722
Closing balance as at 30 June 2016	63 125	63 125
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**

The attached notes form part of these financial statements.

Public Sector Superannuation Scheme
Statement of Cash Flows
For the Financial Year Ended 30 June 2017

	Note	2017	2016
		$'000	$'000
Cash flows from operating activities			
Interest received		**923**	869
Superannuation surcharge paid		**(37)**	(58)
Income tax paid		**(2 470)**	(299)
Net cash inflows / (outflows) from operating activities	11b	**(1 584)**	512
Cash flows from investing activities			
Purchase of investments		**(89 998)**	(60 000)
Proceeds from sale of investments		**506 914**	372 148
Net cash inflows from investing activities		**416 916**	312 148
Cash flows from financing activities			
Contributions received			
Employer contributions		**195 685**	211 918
Member contributions		**585 716**	599 667
Government co-contributions		**1 398**	1 456
Low income superannuation contributions		**371**	353
Income tax paid on contributions		**(29 443)**	(31 850)
Benefits paid		**(1 964 529)**	(1 723 251)
Transfers from the Public Sector Superannuation Scheme		**861**	216
Net appropriation from Consolidated Revenue Fund		**776 661**	649 099
Insurance premiums received from members		**3 202**	2 681
Insurance claim payments received from insurer		**1 989**	2 350
Insurance premium paid		**(3 224)**	(2 493)
Net cash (outflows) from financing activities		**(431 313)**	(289 854)
Net increase / (decrease) in cash held		**(15 981)**	22 806
Cash at the beginning of the financial year		**59 465**	36 659
Cash at the end of the financial year	11a	**43 484**	59 465

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 8(c)).

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of the Scheme is a general purpose financial report which has been prepared in accordance with 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 26 September 2017.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(a) Statement of Compliance (continued)

Adoption of AASB 1056

The Trustee has adopted AASB 1056 *Superannuation Entities* (AASB 1056), which is applicable for annual reporting periods after 1 July 2016. AASB 1056 replaced AAS 25 *Financial Reporting by Superannuation Plans*. The key impacts on the financial statements of the Scheme include:

- Preparation of five primary financial statements, being:
  - Statement of Financial Position;
  - Income Statement;
  - Statement of Changes in Equity;
  - Statement of Cash Flows; and
  - Statement of Changes in Member Benefits (disaggregated by member category).
- The recognition of member benefits as a liability on the face of the Statement of Financial Position and the Statement of Changes on Member Benefits (30 June 2016: was $Nil, restated $71,358,099; 1 July 2015: was $Nil, restated $67,477,887).
- The recognition of an 'employer sponsor receivable' in the Statement of Financial Position to recognise the Commonwealth Government's legislated obligation under the *Superannuation Act 1990* (as amended) to meet the shortfall between the liability for accrued benefits and the fair value of the net assets available to meet that liability (30 June 2016: was $Nil, restated $53,511,571).
- Additional disclosures regarding the key assumptions used in measuring defined benefit member liabilities (Note 10).

AASB 1056 requires the measurement approach of 'fair value through profit or loss' for all assets and liabilities, except for specific exemptions including member benefits, tax assets and liabilities and employer sponsor receivables. The investments of the Scheme are measured at redemption price at the close of business on the last business day of the reporting period and therefore this change in measurement approach from "net market value" to " fair value" has had no impact on the valuation of the Scheme's investments. In accordance with the transitional provisions of AASB 1056, the Scheme has applied the new accounting Standard retropectively from the start of the comparative period.

The adoption of AASB 1056 had the following impact on the Statement of Financial Position as at 30 June 2016:

Description	**As previously reported as at 30 June 2016**	**Transition adjustment**	**Restated total as at 30 June 2016**
	$'000	$'000	$'000
Total assets	17 954 263	53 511 571	71 465 834
Total liabilities	44 610	71 358 099	71 402 709
Net assets	17 909 653	(17 846 528)	63 125

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also 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 1057 'Application of Australian Accounting Standards', **AASB 2015-9** 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'	beginning on or after 1 January 2016
AASB 2014-10 'Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	beginning on or after 1 January 2016
AASB 2015-1 'Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	beginning on or after 1 January 2016
AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101'	beginning on or after 1 January 2016
AASB 2015-5 'Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exemption'	beginning on or after 1 January 2016

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 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 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018
AASB 2016-7 'Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities'	1 January 2017	30 June 2019
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities'	1 January 2019	30 June 2020

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(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 2017

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 2017 and the comparative information presented in these financial statements for the year ended 30 June 2016.

(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 due to the application of different accounting standards which may result in different valuation assumptions from those set out in Note 10.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 10).

The accumulation component of hybrid benefit member liabilities are measured as the amount of member account balances as at the reporting date (Note 10).

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, 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. Transfers from CSS are recognised as income and as a receivable in the year in which the member elects to transfer (Note 6).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 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 Statement of Financial Position except to the extent that it relates to items recognised directly in members' funds. 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).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 2017

4. OTHER RECEIVABLES

	2017	2016
	$'000	$'000
Receivable from the ARIA Investments Trust	**-**	189
Interest receivable	**47**	60
Amounts due from the CSS Fund	**-**	861
Amount to be appropriated from Consolidated Revenue Fund	**3 459**	1 879
	3 506	2 989

There are no receivables that are past due or impaired (2016: nil).

5. INVESTMENTS

	2017	2016
	$'000	$'000
Pooled Superannuation Trust - ARIA Investments Trust	**19 135 854**	17 891 656
	19 135 854	17 891 656

6. TRANSFER TO THE PUBLIC SECTOR SUPERANNUATION SCHEME FROM THE COMMONWEALTH SUPERANNUATION SCHEME

Certain former contributors to the Commonwealth Superannuation Scheme (CSS) who again become members of the CSS are entitled to elect to transfer to the Public Sector Superannuation Scheme (PSS). There were no elections made during the year ended 30 June 2017 (2016: 5 elections).

The value of contributions transferrable for members who elected to transfer from CSS to PSS is $Nil at 30 June 2017 (2016: $861,061). Any transfer is receivable from CSS.

7. CHANGES IN FAIR VALUE OF INVESTMENTS

	2017	2016
	$'000	$'000
(a) Investments held at 30 June:		
Pooled Superannuation Trust - ARIA Investments Trust	**1 645 494**	346 553
	1 645 494	346 553
(b) Investments realised during the year:		
Pooled Superannuation Trust - ARIA Investments Trust	**15 428**	1 119
	15 428	1 119
(c) Total changes in fair value of investments	**1 660 922**	347 672

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

8. 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 2017 and 30 June 2016, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

Low Income Superannuation Contributions
The low income super contribution (LISC) is a Commonwealth Government superannuation payment of up to $500 for the financial years 2012-13 to 2016-17. LISC 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 2017, $3.46 million (2016: $1.88 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 2017

8. 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:

	2017	2016
	$'000	$'000
Gross Appropriation from Consolidated Revenue Fund	**1 930 265**	1 679 618
less: Transfers from PSS Fund to Consolidated Revenue Fund	**(1 152 024)**	(1 033 448)
Net appropriation from Consolidated Revenue Fund	**778 241**	646 170
Consolidated Revenue Fund		
Lump-sum benefits	**490 805**	423 240
Pensions	**1 439 460**	1 256 378
	1 930 265	1 679 618
PSS Fund		
Lump-sum benefits	**36 288**	35 125
Total benefits paid and payable	**1 966 553**	1 714 743

(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 2017

8. 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:

	2017	2016
	$'000	$'000
Investment		
Investment manager fees	**34 486**	17 742
Custodian fees	**2 805**	2 540
Investment consultant and other service provider fees	**2 590**	2 143
Other investment expenses	**1 429**	1 319
Total direct investment expenses	**41 310**	23 744
Regulatory fees	**1 878**	2 024
Other operating expenses	**15 772**	11 680
Total costs	**58 960**	37 448

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. 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.

Sponsoring employers contributed the following to Scheme administration costs:

	2017	2016
	$'000	$'000
Trustee costs	**28 791**	29 318
Total	**28 791**	29 318

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

9. INCOME TAX

	2017	2016
	$'000	$'000
(a) Income tax recognised in the Income Statement		
Income tax expense comprises:		
Current tax expense	**139**	131
Deferred tax expense relating to the origination and reversal of temporary differences	**(2)**	(3)
Total income tax expense	**137**	128

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	**1 156**	883
Income tax expense / (benefit) calculated at 15%	**173**	133
Net change in member benefits from investing activities	**249 102**	52 146
Investment revenue already taxed	**(249 138)**	(52 151)
Total income tax expense	**137**	128

(b) Income tax on contributions recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	**585 716**	599 667
Employer contributions	**195 685**	211 918
Government co-contributions	**1 398**	1 456
Low income superannuation contributions	**371**	353
Transfers from the Commonwealth Superannuation Scheme	**-**	861
Total contributions received	**783 170**	814 255
Contributions tax calculated at 15%	**117 476**	122 137
Member contributions not subject to tax	**(87 857)**	(89 950)
Government co-contributions not subject to tax	**(210)**	(218)
Low income super contributions not subject to tax	**(56)**	(53)
Transfers from the Commonwealth Superannuation Scheme not subject to tax	**-**	(129)
Rollovers in subject to tax	**90**	63
Total income tax on contributions	**29 443**	31 850

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

9. INCOME TAX (continued)

	2017 **$'000**	2016 $'000
(c) Recognised deferred tax assets		
Deferred tax assets comprise:		
Temporary differences	**152**	153
	152	153

Taxable and deductible temporary differences arise from the following:

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**

2016	Opening balance $'000	Charged to income $'000	Closing balance $'000
Gross deferred tax assets / (liabilities):			
Interest receivable	(12)	3	(9)
Insurance premiums payable	134	28	162
Net deferred tax assets	122	31	153

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

10. 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:

	2017	2016
	$'000	$'000
Defined benefit members	**42 512 578**	39 379 060
Hybrid benefit members	**33 113 891**	31 979 039
Total member liabilities	**75 626 469**	71 358 099

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 by member category. The Scheme has no information that would lead it to adjust the assumptions in respect to discount rate, salary adjustment rate, resignations and mortality, which are all unchanged from the previous reporting period.

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, 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 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.

- The assumed annual salary adjustment has been determined by historical observations over a long term period and in consultation with the employer sponsor.

- The assumed inflation rate has been determined based on the mid-point of the Reserve Bank of Australia (RBA) inflation target.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

10. MEMBER LIABILITIES (continued)

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.

The following are sensitivity calculations on a univariate basis for the mortality rates, the discount rate, 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 benefit liability as at 30 June 2017 ($'000)
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%

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 2017 is $85.4 billion (2016: $80.8 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 2017 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 2017

11. CASH FLOW INFORMATION

(a) Reconciliation of Cash	**2017**	2016
	$'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	**43 484**	59 465

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

Operating result after income tax	**1 019**	755
Net change in member benefits from investing activities	**1 660 677**	347 640
Changes in fair value of investments	**(1 660 922)**	(347 672)
(Increase)/decrease in interest receivable	**12**	18
(Increase)/decrease in deferred tax assets	**1**	(31)
Increase/(decrease) in other payables	**(37)**	(59)
Increase/(decrease) in income tax payable	**(2 334)**	(139)
Net cash inflows/(outflows) from operating activities	**(1 584)**	512

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

12. AUDITOR'S REMUNERATION

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

	2017	2016
	$	$
Financial statements	**68 825**	63 325
Regulatory returns and compliance	**35 175**	35 175
Total	**104 000**	98 500

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

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

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu 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 Commonwealth Superannuation Corporation as Trustee. This type of investment has been determined by the Trustee to be appropriate for the Scheme and is in accordance with the Scheme's published investment strategy. The Trustee applies strategies to manage the risk relating to the investment activities of AIT. The investments of AIT are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets in accordance with contractual investment mandates.

(b) Significant accounting policies

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 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 2017

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 2017 or 30 June 2016.

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:

	2017	2016
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**19 135 854**	17 891 656
Other financial assets		
Cash and cash equivalents	**43 484**	59 465
Receivables	**3 506**	2 989
Total	**19 182 844**	17 954 110

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 2017

13. 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 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**
30 June 2016					
Benefits payable	11 562	-	-	-	11 562
Other payables	1 226	-	-	-	1 226
Member liabilities	453 839	1 361 516	7 834 604	61 708 140	71 358 099
Total financial liabilities	466 627	1 361 516	7 834 604	61 708 140	71 370 887

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 2017

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 Scheme's exposure to market risk or the manner in which it manages and measures that risk since the 2016 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 2017 and 30 June 2016 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 2017

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Interest rate risk (continued)

The following table illustrates the Scheme's sensitivity to a 0.3% p.a. (2016: 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 0.3% (2016: 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
2017		**-0.3%**		**+0.3%**	
Cash and cash	**43 484**	**(130)**	**(130)**	**130**	**130**
2016		-0.3%		+0.3%	
Cash and cash	59 465	(178)	(178)	178	178

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 2017

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 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 4.2% (2016: 5.0%) 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 0.3% (2016: 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	
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
2016						
Financial Assets						
ARIA Investments Trust:						
Default option	-/+5.0%	17 774 127	(888 706)	(888 706)	888 706	888 706
Cash option	-/+0.3%	54 592	(164)	(164)	164	164
Operational risk reserve	-/+0.3%	62 937	(188)	(188)	188	188
Total increase / (decrease)		17 891 656	(889 058)	(889 058)	889 058	889 058

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 2017

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
2017				
Financial Assets				
Pooled superannuation trust	**-**	**19 135 854**	**-**	**19 135 854**
2016				
Financial Assets				
Pooled superannuation trust	-	17 891 656	-	17 891 656

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 2017

14. 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 2017 were:

Ariane Barker (appointed 13 September 2016)	Winsome Hall
Tony Cole (term ended 30 June 2017)	Garry Hounsell (appointed 1 July 2016)
Patricia Cross (Chair)	Sunil Kemppi (appointed 1 July 2016)
Christopher Ellison	Anthony Needham (appointed 1 July 2016)
Nadine Flood	Peggy O'Neal
Lyn Gearing (term ended 12 September 2016)	Margaret Staib

The following Director was appointed subsequent to year-end:

Michael Vertigan (appointed 1 July 2017)

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 2017:

Paul Abraham	General Manager, Investment Operations
Peter Carrigy-Ryan	Chief Executive Officer
Philip George	General Manager, Scheme Administration
Richard Hill	General Manager, Technology
Bronwyn McNaughton	General Manager, Corporate
Christine Pearce	General Manager, Member & Employer Services
Sarah Rodgers	General Manager, People & Culture (resigned 3 August 2016)
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance

Winsome Hall and Bronwyn McNaughton are members of the Scheme. The terms and conditions of their membership 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 2017

14. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

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

	2017	2016
	$	$
Short-term employee benefits	**920 822**	1 001 033
Post-employment benefits	**94 412**	110 051
Other long-term benefits	**71 102**	79 347
Termination benefits	**50 132**	-
	1 136 468	1 190 431

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 2017, 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 8(c)). No fees were charged for acting as Trustee during the year ended 30 June 2017 (2016: $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**
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**19 135 854**	17 891 656	**1 660 922**	347 672
	19 135 854	17 891 656	**1 660 922**	347 672

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital or other expenditure commitments at 30 June 2017 (2016: $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 2017 (2016: $nil).

16. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2017 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

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MILITARYSUPER FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Members of Military Superannuation and Benefits Scheme

Opinion

In my opinion, the financial statements of the Military Superannuation and Benefits Scheme for the year ended 30 June 2017 present fairly, in all material respects, the financial position of Military Superannuation and Benefits Scheme as at 30 June 2017 and its financial performance, changes in equity, changes in member benefits and cash flows for the year then ended in accordance with Australian Accounting Standards and the form agreed with the Minister of Finance.

The financial statements of the Military Superannuation and Benefits Scheme, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended :

- Declaration by the Trustee;
- 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.

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* 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.

Trustee's Responsibility 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 of Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as 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 matters related to going concern as applicable and using the going concern basis of accounting unless the

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trustee either intends to liquidate the entity or to cease operations, or has 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:

- identify and assess 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;
- obtain 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- conclude 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
- evaluate 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

26 September 2017

Military Superannuation and Benefits Scheme (ABN 50 925 523 120)

Statement by the Trustee of the Military Superannuation and Benefits 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 2017 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 Military Superannuation and Benefits Scheme (Scheme) (defined at Note 1) were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011,* the *Military Superannuation and Benefits Act 1991,* the Trust Deed establishing the 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 26th day of September 2017 in accordance with a resolution of Directors of Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Scheme.

Patricia Cross
Chair

Garry Hounsell
Director

Military Superannuation & Benefits Scheme
Statement of Financial Position
As at 30 June 2017

	Note	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents		**59 726**	62 107
Employer sponsor receivable		**35 213 002**	31 933 000
Other receivables	4	**7 119**	4 009
Investments in pooled superannuation trust	5	**8 293 640**	7 261 675
Total assets		**43 573 487**	39 260 791
Liabilities			
Benefits payable		**(4 372)**	(4 395)
Income tax payable		**(31 631)**	(27 049)
Other payables		**(478)**	(409)
Deferred tax liabilities	8c	**(6)**	(8)
Total liabilities excluding member benefits		**(36 487)**	(31 861)
Net assets available for member benefits		**43 537 000**	39 228 930
Member liabilities	9	**(43 509 215)**	(39 203 316)
Net assets		**27 785**	25 614
Equity			
Operational risk reserve		**(27 785)**	(25 614)
Total equity		**(27 785)**	(25 614)

The attached notes form part of these financial statements.

Military Superannuation & Benefits Scheme
Income Statement
For the Financial Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Investment revenue			
Interest		**532**	664
Changes in fair value of investments	6c	**716 321**	143 002
Total revenue		**716 853**	143 666
Total expenses		**-**	-
Operating results		**716 853**	143 666
Net change in member benefits from investing activities		**(716 356)**	(143 276)
Operating result before income tax expense		**497**	390
Income tax expense	8a	**(80)**	(100)
Operating result after income tax		**417**	290

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 2017

	Note	2017 $'000	2016 $'000
Opening balance of member benefits at the beginning of the financial year		**39 203 316**	36 015 104
Contributions:			
Member contributions	7a	**277 663**	315 948
Employer contributions	7a	**211 061**	180 264
Government co-contributions	7a	**2 525**	2 060
Low income superannuation contributions	7a	**770**	790
Income tax on contributions	8b	**(31 660)**	(27 037)
Net after tax contributions		**460 359**	472 025
Net appropriation from Consolidated Revenue Fund	7b	**574 672**	499 906
Benefits to members	7b	**(723 736)**	(617 963)
Net change in member benefits from investing activities		**716 356**	143 276
Net change in member benefits to be funded by employers		**3 278 248**	2 690 968
Closing balance of member benefits at the end of the financial year		**43 509 215**	39 203 316

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 2017

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2015	11 292	11 292
Operating result	290	290
Net transfers to / (from) reserves	14 032	14 032
Closing balance as at 30 June 2016	25 614	25 614
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**

Military Superannuation & Benefits Scheme
Statement of Cash Flows
For the Financial Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Interest received		**541**	670
Superannuation surcharge paid		**19**	152
Income tax paid		**4 500**	215
Net cash inflows from operating activities	10b	**5 060**	1 037
Cash flows from investing activities			
Purchase of investments		**(469 003)**	(445 806)
Proceeds from sale of investments		**153 503**	119 504
Net cash (outflows) from investing activities		**(315 500)**	(326 302)
Cash flows from financing activities			
Contributions received			
Employer contributions		**211 010**	180 264
Member contributions		**277 663**	315 948
Government co-contributions		**2 525**	2 060
Low income superannuation contributions		**770**	790
Income tax paid on contributions		**(31 660)**	(27 037)
Benefits paid		**(723 759)**	(618 706)
Net appropriation from Consolidated Revenue Fund		**571 510**	500 034
Net cash inflows from financing activities		**308 059**	353 353
Net increase / (decrease) in cash held		**(2 381)**	28 088
Cash at the beginning of the financial year		**62 107**	34 019
Cash at the end of the financial year	10a	**59 726**	62 107

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 Level 8, 121 Marcus Clarke Street, 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 26 September 2017.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Adoption of AASB 1056
The Trustee has adopted AASB 1056 *Superannuation Entities* (AASB 1056), which is applicable for annual reporting periods after 1 July 2016. The key impacts on the financial statements of the Scheme include:

- Preparation of five primary financial statements, being:
  - Statement of Financial Position;
  - Income Statement;
  - Statement of Changes in Equity;
  - Statement of Cash Flows; and
  - Statement of Changes in Member Benefits.
- The recognition of member benefits as a liability on the face of the Statement of Financial Position and the Statement of Changes on Member Benefits (30 June 2016: was $Nil, restated $39,203,316; 1 July 2015: was $Nil, restated $36,015,104).
- The recognition of an 'employer sponsor receivable' in the Statement of Financial Position to recognise the Commonwealth Government's legislated obligation under the *Military Superannuation and Benefits Act 1991* (as amended) to meet the shortfall between the liability for accrued benefits and the fair value of the net assets available to meet that liability (30 June 2016: was $Nil, restated $31,933,000).
- Additional disclosures regarding the key assumptions used in measuring defined benefit member liabilities (Note 9).

AASB 1056 requires the measurement approach of 'fair value through profit or loss' for all assets and liabilities, except for specific exemptions including member benefits, tax assets and liabilities and employer sponsor receivables. The investments of the Fund are measured at redemption price at the close of business on the last business day of the reporting period and therefore this change in measurement approach from "net market value" to " fair value" has had no impact on the valuation of the Fund's investments. In accordance with the transitional provisions of AASB 1056, the Scheme has applied the new accounting Standard retropectively from the start of the comparative period.

The adoption of AASB 1056 had the following impact on the Statement of Financial Position as at 30 June 2016:

Description	**As previously reported as at 30 June 2016** $'000	**Transition adjustment** $'000	**Restated total as at 30 June 2016** $'000
Total assets	7 327 791	31 933 000	39 260 791
Total liabilities	31 861	39 203 316	39 235 177
Net assets	7 295 930	(7 270 316)	25 614

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also 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 1057 'Application of Australian Accounting Standards', **AASB 2015-9** 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'	beginning on or after 1 January 2016
AASB 2014-10 'Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	beginning on or after 1 January 2016
AASB 2015-1 'Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	beginning on or after 1 January 2016
AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101'	beginning on or after 1 January 2016
AASB 2015-5 'Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exemption'	beginning on or after 1 January 2016

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 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 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018
AASB 2016-7 'Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities'	1 January 2017	30 June 2019
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities'	1 January 2019	30 June 2020

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(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 2017

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 2017 and the comparative information presented in these financial statements for the year ended 30 June 2016.

(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 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 2017

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) Contribution Revenue

Employer and member contributions, superannuation co-contributions and low income superannuation contributions 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 and income earned on these assets is recognised in the reserve.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(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 Statement of Financial Position except to the extent that it relates to items recognised directly in members' funds. 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 2017

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 2017

4. OTHER RECEIVABLES

	2017	2016
	$'000	$'000
Receivable from the ARIA Investments Trust	**48**	90
Interest receivable	**40**	50
Amount to be appropriated from Consolidated Revenue Fund	**7 031**	3 869
	7 119	4 009

There are no receivables that are past due or impaired (2016: Nil).

5. INVESTMENTS

	2017	2016
	$'000	$'000
Pooled Superannuation Trust - ARIA Investments Trust	**8 293 640**	7 261 675
	8 293 640	7 261 675

6. CHANGES IN FAIR VALUE OF INVESTMENTS

	2017	2016
	$'000	$'000
(a) Investments held at 30 June:		
Pooled Superannuation Trust - ARIA Investments Trust	**709 797**	142 476
(b) Investments realised during the year:		
Pooled Superannuation Trust - ARIA Investments Trust	**6 524**	526
(c) Total changes in net market values of investments	**716 321**	143 002

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 2017 and 30 June 2016, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

Low Income Superannuation Contributions
The low income super contribution (LISC) is a Commonwealth Government superannuation payment of up to $500 for the financial years 2012-13 to 2016-17. LISC 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

7. FUNDING ARRANGEMENTS (continued)

(b) Benefits (continued)

Of the total benefits payable as at 30 June 2017, $0.78 million (2016: $2.23 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:

	2017	2016
	$'000	$'000
Gross Appropriation from Consolidated Revenue Fund	**675 285**	584 376
less: Transfers from Fund to Consolidated Revenue Fund	**(100 613)**	(84 470)
Net Appropriation	**574 672**	499 906
Consolidated Revenue Fund		
Lump-sum benefits	**152 161**	137 149
Pensions	**523 124**	447 227
	675 285	584 376
Military Superannuation & Benefits Fund		
Lump-sum benefits	**48 451**	33 587
Total benefits paid and payable	**723 736**	617 963

(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 2017

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:

	2017	2016
	$'000	$'000
Investment		
Investment manager fees	**14 488**	6 975
Custodian fees	**1 179**	998
Investment consultant and other service provider fees	**1 088**	842
Other investment expenses	**600**	519
Total direct investment expenses	**17 355**	9 334
Regulatory fees	**901**	895
Other operating expenses	**6 626**	4 592
Total costs	**24 882**	14 821

Administrative fees are paid to CSC by the Department of Defence to meet costs other than those incurred in managing and investing Fund assets. Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee.

Sponsoring employers contributed the following to Scheme administration costs:

	2017	2016
	$'000	$'000
Trustee costs	**28 013**	20 446
Total	**28 013**	20 446

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

8. INCOME TAX

	2017	2016
	$'000	$'000
(a) Income tax recognised in the Income Statement		
Tax expense comprises:		
Current tax expense	**82**	100
Deferred tax expense relating to the origination and reversal of temporary differences	**(2)**	-
Total tax expense	**80**	100

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	**497**	390
Income tax expense / (benefit) calculated at 15%	**75**	59
Net change in member benefits from investing activities	**107 453**	21 491
Investment revenue already taxed	**(107 448)**	(21 450)
Total tax expense	**80**	100

(b) Income tax on contributions recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	**277 663**	315 948
Employer contributions	**211 061**	180 264
Government co-contributions	**2 525**	2 060
Low income super contributions	**770**	790
Total contributions received	**492 019**	499 062
Contributions tax calculated at 15%	**73 803**	74 859
Member contributions not subject to tax	**(41 649)**	(47 394)
Government co-contributions not subject to tax	**(379)**	(309)
Low income super contributions not subject to tax	**(116)**	(119)
No-TFN-quoted contributions subject to additional tax	**1**	-
Total contributions tax expense	**31 660**	27 037

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

8. INCOME TAX (continued)

	2017	2016
	$'000	$'000
(c) Recognised deferred tax assets and liabilities		
Deferred tax liabilities comprise:		
Temporary differences	**6**	8
	6	8

Taxable and deductible temporary differences arise from the following:

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	**8**	**(2)**	**6**

2016	Opening balance	Charged to income	Closing balance
	$'000	$'000	$'000
Gross deferred tax liabilities:			
Interest receivable	8	-	8
	8	-	8
Net deferred tax liabilities / (assets)	8	-	8

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

9. MEMBER LIABILITIES

The Scheme engages qualified actuaries on an annual basis to measure defined benefit liabilities. The Scheme has no information that would lead it to adjust the assumptions in respect to discount rate, salary adjustment rate, resignations and mortality, which are all unchanged from the previous reporting period.

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, 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 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.
- The assumed annual salary adjustment has been determined by historical observations over a long term period and in consultation with the employer sponsor.
- The assumed inflation rate has been determined based on the mid-point of the Reserve Bank of Australia (RBA) inflation target.

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.

The following are sensitivity calculations on a univariate basis for the mortality rates, the discount rate, 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 benefit liability as at 30 June 2017 ($'000)
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%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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.

An actuarial estimate of vested benefits at 30 June 2017 is $40.5 billion (2016: $36.3 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 2017 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:

	2017	2016
	$'000	$'000
Cash at bank	**59 726**	62 107

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

Operating result after income tax	**417**	290
Net change in member benefits from investing activities	**716 356**	143 276
Changes in fair value of investments	**(716 321)**	(143 002)
(Increase)/decrease in interest receivable	**9**	6
Increase/(decrease) in other payables	**17**	152
Increase/(decrease) in income tax payable	**4 582**	315
Net cash inflows from operating activities	**5 060**	1 037

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

11. AUDITOR'S REMUNERATION

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

	2017	2016
	$	$
Financial statements	**68 825**	63 325
Regulatory returns and compliance	**35 175**	35 175
Total	**104 000**	98 500

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 at all times 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 2017

12. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives

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 2017 or 30 June 2016.

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:

	2017	2016
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**8 293 640**	7 261 675
Other financial assets		
Cash and cash equivalents	**59 726**	62 107
Other receivables	**7 119**	4 009
	8 360 485	7 327 791

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 2017

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 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**
30 June 2016					
Other payables	409	-	-	-	409
Benefits payable	4 395	-	-	-	4 395
Member liabilities	176 000	556 000	3 189 000	35 282 316	39 203 316
Total financial liabilities	180 804	556 000	3 189 000	35 282 316	39 208 120

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 2016 reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 2017 and 30 June 2016 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 0.3% p.a. (2016: 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 0.3% (2016: 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
2017		**-0.3%**		**+0.3%**	
Cash and cash equivalents	**59 726**	**(179)**	**(179)**	**179**	**179**
2016		-0.3%		+0.3%	
Cash and cash equivalents	62 107	(186)	(186)	186	186

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 2017

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 0.3% (2016: 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	
2017						
Financial Assets						
ARIA Investments 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
2016						
Financial Assets						
ARIA Investment Trust :						
Balanced option	-/+5.2%	6 678 489	(347 281)	(347 281)	347 281	347 281
Cash option	-/+0.3%	57 126	(171)	(171)	171	171
Income focused option	-/+2.0%	39 881	(718)	(718)	718	718
Aggressive option	-/+6.4%	460 655	(29 482)	(29 482)	29 482	29 482
Operational risk reserve	-/+0.3%	25 524	(76)	(76)	76	76
Total increase / (decrease)		7 261 675	(377 728)	(377 728)	377 728	377 728

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 2017

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
2017				
Financial Assets				
Pooled superannuation trust	**-**	**8 293 640**	**-**	**8 293 640**
2016				
Financial Assets				
Pooled superannuation trust	-	7 261 675	-	7 261 675

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 2017

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 2017 and to the date of the report were:

Ariane Barker (appointed 13 September 2016)	Winsome Hall
Tony Cole (term ended 30 June 2017)	Garry Hounsell (appointed 1 July 2016)
Patricia Cross (Chair)	Sunil Kemppi (appointed 1 July 2016)
Christopher Ellison	Anthony Needham (appointed 1 July 2016)
Nadine Flood	Peggy O'Neal
Lyn Gearing (term ended 12 September 2016)	Margaret Staib

The following Director was appointed subsequent to year-end:

Michael Vertigan (appointed 1 July 2017)

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 2017:

Paul Abraham	General Manager, Investment Operations
Peter Carrigy-Ryan	Chief Executive Officer
Philip George	General Manager, Scheme Administration
Richard Hill	General Manager, Technology
Bronwyn McNaughton	General Manager, Corporate
Christine Pearce	General Manager, Member & Employer Services
Sarah Rodgers	General Manager, People & Culture (resigned 3 August 2016)
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance

Anthony Needham is a member of the Scheme. The terms and conditions of his membership 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 2017

13. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

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

	2017	2016
	$	$
Short-term employee benefits	**388 227**	394 602
Post-employment benefits	**39 805**	43 382
Other long-term benefits	**29 977**	31 278
Termination benefits	**21 136**	-
	479 145	469 262

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 2017, 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 2017

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 2017 (2016: $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
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**8 293 640**	7 261 675	**716 321**	143 002
	8 293 640	7 261 675	**716 321**	143 002

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital or other expenditure commitments at 30 June 2017 (2016: $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 2017 (2016: $nil).

16. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2017 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

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PSSAP FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Members of Public Sector Superannuation Accumulation Plan

Opinion

In my opinion, the financial statements of the Public Sector Superannuation Accumulation Plan for the year ended 30 June 2017 present fairly, in all material respects, the financial position of the Public Sector Superannuation Accumulation Plan as at 30 June 2017 and its financial performance, changes in equity, changes in member benefits and cash flows for the year then ended in accordance with Australian Accounting Standards and the form agreed with the Minister of Finance.

The financial statements of the Public Sector Superannuation Accumulation Plan, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Declaration by the Trustee;
- 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.

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* 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.

Trustee's Responsibility 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 of Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as 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 Public Sector Superannuation Accumulation Plan's ability to continue as a going concern, disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or has 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:

- identify and assess 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;
- obtain 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- conclude 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
- evaluate 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

26 September 2017

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 2017 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 26th day of September 2017 in accordance with a resolution of directors of Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Plan.

Patricia Cross
Chair

Garry Hounsell
Director

Public Sector Superannuation Accumulation Plan
Statement of Financial Position
As at 30 June 2017

	Note	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents		**197 448**	201 204
Deferred tax asset	9c	**1 075**	474
Investments in pooled superannuation trust	5	**10 565 179**	8 774 324
Other receivables	4	**926**	458
Total assets		**10 764 628**	8 976 460
Liabilities			
Benefits and pensions payable		**(1 267)**	(1 260)
Income tax payable		**(160 135)**	(160 702)
Other payables	8	**(8 221)**	(6 680)
Total liabilities excluding member benefits		**(169 623)**	(168 642)
Net assets available for member benefits		**10 595 005**	8 807 818
Defined contribution member liabilities			
Allocated to members	10	**(10 519 655)**	(8 751 495)
Unallocated to members	10	**(40 786)**	(25 363)
Total defined contribution member liabilities		**(10 560 441)**	(8 776 858)
Net assets		**34 564**	30 960
Equity			
Operational risk reserve		**(34 564)**	(30 960)
Total equity		**(34 564)**	(30 960)

The attached notes form part of these financial statements.

Public Sector Superannuation Accumulation Plan
Income Statement
For the Financial Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Investment revenue			
Interest		**2 264**	2 784
Changes in fair value of investments	6c	**852 869**	161 812
Other revenue		**495**	71
Total revenue		**855 628**	164 667
Other administration expenses		**(10 646)**	(10 179)
Total expenses		**(10 646)**	(10 179)
Operating results		**844 982**	154 488
Net benefits allocated to members' accounts		**(844 142)**	(153 649)
Operating result before income tax expense		**840**	839
Income tax expense	9a	**(334)**	(428)
Operating result after income tax expense		**506**	411

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 2017

	Note	2017 $'000	2016 $'000
Opening balance of member benefits allocated at the beginning of the financial year		**8 751 495**	7 760 286
Contributions:			
Member contributions	7a	**74 082**	48 416
Employer contributions	7a	**1 135 053**	1 085 316
Transfers from other funds	7a	**324 330**	296 715
Government co-contributions	7a	**259**	186
Low income superannuation contributions	7a	**3 538**	3 412
Income tax on contributions	9b	**(159 226)**	(160 612)
Net after tax contributions		**1 378 036**	1 273 433
Benefits to members	7b	**(400 482)**	(390 101)
Insurance premiums paid to insurer		**(65 936)**	(39 218)
Insurance claim payments received from insurer		**30 921**	20 318
Net benefits allocated to members' accounts		**844 142**	153 649
Net transfers to reserves		**(3 098)**	(11 240)
Net increase in amounts not yet allocated to members' accounts		**(15 423)**	(15 632)
Closing balance of member benefits allocated at the end of the financial year		**10 519 655**	8 751 495

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 2017

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2015	19 309	19 309
Operating result	411	411
Net transfers to / (from) reserves	11 240	11 240
Closing balance as at 30 June 2016	30 960	30 960
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**

The attached notes form part of these financial statements.

Public Sector Superannuation Accumulation Plan
Statement of Cash Flows
For the Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Interest received		**2 294**	2 802
Income tax (paid) / received		**(1 516)**	17 184
Other revenue received		**22**	71
Other administration expenses paid		**(12 074)**	(7 344)
Net cash (outflows) / inflows from operating activities	11b	**(11 274)**	12 713
Cash flows from investing activities			
Purchase of investments		**(1 019 214)**	(893 030)
Proceeds from sale of investments		**81 208**	61 198
Net cash (outflows) from investing activities		**(938 006)**	(831 832)
Cash flows from financing activities			
Contributions received			
Employer		**1 134 964**	1 085 242
Member		**74 082**	48 416
Transfers from other funds		**324 330**	296 715
Government co-contributions		**259**	186
Low income superannuation contributions		**3 538**	3 412
Income tax paid on contributions		**(159 226)**	(160 612)
Insurance claim payments received from insurer		**30 921**	20 318
Insurance premiums paid		**(62 869)**	(38 770)
Benefits and pensions paid		**(400 475)**	(389 753)
Net cash inflows from financing activities		**945 524**	865 154
Net (decrease) / increase in cash held		**(3 756)**	46 035
Cash at the beginning of the financial year		**201 204**	155 169
Cash at the end of the financial year	11a	**197 448**	201 204

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 Level 8, 121 Marcus Clarke Street, 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 26 September 2017.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Adoption of AASB 1056

The Trustee has adopted AASB 1056 *'Superannuation Entities'* (AASB 1056), which is applicable for annual reporting periods after 1 July 2016. The key impacts on the financial statements of the Plan include:

- Preparation of five primary financial statements, being:
  - Statement of Financial Position;
  - Income Statement;
  - Statement of Changes in Equity;
  - Statement of Cash Flows; and
  - Statement of Changes in Member Benefits.

AASB 1056 requires the measurement approach of 'fair value through profit or loss' for all assets and liabilities, except for specific exemptions including member benefits, tax assets and liabilities and employer sponsor receivables. The investments of the Plan are measured at redemption price at the close of business on the last business day of the reporting period and therefore this change in measurement approach from "net market value" to "fair value" has had no impact on the valuation of the Plan's investments. In accordance with the transitional provisions of AASB 1056, the Plan has applied the new accounting Standard retrospectively from the start of the comparative period.

The adoption of AASB 1056 had the following impact on the Statement of Financial Position as at 30 June 2016:

Description	**As previously reported as at 30 June 2016** $'000	**Transition adjustment** $'000	**Restated total as at 30 June 2016** $'000
Total assets	8 976 460	-	8 976 460
Total liabilities	168 642	8 776 858	8 945 500
Net assets	8 807 818	(8 776 858)	30 960

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also 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 1057 'Application of Australian Accounting Standards', **AASB 2015-9** 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'	beginning on or after 1 January 2016
AASB 2014-10 'Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	beginning on or after 1 January 2016
AASB 2015-1 'Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	beginning on or after 1 January 2016
AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101'	beginning on or after 1 January 2016
AASB 2015-5 'Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exemption'	beginning on or after 1 January 2016

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 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 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 2018	30 June 2019
AASB 1058 'Income of Not-for-Profit Entities'	1 January 2019	30 June 2020
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018
AASB 2016-7 'Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities'	1 January 2017	30 June 2019
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities '	1 January 2019	30 June 2020

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

(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 2017

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 2017 and the comparative information presented in these financial statements for the year ended 30 June 2016.

(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 2017

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) Contribution Revenue

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 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 and income earned on these assets is recognised in the reserve.

(h) Derivatives

The Plan does not 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 2017

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 Statement of Financial Position except to the extent that it relates to items recognised directly in members' funds. As the Plan 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 2017

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

4. OTHER RECEIVABLES

	2017	2016
	$'000	$'000
Receivable from the ARIA Investments Trust	**88**	68
Interest receivable	**187**	217
GST receivable	**178**	173
Administrator lag loss receivable	**108**	-
Compensation receivable	**365**	-
	926	458

There are no receivables that are past due or impaired (2016: nil).

5. INVESTMENTS

	2017	2016
	$'000	$'000
Pooled superannuation trust - ARIA Investments Trust	**10 565 179**	8 774 324
	10 565 179	8 774 324

6. CHANGES IN FAIR VALUE OF INVESTMENTS

		2017	2016
		$'000	$'000
(a)	**Investments held at 30 June:**		
	Pooled superannuation trust - ARIA Investments Trust	**843 108**	161 271
(b)	**Investments realised during the year:**		
	Pooled superannuation trust - ARIA Investments Trust	**9 761**	541
(c)	**Total changes in fair value of investments**	**852 869**	161 812

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

7. FUNDING ARRANGEMENTS

(a) Contributions

Employer Contributions
Employers contribute at least 15.4% (2016: 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 2017 and 30 June 2016, 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 contributions
The low income super contribution (LISC) is a Commonwealth Government superannuation payment of up to $500 for the financial years 2012-13 to 2016-17. LISC 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:

	2017 $'000	2016 $'000
Lump sum benefits paid and payable	**385 922**	380 955
Pensions paid and payable	**14 560**	9 146
Total	**400 482**	390 101

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 ARIA Investments Trust ('AIT') that are referable to the Plan. Transactions in respect of these costs have been brought to account in the financial statements of AIT.

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

	2017	2016
	$'000	$'000
Investment		
Investment manager fees	**18 012**	8 216
Custodian fees	**1 466**	1 176
Investment consultant and other service provider fees	**1 352**	992
Other investment expenses	**746**	611
Total direct investment expenses	**21 576**	10 995
Regulatory fees	**1 066**	1 029
Other operating expenses	**8 238**	5 409
Total costs	**30 880**	17 433

Costs other than those incurred in managing and investing Plan assets are met by CSC. Administrative fees are paid by members to cover these costs and are disclosed as ‘other administration expenses’ in the Income Statement.

8. OTHER PAYABLES

	2017	2016
	$'000	$'000
Insurance premiums payable	**6 443**	3 376
Employer contributions refundable	**13**	102
Witholding tax payable	**52**	66
Accrued expenses	**1 713**	3 136
	8 221	6 680

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

9.	**INCOME TAX**	**2017**	2016
		$'000	$'000
(a)	**Income tax recognised in operating results**		
	Tax expense/(benefit) comprises:		
	Current tax expense	**339**	431
	Deferred tax income relating to the origination and reversal of temporary differences	**(5)**	(3)
	Total tax expense/(benefit)	**334**	428

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	**840**	839
Income tax expense calculated at 15%	**126**	126
Net benefits allocated to members during the year	**126 621**	23 047
Non-deductible administration expenses	**1 597**	1 527
Investment revenue already taxed	**(127 930)**	(24 272)
Other revenue not taxable	**(72)**	-
Investment revenue not taxable	**(8)**	-
Total tax expense/(benefit)	**334**	428

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

9.	**INCOME TAX (continued)**	**2017**	2016
		$'000	$'000
(b)	**Income tax on contributions recognised in Statement of Changes in Member Benefits**		
	Contributions received:		
	Member contributions	**74 082**	48 416
	Employer contributions	**1 135 053**	1 085 316
	Transfers from other funds	**324 330**	296 715
	Government co-contributions	**259**	186
	Low income superannuation contributions	**3 538**	3 412
	Total Contributions	**1 537 262**	1 434 045
	Contributions tax calculated at 15%	**230 589**	215 107
	Member contributions not subject to tax	**(11 102)**	(6 070)
	Government co-contributions not subject to tax	**(39)**	(28)
	Low income super contributions not subject to tax	**(531)**	(512)
	Transfers from other funds not subject to tax	**(47 645)**	(40 127)
	Anti Detriment deduction	**(865)**	(775)
	Net tax on contributions for which no TFN was provided	**225**	19
	Under / (over) relating to prior year	**26**	407
	Insurance premiums paid to insurer	**(9 890)**	(5 882)
	Deductible scheme administration fees	**(1 542)**	(1 527)
	Total income tax on contributions	**159 226**	160 612

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

9. INCOME TAX (continued)

	2017	2016
	$'000	$'000
(c) Deferred tax balances		
Deferred tax asset:		
Temporary differences	**1 075**	474
	1 075	474

Taxable and deductible temporary differences arise from the following:

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**

2016	Opening balance	Charged to income	Closing balance
	$'000	$'000	$'000
Gross deferred tax assets / (liabilities):			
Interest receivable	(35)	2	(33)
Insurance premiums payable	439	68	507
	404	70	474

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 2017 $40,786,000 (2016: $25,363,000) 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

	2017	2016
	$'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	**197 448**	201 204

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

Operating result after income tax expense	**506**	411
Net benefits allocated to members' accounts	**844 142**	153 649
Changes in fair value of investments	**(852 869)**	(161 812)
(Increase)/decrease in other receivables	**(448)**	(141)
(Increase)/decrease in deferred tax asset	**(601)**	(70)
Increase/(decrease) in other payables	**(1 437)**	2 933
Increase/(decrease) in income tax payable	**(567)**	17 743
Net cash (outflows) / inflows from operating activities	**(11 274)**	12 713

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

12. AUDITOR'S REMUNERATION

	2017	2016
	$	$
Amounts paid or payable to the Australian National Audit Office for audit services:		
Financial statements	**77 000**	49 000
Regulatory returns and compliance	**34 500**	45 000
Total	**111 500**	94 000

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 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 ARIA Investments Trust ('AIT'). AIT is a pooled superannuation trust which is also governed by the Trustee. This type of investment has been determined by the Trustee to be appropriate for the Plan and is in accordance with the Plan's published investment strategy. The Trustee applies strategies to manage risk relating to the investment activities of the AIT. The investments of AIT are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets in accordance with contractual investment mandates.

(b) Significant accounting policies

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 2017

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 2017 or 30 June 2016.

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:

	2017	2016
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**10 565 179**	8 774 324
Other financial assets		
Cash and cash equivalents	**197 448**	201 204
Receivables	**383**	285
Total financial assets	**10 763 010**	8 975 813

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 2017

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 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**
30 June 2016					
Benefits and pensions payable	1 260	-	-	-	1 260
Other payables	6 680	-	-	-	6 680
Member liabilities	8 776 858	-	-	-	8 776 858
Total financial liabilities	8 784 798	-	-	-	8 784 798

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 2017

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 2016 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 2017

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 2017 and 30 June 2016 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 0.3% p.a. (2016: 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 0.3% (2016: 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
2017		-0.3%		+0.3%	
Cash and cash equivalents	197 448	(592)	(592)	592	592
2016		-0.3%		+0.3%	
Cash and cash equivalents	201 204	(604)	(604)	604	604

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 2017

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 0.3% (2016: 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	
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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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	
2016						
Balanced option	-/+5.0%	49 926	(2 496)	(2 496)	2 496	2 496
Aggressive option	-/+7.0%	510 418	(35 729)	(35 729)	35 729	35 729
Cash option	-/+0.3%	132 513	(398)	(398)	398	398
Income focused option	-/+2.0%	158 478	(3 170)	(3 170)	3 170	3 170
MySuper balanced option	-/+5.0%	7 697 307	(384 865)	(384 865)	384 865	384 865
CSCri cash option	-/+0.3%	14 573	(44)	(44)	44	44
CSCri aggressive option	-/+7.0%	13 131	(919)	(919)	919	919
CSCri balanced option	-/+5.4%	78 408	(4 234)	(4 234)	4 234	4 234
CSCri income focused option	-/+2.3%	88 678	(2 040)	(2 040)	2 040	2 040
Operational risk reserve	-/+0.3%	30 892	(93)	(93)	93	93
Total		8 774 324	(433 988)	(433 988)	433 988	433 988

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 2017

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
2017				
Financial Assets				
Pooled superannuation trust	**-**	**10 565 179**	**-**	**10 565 179**
2016				
Financial Assets				
Pooled superannuation trust	-	8 774 324	-	8 774 324

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 2017

14. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. No fees were charged to the plan or its assets 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 2017 were:

Ariane Barker (appointed 13 September 2016)	Winsome Hall
Tony Cole (term ended 30 June 2017)	Garry Hounsell (appointed 1 July 2016)
Patricia Cross (Chair)	Sunil Kemppi (appointed 1 July 2016)
Christopher Ellison	Anthony Needham (appointed 1 July 2016)
Nadine Flood	Peggy O'Neal
Lyn Gearing (term ended 12 September 2016)	Margaret Staib

The following Director was appointed subsequent to year-end:

Michael Vertigan (appointed 1 July 2017)

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 2017:

Paul Abraham	General Manager, Investment Operations
Peter Carrigy-Ryan	Chief Executive Officer
Philip George	General Manager, Scheme Administration
Richard Hill	General Manager, Technology
Bronwyn McNaughton	General Manager, Corporate
Christine Pearce	General Manager, Member & Employer Services
Sarah Rodgers	General Manager, People & Culture (resigned 3 August 2016)
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance

Paul Abraham, Christopher Ellison, Nadine Flood, Philip George, Richard Hill, Sunil Kemppi, Christine Pearce, Alison Tarditi and Andy Young are members of the Plan. The terms and conditions of their membership are the same as for any other member who is not part of the key management personnel of the the Plan.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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:

	2017	2016
	$	$
Short-term employee benefits	**482 249**	464 674
Post-employment benefits	**49 445**	51 085
Other long-term benefits	**37 237**	36 833
Termination benefits	**26 255**	-
	595 186	552 592

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

The compensation of key management personnel (including Directors) related to investment management is charged against the assets of the ARIA Investments Trust that are referable to the Plan.

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

(d) Investing entities

Throughout the year ended 30 June 2017, 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 ARIA Investments Trust 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 2017 (2016: $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**
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**10 565 179**	8 774 324	**852 869**	161 812
	10 565 179	8 774 324	**852 869**	161 812

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Plan had no capital commitments at 30 June 2017 (2016: $nil).

The Plan had the following commitments for other expenditure as at 30 June 2017 :

	2017	2016
	$'000	$'000
BY TYPE		
Commitments receivable		
Net GST recoverable on commitments[1]	**2 147**	2 667
	2 147	2 667
Commitments payable		
Administration expenses[2]	**(31 490)**	(39 109)
	(31 490)	(39 109)
Net commitments by type	**(29 343)**	(36 442)
BY MATURITY		
One year or less	**(9 226)**	(9 596)
From one to three years	**(20 117)**	(18 026)
Over three years	**-**	(8 820)
Total commitments	**(29 343)**	(36 442)

[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 (2016: $nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

16. SUBSEQUENT EVENTS

As a result of measures announced in the 2016-17 Federal Budget, changes to Transition to Retirement Income Stream (TRIS) accounts of the Plan were implemented from 1 July 2017. TRIS accounts no longer receive the same tax concessions as ordinary retirement income streams, and investment earnings on assets supporting TRIS accounts are now taxed at 15%. To facilitate these changes, existing balances in TRIS accounts have been automatically switched to four new investment options (TRIS Aggressive, TRIS Income Focused, TRIS Balanced and TRIS Cash) as relevant.

No other matters have arisen since 30 June 2017 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.

11

ADF SUPER FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Members of Australian Defence Force Superannuation Scheme

Opinion

In my opinion, the financial statements of the Australian Defence Force Superannuation Scheme for the year ended 30 June 2017 present fairly, in all material respects, the financial position of the Australian Defence Force Superannuation Scheme as at 30 June 2017 and its financial performance, changes in equity, changes in member benefits and cash flows for the year then ended in accordance with Australian Accounting Standards and the form agreed with the Minister of Finance.

The financial statements of the Australian Defence Force Superannuation Scheme, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Declaration by the Trustee;
- 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.

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* 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.

Trustee's Responsibility 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 of Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as 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 Australian Defence Force Superannuation Scheme's ability to continue as a going concern, disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or has 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:

- identify and assess 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;
- obtain 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- conclude 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
- evaluate 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

26 September 2017

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 2017 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 26th day of September 2017 in accordance with a resolution of directors of Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Scheme.

Patricia Cross
Chair

Garry Hounsell
Director

Australian Defence Force Superannuation Scheme
Statement of Financial Position
As at 30 June 2017

	Note	2017 $'000
Assets		
Cash and cash equivalents		**4 404**
Other receivables	4	**9**
Investments in pooled superannuation trust	5	**33 330**
Total assets		**37 743**
Liabilities		
Benefits payable		**(3)**
Income tax payable		**(4 071)**
Other payables	8	**(48)**
Total liabilities excluding member benefits		**(4 122)**
Net assets available for member benefits		**33 621**
Defined contribution member liabilities		
Allocated to members	10	**(33 343)**
Unallocated to members	10	**(278)**
Total defined contribution member liabilities		**(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 2017

	Note	2017 $'000
Investment revenue		
Interest		**23**
Changes in fair value of investments	6c	**749**
Total revenue		**772**
Other administration expenses		**(117)**
Total expenses		**(117)**
Operating results		**655**
Net benefits allocated to members' accounts		**(652)**
Operating result before income tax expense		**3**
Income tax expense	9a	**(3)**
Operating result after income tax expense		**-**

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 2017

	Note	2017 $'000
Opening balance of member benefits allocated at the beginning of the financial year		-
Contributions:		
Member contributions	7a	**667**
Employer contributions	7a	**27 121**
Transfers from other funds	7a	**9 618**
Income tax on contributions	9b	**(4 068)**
Net after tax contributions		**33 338**
Benefits to members	7b	**(369)**
Net benefits allocated to members' accounts		**652**
Net increase in amounts not yet allocated to members' accounts		**(278)**
Closing balance of member benefits allocated at the end of the financial year		**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 2017

	Total equity $'000
Opening balance as at 1 July 2016	-
Operating result	-
Net transfers to / (from) reserves	-
Closing balance as at 30 June 2017	-

The attached notes form part of these financial statements.

Australian Defence Force Superannuation Scheme
Statement of Cash Flows
For the Year Ended 30 June 2017

	Note	2017 $'000
Cash flows from operating activities		
Interest received		**19**
Other administration expenses paid		**(75)**
Net cash (outflows) from operating activities	11b	**(56)**
Cash flows from investing activities		
Purchase of investments		**(32 763)**
Proceeds from sale of investments		**183**
Net cash (outflows) from investing activities		**(32 580)**
Cash flows from financing activities		
Contributions received		
Employer		**27 121**
Member		**667**
Transfers from other funds		**9 618**
Benefits paid		**(366)**
Net cash inflows from financing activities		**37 040**
Net increase / (decrease) in cash held		**4 404**
Cash at the beginning of the financial year		**-**
Cash at the end of the financial year	11a	**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 2017

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 Level 8, 121 Marcus Clarke Street, 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 26 September 2017.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 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 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018
AASB 2016-7 'Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities'	1 January 2017	30 June 2019
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities '	1 January 2019	30 June 2020

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

(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 2017

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 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) 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 2017

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) Contribution Revenue

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 enter into derivative financial instruments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 Statement of Financial Position except to the extent that it relates to items recognised directly in members' funds. 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 2017

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

4. OTHER RECEIVABLES

	2017 $'000
Interest receivable	4
GST receivable	5
	9

There are no receivables that are past due or impaired.

5. INVESTMENTS

	2017 $'000
Pooled superannuation trust - ARIA Investments Trust	33 330
	33 330

6. CHANGES IN FAIR VALUE OF INVESTMENTS

		2017 $'000
(a)	**Investments held at 30 June:**	
	Pooled superannuation trust - ARIA Investments Trust	739
(b)	**Investments realised during the year:**	
	Pooled superannuation trust - ARIA Investments Trust	10
(c)	**Total changes in fair value of investments**	749

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

7. FUNDING ARRANGEMENTS

(a) Contributions

Employer Contributions
The Department of Defence contributes at least 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.

(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:

	2017 $'000
Lump sum benefits paid and payable	369
Total	369

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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:

	2017 $'000
Investment	
Investment manager fees	31
Custodian fees	3
Investment consultant and other service provider fees	2
Other investment expenses	1
Total direct investment expenses	37
Regulatory fees	3
Other operating expenses	14
Total costs	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. 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. 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

	2017 $'000
Accrued expenses	48
	48

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

9. INCOME TAX

	2017 $'000
(a) Income tax recognised in operating results	
Income Tax expense comprises:	
Current tax expense	3
Total Income tax expense	3

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	3
Income tax expense calculated at 15%	1
Net benefits allocated to members during the year	97
Non-deductible general administration expenses	18
Investment revenue already taxed	(113)
Total tax expense	3

(b) Income tax on contributions recognised in Statement of Changes in Member Benefits	
Contributions received:	
Member contributions	667
Employer contributions	27 121
Transfers from other funds	9 618
Total Contributions	37 406
Contributions tax calculated at 15%	5 611
Member contributions not subject to tax	(100)
Notional employer contributions subject to tax	53
Transfers from other funds not subject to tax	(1 443)
Deductible scheme administration fees	(70)
No-TFN-quoted contributions subject to additional tax	17
Total income tax on contributions	4 068

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 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

	2017 $'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	**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	**652**
Changes in fair value of investments	**(749)**
(Increase)/decrease in other receivables	**(9)**
Increase/(decrease) in other payables	**47**
Increase/(decrease) in income tax payable	**3**
Net cash (outflows) from operating activities	**(56)**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

12. AUDITOR'S REMUNERATION

	2017 $
Amounts paid or payable to the Australian National Audit Office for audit services:	
Financial statements	**30 442**
Regulatory returns and compliance	**15 558**
Total	**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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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 2017

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 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:

	2017 $'000
Investments	
Pooled Superannuation Trust - ARIA Investments Trust	**33 330**
Other financial assets	
Cash and cash equivalents	**4 404**
Receivables	**4**
Total financial assets	**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 2017

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 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 2017

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 2017

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 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 0.3% p.a. 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 0.3% 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
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 2017

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 0.3% 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	
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 2017

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
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 2017

14. 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 2017 were:

Ariane Barker (appointed 13 September 2016)	Winsome Hall
Tony Cole (term ended 30 June 2017)	Garry Hounsell (appointed 1 July 2016)
Patricia Cross (Chair)	Sunil Kemppi (appointed 1 July 2016)
Christopher Ellison	Anthony Needham (appointed 1 July 2016)
Nadine Flood	Peggy O'Neal
Lyn Gearing (term ended 12 September 2016)	Margaret Staib

The following Director was appointed subsequent to year-end:

Michael Vertigan (appointed 1 July 2017)

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 2017 :

Paul Abraham	General Manager, Investment Operations
Peter Carrigy-Ryan	Chief Executive Officer
Philip George	General Manager, Scheme Administration
Richard Hill	General Manager, Technology
Bronwyn McNaughton	General Manager, Corporate
Christine Pearce	General Manager, Member & Employer Services
Sarah Rodgers	General Manager, People & Culture (resigned 3 August 2016)
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

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:

	2017
	$
Short-term employee benefits	836
Post-employment benefits	86
Other long-term benefits	65
Termination benefits	45
	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 2017, 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 2017.

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

	Fair Value of Investment	Share of Net Income after tax
	2017	2017
	$'000	$'000
ARIA Investments Trust	33 330	749
	33 330	749

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital commitments at 30 June 2017.

The Scheme had the following commitments for other expenditure as at 30 June 2017:

	2017 $'000
BY TYPE	
Commitments receivable	
Net GST recoverable on commitments[1]	**205**
	205
Commitments payable	
Administration expenses[2]	**(3 006)**
	(3 006)
Net commitments by type	**(2 801)**
BY MATURITY	
One year or less	**(709)**
From one to three years	**(2 092)**
Over three years	**-**
Total commitments	**(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.

16. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2017 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

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CSC FINANCIAL STATEMENTS

Auditor-General for Australia

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

Opinion

In my opinion, the financial statements of the Commonwealth Superannuation Corporation for the year ended 30 June 2017:

(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 2017 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 2017 and for the year then ended:

- Statement by the Chair, Chief Executive Officer and General Manager, Finance;
- 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.

Director's Responsibility for the Financial Statements

As the Accountable 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 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 matters related to going concern as applicable 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

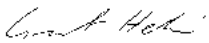
My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that 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:

- identify and assess 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;
- obtain 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority'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
- evaluate 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



Grant Hehir
Auditor-General
Canberra
26 September 2017

STATEMENT BY THE CHAIR, CHIEF EXECUTIVE OFFICER, AND GENERAL MANAGER, FINANCE

In our opinion, the attached financial statements for the year ended 30 June 2017 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	General Manager, Finance
26 September 2017	26 September 2017	26 September 2017

CONTENTS

Statement of Comprehensive Income
for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000	Original 2017 Budget $'000	Notes
NET CONTRIBUTION BY/(COST OF) SERVICES					
Expenses					
Employee benefits	2.1	**55,046**	54,197	58,118	a
Suppliers	2.2	**45,202**	29,448	40,864	b
Depreciation and amortisation	5.1	**7,053**	5,656	5,774	c
Finance costs		**1**	12	-	
Write-down and impairment of assets	2.3	**4,100**	271	-	b
Total expenses		**111,402**	89,584	104,756	
LESS:					
Own-Source Income					
Own-source revenue					
Sale of goods and rendering of services	3.1	**108,855**	99,268	107,676	
Interest	3.2	**79**	78	80	
Total own source revenue		**108,934**	99,346	107,756	
Gains					
Gains from sale of assets		**1**	-	-	
Total gains		**1**	-	-	
Total own-source income		**108,935**	99,346	107,756	
Net contribution by/(cost of) services		**(2,467)**	9,762	3,000	
Surplus/(deficit) for the year		**(2,467)**	9,762	3,000	
OTHER COMPREHENSIVE INCOME					
Items not subject to subsequent reclassification to net contribution by/(cost of) services					
Changes in asset revaluation reserve		**(693)**	1,172	-	b
Total other comprehensive income		**(693)**	1,172	-	
Total comprehensive income		**(3,160)**	10,934	3,000	

The above statement should be read in conjunction with the accompanying notes.

Budget Variances Commentary

Statement of Comprehensive Income

a. Average staffing levels (ASL) were lower than budget resulting in lower employee expenses and provisions.

b. In June 2017 an office lease for the co-location of CSC's Canberra employees into one Canberra office space was signed. This resulted in higher than budgeted operating lease expenditure due to the recognition of an onerous contract provision in relation to surplus lease space in the current premises. Impairment expenses are also higher then budgeted, based on the assumption that assets in the current premises will not be relocated to the new office.

c. Depreciation expenditure is higher than budget due to an asset revaluation uplift as at 30 June 2016, the reduction of the useful lives of a number of intangible assets based on an independent review of intangible asset balances as at 30 June 2016 and the initial capitalisation of internally generated software assets.

Statement of Financial Position
as at 30 June 2017

	Notes	2017 $'000	2016 $'000	Original 2017 Budget $'000	Notes
ASSETS					
Financial Assets					
Cash and cash equivalents	4.1	**51,313**	41,113	30,979	a
Trade and other receivables	4.2	**8,163**	3,442	2,598	b
Total financial assets		**59,476**	44,555	33,577	
Non-Financial Assets					
Leasehold improvements	5.1	**1,284**	6,932	5,678	a & c
Property, plant and equipment	5.1	**2,334**	4,117	2,538	a & c
Intangibles	5.1	**18,802**	20,129	21,446	a
Other non-financial assets	5.2	**3,012**	2,018	1,872	d
Total non-financial assets		**25,432**	33,196	31,534	
Total assets		**84,908**	77,751	65,111	
LIABILITIES					
Payables					
Suppliers	6.1	**3,916**	4,167	5,535	a
Other payables	6.2	**12,923**	12,939	6,572	a
Total payables		**16,839**	17,106	12,107	
Provisions					
Employee provisions	7.1	**12,367**	11,779	13,552	e
Other provisions	7.2	**14,217**	1,351	1,272	c
Total provisions		**26,584**	13,130	14,824	
Total liabilities		**43,423**	30,236	26,931	
Net assets		**41,485**	47,515	38,180	
EQUITY					
Contributed equity		**35,475**	35,475	34,074	
Operational risk reserve		**130**	-	-	
Asset revaluation reserve		**479**	1,172	-	
Retained surplus		**5,401**	10,868	4,106	
Total equity		**41,485**	47,515	38,180	

The above statement should be read in conjunction with the accompanying notes.

Budget Variances Commentary

Statement of Financial Position

a. Cash and cash equivalents are higher than budget due to changes in the timing of incurring expenditure for project related work and the deferral of capital replenishment expenditure until the co-location of the Canberra offices occurs. This also resulted in unearned revenue being higher than budget, and fixed asset balances and supplier payables being lower than budget.

b. 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. These expenses are higher than budget, primarily due to expenses relating to the office co-location. This also resulted in trade and other receivables being higher than budget. Refer to Statement of Comprehensive Income note b.

c. Refer to Statement of Comprehensive Income note b.

d. Other non-financial assets are higher than budget due to prepayments of software maintenance agreements.

e. Refer to Statement of Comprehensive Income note a.

Statement of Changes in Equity
for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000	Original 2017 Budget $'000	Notes
CONTRIBUTED EQUITY					
Opening balance					
Balance carried forward from previous period		**35,475**	2,324	34,074	
Comprehensive income					
Other comprehensive income		-	-	-	
Total comprehensive income		-	-	-	
Transactions with owners					
Contributions by owners					
Restructuring	17	-	33,151	-	
Total transactions with owners		-	33,151	-	
Closing balance as at 30 June		**35,475**	35,475	34,074	
RETAINED SURPLUS					
Opening balance					
Balance carried forward from previous period		**10,868**	4,106	4,106	
Comprehensive income					
Surplus/(deficit) for the year		**(2,467)**	9,762	3,000	
Other comprehensive income		-	-	-	
Total comprehensive income		**(2,467)**	9,762	3,000	
Transactions with owners					
Distributions to owners					
Returns on capital					
Dividends		**(3,000)**	(3,000)	(3,000)	
Total transactions with owners		**(3,000)**	(3,000)	(3,000)	
Closing balance as at 30 June		**5,401**	10,868	4,106	
ASSET REVALUATION RESERVE					
Opening balance					
Balance carried forward from previous period		**1,172**	-	-	
Comprehensive income					
Other comprehensive income		**(693)**	1,172	-	
Total comprehensive income		**(693)**	1,172	-	
Closing balance as at 30 June		**479**	1,172	-	
OPERATIONAL RISK RESERVE					
Opening balance					
Balance carried forward from previous period		-	-	-	
Transfers to Reserve					
Transfers from Department of Defence		**130**	-	-	
Total transfers to reserve		**130**	-	-	
Closing balance as at 30 June		**130**	-	-	

Statement of Changes in Equity (continued)
for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000	Original 2017 Budget $'000	Notes
TOTAL EQUITY					
Opening balance					
Balance carried forward from previous period		**47,515**	6,430	38,180	
Comprehensive income					
Surplus/(deficit) for the year		**(2,467)**	9,762	3,000	a
Other comprehensive income		**(693)**	1,172	-	b
Total comprehensive income		**(3,160)**	10,934	3,000	
Transfers to reserve					
Transfers from Department of Defence		**130**	-	-	
Total transfers to reserve		**130**	-	-	
Transactions with owners					
Distributions to owners					
Returns on Capital					
Dividends		**(3,000)**	(3,000)	(3,000)	
Contributions by owners					
Restructuring		**-**	33,151	-	
Total transactions with owners		**(3,000)**	30,151	(3,000)	
Closing balance as at 30 June		**41,485**	47,515	38,180	

Accounting Policy

Restructuring of Administrative Arrangements
Net assets received from or relinquished to another Government entity under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

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 a dividend of $3.0m (2015-16: $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.

b. Refer to Statement of Comprehensive Income note b.

Cash Flow Statement
for the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000	Original 2017 Budget $'000	Notes
OPERATING ACTIVITIES					
Cash received					
Sale of goods and rendering of services		**103,685**	101,746	106,933	a
Interest		**75**	84	80	
Net GST received		**402**	639	-	
Total cash received		**104,162**	102,469	107,013	
Cash used					
Employee benefits		**(54,278)**	(56,906)	(58,118)	b
Suppliers		**(33,898)**	(29,376)	(40,121)	c
Total cash used		**(88,176)**	(86,282)	(98,239)	
Net cash from operating activities	8	**15,986**	16,187	8,774	
INVESTING ACTIVITIES					
Cash received					
Proceeds from sales of property, plant and equipment		**1**	-	-	
Proceeds from acquisition of net liabilities from ARIA Investments Trust		**-**	772	-	
Total cash received		**1**	772	-	
Cash used					
Purchase of leasehold improvements		**(60)**	(250)	(1,027)	c
Purchase of property, plant and equipment		**(188)**	(1,533)	(1,401)	c
Purchase and internal development of intangibles		**(2,669)**	(2,983)	(3,346)	c
Total cash used		**(2,917)**	(4,766)	(5,774)	
Net cash (used by) investing activities		**(2,916)**	(3,994)	(5,774)	
FINANCING ACTIVITIES					
Cash received					
Cash and cash equivalents received from restructuring		**-**	23,075	-	
Transfers to operational risk reserve		**130**	-	-	
Total cash received		**130**	23,075	-	
Cash used					
Dividend paid		**(3,000)**	(3,000)	(3,000)	
Total cash used		**(3,000)**	(3,000)	(3,000)	
Net cash from/(used by) financing activities		**(2,870)**	20,075	(3,000)	
Net increase/(decrease) in cash held		**10,200**	32,268	-	
Cash and cash equivalents at the beginning of the reporting period		**41,113**	8,845	30,979	
Cash and cash equivalents at the end of the reporting period	4.1	**51,313**	41,113	30,979	

The above statement should be read in conjunction with the accompanying notes.

Cash Flow Statement (continued)
for the year ended 30 June 2017

Budget Variances Commentary

Cash Flow Statement

a. Sale of goods and rendering of services receipts are lower than budget due to the timing of debtor invoices for the AIT being settled. Refer to Statement of Financial Position note b.

b. Refer to Statement of Comprehensive Income note a.

c. Refer to Statement of Financial Position note a.

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 Military Superannuation Benefits Scheme (MSBS) was closed to new members from 30 June 2016 and a new accumulation plan, ADF Super, was established for members of the Australian Defence Force from 1 July 2016, together with a new invalidity scheme, ADF Cover.

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.

Following the passage of the Governance of *Australian Government Superannuation Schemes Legislation Amendment Bill 2015* on 15 June 2015, ComSuper was merged into CSC on 1 July 2015. As a result of the merger, the Statutory Agency of ComSuper was abolished, and as at 1 July 2015, the assets and liabilities ceased to be assets and liabilities of ComSuper, and became assets and liabilities of CSC without any conveyance, transfer or assignment. CSC was the successor in law in relation to the assets and liabilities (refer to Note 17 Restructuring).

To facilitate post-merger integration, CSC also changed its expense payment arrangements, whereby from 1 July 2015 all operational expenses are paid by CSC (formerly these were paid by the AIT). CSC then invoices the AIT for the portion of expenses that are referable to the AIT. Accordingly, on 1 July 2015 CSC acquired all the operational assets and liabilites (principally trade receivables, fixed assets, supplier payables, employee and other provisions) from the AIT at their 30 June 2015 fair values.

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 2016; 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 July 2019	AASB 16 introduces a single lessee accounting model and requires a 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. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. The principal impact for CSC on adoption of AASB 16 will be to recognise the relevant operating leases (for office accommodation) on the balance sheet as a right of use asset and as a lease liability.

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 future 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.

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.

NOTE 1: Overview (continued)

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) 2016-2017* and *Appropriation Act (No. 2) 2016-2017* .

The funded components of the CSS and PSS Schemes are reported in their respective financial statements.

DFRB, DFRDB and MSB 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) 2015-2016* . 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.

Events After the Reporting Period

There were no subsequent events that had the potential to significantly affect the ongoing structure and financial activities of Commonwealth Superannuation Corporation.

Note 2: Expenses

	2017 $'000	2016 $'000
2.1: Employee Benefits		
Wages and salaries	**42,998**	41,809
Superannuation		
Defined contribution plans	**4,455**	4,028
Defined benefit plans	**2,571**	3,050
Leave and other entitlements	**4,822**	5,049
Separation and redundancies	**200**	261
Total employee benefits	**55,046**	54,197
2.2: Suppliers		
Goods and services supplied or rendered		
Consultants	**5,109**	4,374
Contractors	**4,714**	3,660
Information technology and communications	**6,312**	6,215
Insurance	**655**	603
Printing/stationery	**521**	501
Property (other than rent)	**1,221**	1,207
Training and development	**679**	675
Travel	**1,493**	1,343
Other goods and services	**5,984**	5,633
Total goods and services supplied or rendered	**26,688**	24,211
Goods supplied	**668**	861
Services rendered	**26,020**	23,350
Total goods and services supplied or rendered	**26,688**	24,211
Other supplier expenses		
Operating lease rentals		
Minimum lease payments	**4,338**	4,224
Movement in provision for onerous rent	**12,865**	107
Workers compensation expenses	**1,311**	906
Total other suppliers	**18,514**	5,237
Total suppliers	**45,202**	29,448

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 (trustee office and financial planning office), Belconnen, Sydney, Melbourne and Brisbane.

CSC has entered into a new lease in the current year in Canberra City commencing 1 October 2017 and will relocate from the existing Canberra City trustee and financial planning offices and the Belconnen office, to combine 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, financial planning office 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 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	**5,801**	4,047
Between 1 to 5 years	**27,469**	14,648
More than 5 years	**24,027**	4,336
Total operating lease commitments	**57,297**	23,031

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 dervied 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 existing Belconnen and Canberra city offices.

	2017	2016
	$'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	**221**	-
Impairment of intangible assets	**-**	244
Write-off of property, plant and equipment on disposal	**12**	21
Total write-down and impairment of assets	**4,100**	271

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	**98**	98
Regulatory audit services	**11**	11
	109	109

Audit fees are also payable to the ANAO by other entities under CSC's trusteeship. For the 2016-17 financial year the total fees payable for these entities is $702,500 (2016: $622,500).

The following additional services were provided by Deloitte:

Internal controls audit	**110**	107
Project risk advisory services	**125**	131
Financial planning business model advisory services[1]	**370**	-
	605	238

No other services were provided to CSC by the ANAO or Deloitte.

[1.] CSC engaged Morse Consulting to undertake financial planning business model advisory services. Morse were subsequently acquired by Deloitte on 1 September 2016.

Note 3: Own-Source Revenue

	2017 $'000	2016 $'000
Own-Source Revenue		
3.1: Sale of Goods and Rendering of Services		
Scheme administration fees	**77,201**	76,746
Services rendered to the ARIA Investments Trust	**31,365**	22,269
Other revenue	**289**	253
Total sale of goods and rendering of services	**108,855**	99,268

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	**79**	78
Total interest	**79**	78

Accounting Policy

Interest revenue is recognised using the effective interest method.

Note 4: Financial Assets

	2017 $'000	2016 $'000
4.1: Cash and Cash Equivalents		
Cash in special account	**37,619**	27,107
Cash on deposit	**13,694**	14,006
Total cash and cash equivalents	**51,313**	41,113

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	**7,928**	2,910
Total goods and services receivables	**7,928**	2,910
Other receivables:		
GST receivable	**119**	521
Interest receivable	**10**	6
Reimbursements	**110**	11
Total other receivables	**239**	538
Total trade and other receivables (gross)	**8,167**	3,448
Less impairment allowance	**(4)**	(6)
Total trade and other receivables (net)	**8,163**	3,442
Trade and other receivables (net) expected to be recovered in:		
No more than 12 months	**8,159**	3,438
More than 12 months	**4**	4
Total trade and other receivables (net)	**8,163**	3,442
Trade and other receivables (gross) are aged as follows:		
Not overdue	**7,888**	3,431
Overdue by		
0 to 30 days	**6**	1
31 to 60 days	**258**	-
61 to 90 days	**-**	5
More than 90 days	**15**	11
Total trade and other receivables (gross)	**8,167**	3,448

Note 4: Financial Assets (continued)

4.2: Trade and Other Receivables (continued)

	2017 $'000	2016 $'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	(4)	(6)
Total impairment allowance	**(4)**	**(6)**

Credit terms for goods and services were within 30 days (2016: 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 2017

	Goods and services $'000	Total $'000
As at 1 July 2016	**(6)**	**(6)**
Amounts written off	6	6
Amounts recovered and reversed	-	-
Increase recognised in net cost of services	(4)	(4)
Total as at 30 June 2017	**(4)**	**(4)**

Movements in relation to 2016

	Goods and services $'000	Total $'000
As at 1 July 2015	-	-
Amounts acquired through restructuring	(41)	(41)
Amounts written off	41	41
Amounts recovered and reversed	-	-
Increase recognised in net contribution by services	(6)	(6)
Total as at 30 June 2016	(6)	(6)

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 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
Revaluations and impairments recognised in other comprehensive income	(408)	(285)	-	(693)
Impairments recognised in net cost of 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	1,284	2,334	18,802	22,420

1. Property, plant and equipment at CSC's existing Canberra offices are expected to be disposed of within the next 12 months, due to the co-location of CSC's Canberra offices. At 30 June 2017, the total value of the assets expected to be disposed is $0.241 million. In addition, impairment losses of $0.506 million for property, plant and equipment and $4.269 million for leasehold 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.

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 a fair value assessment of the carrying values of all leasehold improvements and property, plant and equipment assets as at 30 June 2017 and 30 June 2016.

Contractual commitments for the acquisition of property, plant, equipment and intangible assets

CSC have contractual commitments totalling $1.151 million (2016: $0.330 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 2016

	Leasehold Improvements	Property, Plant and Equipment	Intangibles - Computer Software[1]	Total
	$'000	$'000	$'000	$'000
As at 1 July 2015				
Gross book value	-	-	-	-
Accumulated depreciation, amortisation and impairment	-	-	-	-
Total as at 1 July 2015	-	-	-	-
Additions				
Purchased	2,167	1,094	217	3,478
Internally developed	-	-	2,584	2,584
Acquired through restructuring	5,446	3,847	20,572	29,865
Revaluations and impairments recognised in other comprehensive income	541	631	-	1,172
Impairments recognised in net contribution by services	-	-	(244)	(244)
Depreciation and amortisation	(1,222)	(1,434)	(3,000)	(5,656)
Disposals				
Write off of property, plant and equipment	-	(21)	-	(21)
From disposal of entities or operations (including restructuring)	-	-	-	-
Other	-	-	-	-
Total as at 30 June 2016	6,932	4,117	20,129	31,178
Total as at 30 June 2016 represented by				
Gross book value	6,932	4,117	23,373	34,422
Accumulated depreciation, amortisation and impairment	-	-	(3,244)	(3,244)
Total as at 30 June 2016 represented by	6,932	4,117	20,129	31,178

1. The carrying amount of computer software includes $0.658 million of purchased software and $19.471 million of internally generated software.
A $0.244m impairment loss was recognised for internally developed generated software. No indicators of impairment were found for property, plant and equipment.

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:

	2017	2016
Leasehold Improvements	Lease terms	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 2017. 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 2017. All software assets in use were assessed for indications of impairment as at 30 June 2017.

Accounting Judgements and Estimates
Due to the co-location of CSC Canberra offices, CSC has made judgements in relation to the fair value of property plant and equipment and leasehold improvements in the offices to be vacated. An impairment loss has been recognised for all current items of leasehold improvements and property, plant and equipment in the Canberra City and Belconnen offices based on the assumption that these assets will not be relocated to the new premises. Given these assets continue to have a value in use until the date of co-location, the impairment adjustment takes into account the residual useful lives of these assets.

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 by an independent consultant as at 30 June 2017.

Note 5: Non-Financial Assets (continued)

	2017 $'000	2016 $'000
5.2: Other Non-Financial Assets		
Prepayments	**3,012**	2,018
Total other non-financial assets	**3,012**	2,018
Other non-financial assets expected to be recovered in:		
No more than 12 months	**2,510**	1,740
More than 12 months	**502**	278
Total other non-financial assets	**3,012**	2,018

No indicators of impairment were found for other non-financial assets (2016: Nil).

Note 6: Payables

	2017 $'000	2016 $'000
6.1: Suppliers		
Trade creditors and accruals	**3,916**	4,167
Total suppliers	**3,916**	4,167
Supplier payables expected to be settled in:		
No more than 12 months	**3,916**	4,167
More than 12 months	**-**	-
Total suppliers	**3,916**	4,167

Settlement is usually made within 30 days.

6.2: Other Payables		
Wages and salaries	**437**	204
Unearned revenue	**10,451**	10,496
Lease liabilities	**2,016**	2,167
Other	**19**	72
Total other payables	**12,923**	12,939
Other payables expected to be settled in:		
No more than 12 months	**10,736**	7,688
More than 12 months	**2,187**	5,251
Total other payables	**12,923**	12,939

Note 7: Provisions

	2017 $'000	2016 $'000
7.1: Employee Provisions		
Leave	**12,287**	11,779
Separations and redundancies	**80**	-
Total employee provisions	**12,367**	11,779
Employee provisions expected to be settled in:		
No more than 12 months	**4,974**	4,072
More than 12 months	**7,393**	7,707
Total employee provisions	**12,367**	11,779

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), or the PSS accumulation plan (PSSap), or other superannuation funds held outside the Australian Government.

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.

	2017 $'000	2016 $'000
7.2: Other Provisions		
Provision for onerous rent	**13,653**	787
Provision for restoration obligations	**564**	564
Total other provisions	**14,217**	1,351

	Provision for onerous rent	Provision for restoration obligations	Total other provisions
	$'000	$'000	$'000
As at 1 July 2016	**787**	**564**	**1,351**
Additional provisions made	**12,975**	**-**	**12,975**
Amounts used	**(110)**	**-**	**(110)**
Amounts reversed	**-**	**-**	**-**
Unwinding of discount or change in discount rate	**1**	**-**	**1**
Total as at 30 June 2017	**13,653**	**564**	**14,217**

Note 7: Provisions (continued)

	2017	2016
	$'000	$'000
7.2 Other Provisions (Continued)		
Other provisions are expected to be settled in:		
No more than 12 months	**1,754**	110
More than 12 months	**12,463**	1,241
Total other provisions	**14,217**	1,351

The entity currently has 3 (2016: 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 this obligation.

As a result of the signing of the new lease for the co-location of CSC's Canberra offices, an onerous rent provision has been raised in relation to surplus lease space in the existing Belconnen and Canberra City offices.

Note 8: Cash Flow Reconciliation

	2017 $'000	2016 $'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	**51,313**	41,113
Statement of Financial Position	**51,313**	41,113
Difference	**-**	-
Reconciliation of net contribution by/(cost of) services to net cash from/(used by) operating activities		
Net contribution by/(cost of) services	**(2,467)**	9,762
Adjustments for non-cash items		
Depreciation and amortisation	**7,053**	5,656
Write down and impairment of assets	**4,100**	271
Expense non-financial assets on transfer from the AIT[1]	**-**	110
Movements in assets and liabilities		
Assets		
(Increase) / decrease in trade and other receivables	**(4,727)**	(2,250)
(Increase) / decrease in other non-financial assets	**(994)**	(153)
Liabilities		
Increase / (decrease) in supplier payables	**(416)**	(406)
Increase / (decrease) in other payables	**(16)**	3,168
Increase / (decrease) in employee provisions	**588**	(50)
Increase / (decrease) in other provisions	**12,865**	79
Net cash from operating activities	**15,986**	16,187

[1]Adjusted for restructure and purchase of assets from AIT on 1 July 2015.

Note 9: Appropriations

9.1: Special Appropriations[1]

Authority	Type	Purpose	Appropriation applied 2017 $'000	2016 $'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.	**(81,985)**	(90,133)
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.	**(4,296,123)**	(4,216,577)
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.	**(1,937,127)**	(1,698,336)
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.	**(60)**	(59)
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.	**(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.	**(1,253)**	(634)
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.	**(45,668)**	(47,419)
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.	**(1,535,637)**	(1,506,904)
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.	**(674,264)**	(583,909)
Public Governance, Performance and Accountability Act 2013 Section 77	Refund	Repayments required or permitted by law (where no other appropriation for repayment exists).	**(46)**	(54)
Australian Defence Force Cover Act 2015.	Unlimited Amount	An Act to provide a new statutory death and invalidity scheme.	**(21)**	-
Total			**(8,572,199)**	(8,144,025)

1. Amounts exclude recoverable GST.

Note 9: Appropriations (continued)

9.2: Disclosure by Agent in Relation to Annual and Special Appropriations[1]

2017	DFAT[2] $'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)**

2016	DFAT $'000	Department of Finance $'000	Department of Defence $'000
Total receipts	-	3,321,707	1,608,049
Total payments	(6,883)	(6,006,827)	(2,138,231)

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 2016 to 30 June 2017:

Legislation / Authority to pay[1]	Recoverable death payments[2]					
	2017			2016		
	No.	**Value $'000**	**Recovered $'000**	No.	Value $'000	Recovered $'000
DFAT – Annual Administered Appropriation						
Papua New Guinea (Staffing Assistance) Act 1973	**8**	**22**	**15**	8	13	12
Defence - Special Appropriations						
Defence Forces Retirement Benefits Act 1948; and Defence Forces Retirement and Death Benefits Act 1973	**709**	**1,214**	**975**	610	1,684	1,004
Military Superannuation and Benefits Act 1973	**19**	**60**	**47**	19	69	19
Australian Defence Force Cover Act 2015	**-**	**-**	**-**	-	-	-
Finance - Special Appropriations						
Superannuation Act 1922; and Superannuation Act 1976	**2,685**	**4,197**	**3,565**	2,614	4,787	4,059
Superannuation Act 1990	**141**	**293**	**213**	122	224	158

	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	**82**	**229**	**106**	66	342	35
Military Superannuation and Benefits Act 1973	**42**	**502**	**51**	41	1,380	107
Australian Defence Force Cover Act 2015	**-**	**-**	**-**	-	-	-
Finance - Special Appropriations						
Superannuation Act 1922; and Superannuation Act 1976	**31**	**199**	**182**	38	122	76
Superannuation Act 1990	**42**	**182**	**88**	32	207	149

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]	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Balance brought forward from previous period	**32,273**	-	**62,109**	-
Increases				
Amounts transferred through restructuring	**-**	23,075	**-**	6,502
Other receipts	**104,162**	103,241	**2,025,549**	1,828,647
Total increases	**104,162**	126,316	**2,025,549**	1,835,149
Available for payments	**104,162**	126,316	**2,025,549**	1,835,149
Decreases				
Departmental				
Payments made to suppliers	**(36,815)**	(34,142)		-
Payments made to employees	**(54,282)**	(56,901)	**-**	-
Dividend paid	**(3,000)**	(3,000)	**-**	-
Total departmental decrease	**(94,097)**	(94,043)	**-**	-
Special Public Money			**-**	
Payments made to others	**-**	-	**(2,080,591)**	(1,773,040)
Total special public money decrease	**-**	-	**(2,080,591)**	(1,773,040)
Total decreases	**(94,097)**	(94,043)	**(2,080,591)**	(1,773,040)
Balance represented by:				
Cash held in entity bank accounts	**4,719**	5,166		
Cash held in the official public account	**37,619**	27,107		
Total balance carried to the next period[3]	**42,338**	32,273	**7,067**	62,109

[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 the Cash Flow Statement 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:

	2017	2016
	$	$
Short-term employee benefits	**4,362,425**	4,671,020
Post-employment benefits	**447,281**	513,522
Other long-term employee benefits	**336,847**	370,251
Termination benefits	**237,500**	-
Total key management personnel remuneration	**5,384,053**	5,554,793

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 (2016: 22 individuals).

The Directors of CSC throughout the year ended 30 June 2017 were:

Ariane Barker (appointed 13 September 2016)
Tony Cole (term ended 30 June 2017)
Patricia Cross (Chair)
Christopher Ellison
Nadine Flood
Lyn Gearing (term ended 12 September 2016)
Winsome Hall
Garry Hounsell (appointed 1 July 2016)
Sunil Kemppi (appointed 1 July 2016)
Anthony Needham (appointed 1 July 2016)
Peggy O'Neal
Margaret Staib

The following Directors were appointed subsequent to year end:

Michael Vertigan (appointed 1 July 2017)

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 2017:

Paul Abraham	General Manager, Investment Operations
Peter Carrigy-Ryan	Chief Executive Officer
Philip George	General Manager, Scheme Administration
Richard Hill	General Manager, Information Technology
Bronwyn McNaughton	General Manager, Corporate
Christine Pearce	General Manager, Member & Employer Services
Sarah Rodgers	General Manager, People & Culture (resigned 3 August 2016)
Alison Tarditi	Chief Investment Officer
Andy Young	General Manager, Finance

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:
Tony Cole (CSS)
Christopher Ellison (PSSap)
Nadine Flood (PSSap)
Winsome Hall (PSS)
Sunil Kemppi (PSSap)
Anthony Needham (MSBS)
Margaret Staib (DFRDB)

Paul Abraham (PSSap)
Peter Carrigy-Ryan (CSS)
Philip George (PSSap)
Richard Hill (PSSap)
Bronwyn McNaughton (PSS)
Christine Pearce (PSSap)
Alison Tarditi (PSSap)
Andy Young (PSSap)

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 (2016 Nil).

Unquantifiable Contingencies

CSC is not aware of any events that require it to report unquantifiable contingencies (2016 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

	2017 $'000	2016 $'000
14.1: Categories of Financial Instruments		
Financial Assets		
Loans and receivables		
Cash and cash equivalents	**51,313**	41,113
Trade and other receivables	**8,038**	2,921
Total loans and receivables	**59,351**	44,034
Total financial assets	**59,351**	44,034
Financial Liabilities		
Financial liabilities measured at amortised cost		
Trade creditors and accruals	**3,916**	4,167
Other payables	**456**	276
Total financial liabilities measured at amortised cost	**4,372**	4,443
Carrying amount of financial liabilities	**4,372**	4,443

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).

	2017 $'000	2016 $'000
14.2: Net Gains on Financial Assets		
Loans and receivables		
Interest revenue	**79**	78
Net gains on loans and receivables	**79**	78

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 2017 (30 June 2016: 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 2017 and 30 June 2016.

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 and reimbursements (excluding GST receivable) 2017: $8,038,000 (2016: $2,921,000).

CSC has assessed the risk of the default on payment and has allocated $4,000 in 2017 (2016: $6,000) to an impairment allowance account. CSC also manages credit risk by following up debtors (the majority 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 2017 $'000	Not past due nor impaired 2016 $'000	**Past due or impaired 2017 $'000**	Past due or impaired 2016 $'000
Cash and cash equivalents	**51,313**	41,113	**-**	-
Receivables for goods and services	**7,649**	2,893	**279**	17
Reimbursements	**110**	11	**-**	-
Total	**59,072**	44,017	**279**	17

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**

Ageing of financial assets that were past due but not impaired for 2016

	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	1	-	5	5	11
Total	1	-	5	5	11

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 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**

Maturities for non-derivative financial liabilities 2016

	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	-	4,167	-	-	-	4,167
Other	-	276	-	-	-	276
Total	-	4,443	-	-	-	4,443

During 2016-17 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 as 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		
	2017 $'000	2016 $'000	**Category (Level 1, 2 or 3)[3,4,5]**	**Valuation Technique [1]**	**Inputs used**	**Sensitivity Analysis**
Non-financial assets[2]						
Leasehold improvements	**1,284**	6,932	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)	**2,334**	4,117	Level 3	Depreciated replacement cost	Replacement cost new Consumed economic benefit/Obsolescence of asset	
Total non-financial assets	**3,618**	11,049				
Total fair value measurements of assets in the Statement of Financial Position	**3,618**	11,049				

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 2017.
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	
	2017	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
As at 1 July	**6,932**	-	**4,117**	-	**11,049**	-
Total gains/(losses) recognised in net cost of/contribution by services[a]	**(5,300)**	(1,222)	**(1,851)**	(1,455)	**(7,151)**	(2,677)
Total gains/(losses) recognised in other comprehensive income[b]	**(408)**	541	**(285)**	631	**(693)**	1,172
Purchases	**60**	2,167	**353**	1,094	**413**	3,261
Acquired through restucturing	**-**	5,446	**-**	3,847	**-**	9,293
Total as at 30 June	**1,284**	6,932	**2,334**	4,117	**3,618**	11,049

[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.

	2017	2016
	$'000	$'000
CSS		
Opening balance	**3,343,013**	3,789,241
Closing balance	**3,025,883**	3,343,013
PSS		
Opening balance	**17,954,263**	17,898,204
Closing balance	**19,182,997**	17,954,263
PSSap		
Opening balance	**8,976,460**	7,936,570
Closing balance	**10,764,628**	8,976,460
MSBS		
Opening balance	**7,327,791**	6,830,533
Closing balance	**8,360,486**	7,327,791
ADF Super		
Opening balance	**-**	-
Closing balance	**37,743**	-

Note 17: Restructuring

Following the passage of the *Governance of Australian Government Superannuation Schemes Legislation Amendment Bill 2015* on 15 June 2015, ComSuper was merged into the Commonwealth Superannuation Corporation (CSC) on 1 July 2015. As a result of the merger, the Statutory Agency of ComSuper was abolished, and as at 1 July 2015, the assets and liabilities ceased to be assets and liabilities of ComSuper, and became assets and liabilities of CSC without any conveyance, transfer or assignment. CSC was the successor in law in relation to the assets and liabilities.

In respect of functions assumed, the net book values of assets and liabilities transferred to CSC for no consideration and recognised as at the date of transfer were:

	CSC take on value 1 July 2015 $'000
FUNCTIONS ASSUMED	
Assets recognised	
Cash and cash equivalents	**23,075**
Trade and other receivables	**382**
Leasehold improvements	**5,446**
Property, plant and equipment	**3,847**
Intangibles	**20,572**
Other non-financial assets	**1,429**
Total assets recognised	**54,751**
Liabilities recognised	
Suppliers	**(3,340)**
Other payables	**(7,979)**
Employee provisions	**(9,476)**
Other provisions	**(805)**
Total liabilities recognised	**(21,600)**
Net assets/(liabilities) assumed	**33,151**

Note 18: Reporting of Outcomes

	Outcome 1[1]	
	2017	2016
	$'000	$'000
Expenses		
Employees	**55,046**	54,197
Suppliers	**45,202**	29,448
Depreciation and amortisation	**7,053**	5,656
Finance costs	**1**	12
Write-down and impairment of assets	**4,100**	271
Total expenses	**111,402**	89,584
Own-source revenue		
Sale of goods and rendering of services	**108,855**	99,268
Interest	**79**	78
Gains		
Gains from sale of assets	**1**	-
Total own-source income	**108,935**	99,346
Assets		
Cash and cash equivalents	**51,313**	41,113
Trade and other receivables	**8,163**	3,442
Leasehold improvements	**1,284**	6,932
Property, plant and equipment	**2,334**	4,117
Intangibles	**18,802**	20,129
Other non-financial assets	**3,012**	2,018
Total Assets	**84,908**	77,751
Liabilities		
Supplier payables	**3,916**	4,167
Other payables	**12,923**	12,939
Employee provisions	**12,367**	11,779
Other provisions	**14,217**	1,351
Total liabilities	**43,423**	30,236

[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.

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APPENDICES

Appendix 1

Defined benefit scheme membership & transactions

Membership at 30 June 2017		Transactions 2016–17	$m
CSS (not including 1922 & PNG schemes)			
Contributors	5 787	Contributions**	82.169
Deferred	4 836	**Benefits paid**	
Pensions*	107 278	Lump sum***	295.696
Total	117 901	Pensions	3,999.610
PSS			
Contributors	78 911	Contributions**	783.170
Deferred	100 429	**Benefits paid**	
Pensions*	48 122	Lump sum***	525.103
Total	227 462	Pensions	1,439.460
MilitarySuper			
Contributors	53 682	Contributions**	492.019
Deferred	107 209	**Benefits paid**	
Pensions*	14 969	Lump sum***	200.613
Total	175 860	Pensions	523.124
DFRDB (not including DFRB)			
Contributors	1797	Contributions**	13.419
Deferred	0	**Benefits paid**	
Pensions*	54 989	Lump sum***	88.258
Total	56 786	Pensions	1,411.246

* 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)

** Contributions figures indicate member and employer contributions

*** 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 2,556 pensioner accounts at 30 June 2017; pension payments in 2016/17 totalled $82m

PNG Scheme had 128 pensioner accounts at 30 June 2017; pension payments in 2016/17 totalled $6.3m

DFRB had 2,495 pensioner accounts at 30 June 2017; pension payments in 2016/17 totalled $45.7m

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
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*

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REPORT REQUIREMENTS

Table 28: 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 2016–17 as set out in GAGSS Act.	Available on pages 53–74.
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 2016–17 as set out in GAGSS Act.	Available on pages 53–74.
Information on the performance of CSC functions in relation to the DFSPB during 2016–17.	Available on pages 53–74.
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 75–304.

Requirements under *Public Governance Accountability Amendment Act 2013*	
Details of the legislation establishing CSC.	Available on page 3.
A summary of the objectives and functions of CSC as set out in the establishing legislation.	Available on page 10.
The purposes of CSC as included in CSC's corporate plan for the period.	Available on page 18.
The names and titles of persons holding the position of responsible Minister or Ministers during 2016–17.	Responsible Ministers during 2016–17 were: > Senator the Hon Mathias Cormann, Minister for Finance > Senator the Hon Marise Payne, Minister for Defence > The Hon Michael McCormack MP, Assistant Minister for Defence (to 19 July 2016) > The Hon Dan Tehan MP, Assistant Minister for Defence (from 20 July 2016)
Any directions given to CSC by a Minister under an Act/instrument during 2016–17.	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.
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 pages 19–23.

Requirements under *Public Governance Accountability Amendment Act 2013*	
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 2016–17; must 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 25–38.
An outline of the location (whether or not in Australia) of major activities or facilities of CSC.	CSC has three office locations; two in Canberra (Civic and Belconnen) and one in Sydney.
Information in relation to the main corporate governance practices used by CSC during the period.	Available on pages 33–41.
CSC's decision-making 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 transaction (or if there is more than more transaction, the aggregate value of transactions) is more than $10,000 (inclusive of GST). The value of the transaction or aggregate value of transactions is also required. (Two Commonwealth entities are related if an individual is a member/director of the board of both entities.)	N/A – none of the circumstances outlined in the left-hand column did not apply to CSC during the year.
Any significant activities and changes that affected the operations or structure of CSC during the period; 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
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.

Requirements under *Public Governance Accountability Amendment Act 2013*	
Particulars of any report on CSC given in 2016–17 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 of Parliament; or the Commonwealth Ombudsman; or the Office of the Australian Information Commissioner.	CSC was included in the sample of entities within the scope of the Auditor General's report No. 6 (2016–17) 'Corporate Planning in the Australian Public Sector.' This report was the subject of an inquiry held by the Joint Committee of Public Accounts and Audit in November 2016.
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 2016–17 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).	Available on page 27.
Details of any significant non-compliance with finance law as per section 19 of the PGPA Act.	N/A – there was no reportable non-compliance.
An index of CSC's mandatory annual reporting requirements.	This report requirements table.
Details of how CSC's Annual Report (ie 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 Chair's approved the report on 26 September 2017. 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 2017 so the report content is accessible to people with a disability who are interested in CSC's report).

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