

**Local Government Superannuation Scheme
Pool A**

Financial Report

For the Year Ended 30 June 2006

Local Government Superannuation Scheme Pool A

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2006

CONTENTS	Page
TRUSTEE STATEMENT	3
OPERATING STATEMENT	4
STATEMENT OF FINANCIAL POSITION	5
STATEMENT OF CASH FLOWS	6
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS	7 - 26
AUDITOR'S REPORT TO THE MEMBERS	27 - 28

Local Government Superannuation Scheme Pool A

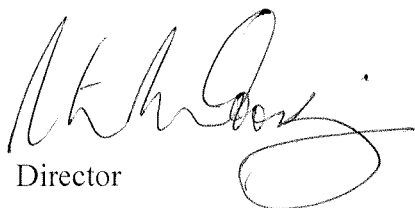
TRUSTEE STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

In the opinion of the Trustee of Local Government Superannuation Scheme Pool A:

1. The accompanying financial statements of the Local Government Superannuation Scheme Pool A are properly drawn up so as to present fairly the Financial Position of the Scheme as at 30 June 2006, the Operating Statement for the year ended 30 June 2006 and the Statement of Cash Flows for the year ended on that date;
2. The financial report has been prepared in accordance with the requirements of the Trust Deed;
3. The accompanying financial statements have been drawn up in accordance with Australian Accounting Standards;
4. The Scheme has been conducted in accordance with its constituent Trust Deed; and
5. In the Trustees' opinion there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the Board of Directors of LGSS Pty Limited (ABN 68 078 003 497).

Signed at Sydney this 25 day of October 2006.


Director


Director

Local Government Superannuation Scheme Pool A

OPERATING STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$'000	2005 \$'000
Investment Revenue			
Investment Revenue	10	181,448	138,621
Changes in Net Market Value of Investments	9	<u>43,007</u>	<u>38,084</u>
Total Investment Revenue		224,455	176,705
Investment Expenses		<u>(5,720)</u>	<u>(4,358)</u>
Net Investment Revenue		<u>218,735</u>	<u>172,347</u>
Contributions Revenue			
Employer Contributions	11(a)	166,156	153,299
Member Contributions	11(b)	17,945	13,331
Transfers In	11(c)	<u>207,891</u>	<u>141,496</u>
Total Contribution Revenue		391,992	308,126
Other Revenue		520	62
Total Revenue		<u>611,247</u>	<u>480,535</u>
Expenses			
Superannuation Contributions Surcharge		(1,244)	(1,301)
Scheme Administration Expenses	1(f)	<u>(12,840)</u>	<u>(8,849)</u>
Total Expenses		<u>(14,084)</u>	<u>(10,150)</u>
Operating Result Before Income Tax		597,163	470,385
Income Tax Expense	5	<u>(31,881)</u>	<u>(31,796)</u>
Benefits Accrued as a Result of Operations		<u><u>565,282</u></u>	<u><u>438,589</u></u>

The above Operating Statement should be read in conjunction with the accompanying Notes.

Local Government Superannuation Scheme Pool A

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2006

	Note	2006 \$'000	2005 \$'000
Investments	1(b),15		
Short Term Investments		7,376	6,990
Unit Trusts		1,787,669	1,379,140
Pooled Superannuation Trusts		11,692	10,666
Unlisted Hedge Fund		88,714	68,793
Total Investments		<u>1,895,451</u>	<u>1,465,589</u>
 Other Assets			
Cash	14(a)	36,572	36,551
Receivables	3	2,284	552
Total Other Assets		<u>38,856</u>	<u>37,103</u>
Total Assets		<u>1,934,307</u>	<u>1,502,692</u>
 Less:			
Liabilities			
Payables	4	3,994	2,751
Current Tax Liability	5(b)	15,878	15,615
Deferred Tax Liability	5 (c)	10,307	6,748
Total Liabilities		<u>30,179</u>	<u>25,114</u>
 Net Assets Available to Pay Benefits		<u>1,904,128</u>	<u>1,477,578</u>
 Represented by:			
 Liability for Accrued Benefits			
Funds Allocated to Members' Accounts	7	1,881,602	1,464,302
Funds Not Yet Allocated to Members' Accounts	6(b)	4,119	4,009
Administration Reserve	6(c)	503	364
Death or Invalidity Reserve	6(d)	9,047	8,903
Contribution Tax Reserve	6(e)	8,857	-
Total Liability for Accrued Benefits	6(a)	<u>1,904,128</u>	<u>1,477,578</u>

The above Statement of Financial Position should be read in conjunction with the accompanying Notes.

Local Government Superannuation Scheme Pool A

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$'000	2005 \$'000
Cash Flows from Operating Activities			
Contributions Received from Employers		166,156	153,299
Contributions Received from Members		17,945	13,331
Transfers from Other Funds		207,891	141,496
Income Received		181,968	138,683
Benefits Paid		(138,732)	(88,418)
Investment Expenses Paid		(5,720)	(4,358)
Scheme Administration Expenses Paid		(13,330)	(11,557)
Surcharge Paid		(1,244)	(1,301)
Income Tax Paid		(28,058)	(31,422)
Net Cash Provided from Operating Activities	14(b)	386,876	309,753
Cash Flows from Investing Activities			
Redemptions from Investments		148,328	201,988
Applications to Investments		(535,183)	(503,974)
Net Cash (Used in) Investing Activities		(386,855)	(301,986)
Net Increase in Cash Held		21	7,767
Cash at the Beginning of the Financial Year		36,551	28,784
Cash at the End of the Financial Year	14(a)	36,572	36,551

The above Statement of Cash Flows should be read in conjunction with the accompanying Notes.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF ACCOUNTING POLICIES

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with accounting Standards, Urgent Issues Group Interpretations, the Superannuation Industry (Supervision) Act 1993 and provisions of the Trust Deed. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('AIFRS') to the extent they are not inconsistent with AAS 25 Financial Reporting by Superannuation Plans.

The financial statements were authorised for issue by the Directors on 25 October 2006.

(a) Basis of Preparation

The financial statements have been prepared on a basis required by AAS 25, which provides specific measurements for assets, liabilities and accrued benefits. To the extent that they do not conflict with AAS 25, other Accounting Standards have been applied in the preparation of the financial statements.

In the application of Accounting Standards, including AIFRS, the Directors are required to make judgments, estimates and assumptions about net market 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 circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

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

Judgments made by the Directors 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.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Scheme changed its accounting policies on 1 July 2004 to comply with AIFRS, to the extent they are not inconsistent with AAS 25 Financial Reporting by Superannuation Plans. The transition from superseded policies to AIFRS (that are not inconsistent with AAS 25) has not affected the Scheme's financial position, financial performance and cash flow for the years ended 30 June 2006 and 30 June 2005.

The accounting policies set out below have been applied in preparing the financial statements for the year end 30 June 2006 and the comparative information presented in these financial statements for the year ended 30 June 2005.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(b) Investments

Investments are valued at net market value less estimated costs of disposal at balance date. Changes in net market values, representing gains or losses, are recognised in the Operating Statement in the year in which they occur.

The valuation of each class of investment as at 30 June 2006 is determined as follows:

Short Term Investments	Market rates
Unit Trusts, Pooled Superannuation Trusts and Unlisted Hedge Fund.	Redemption value of units based on market values of underlying assets as advised by the managers of the trusts

(c) Income Tax

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. Current tax for 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 arising from 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 assets and liabilities are recognised for all taxable temporary differences and are measured at the tax rates that are expected to apply in the period when the liability giving rise to them are realised or settled, based on tax rates that have been enacted or substantively enacted by reporting date. The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Scheme expects, at the reporting date, to recover or settle the carrying amounts 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 is recognised as an expense in the Operating Statement.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(d) Contributions

Member and employer contributions are recorded in the Operating Statement at the time when they are allocated to members' accounts.

Transfers from other funds are recognised on a cash basis. Amounts are recognised when transfer receipts are received by the Scheme.

(e) Income Recognition

To the extent of which it is probable that the economic benefits will flow to the Scheme and the income can be reliably measured, income is recognised. The following recognition criteria relates to the different income streams the Scheme has recognised:

Interest

Interest on cash deposit is recognised in accordance with the terms and conditions which apply to the deposit.

Trust Distributions

Trust Distributions are recognised on a receivable basis on the date the unit value is quoted ex distribution.

Changes in Net Market Value

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

(f) Expenses

Scheme administration expenses includes all expenses of the Scheme for the year inclusive of expenses paid from the administration reserve and expense provisions that have been charged against investment returns.

The expenses are disclosed in the Statement of Cashflows as part of the Scheme's operating activities.

Certain Scheme administration expenses, other than expenses of administering the death or invalidity insurance provision of the Scheme, are charged directly to members' accounts to the extent permissible through the Product Disclosure Statement. The remainder of the Scheme administrative and investment expenses are charged directly against investment returns to the member.

Death or invalidity insurance expenses are charged directly to the Death or Invalidity Reserve.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(g) Liability for Accrued Benefits

The liability for accrued benefits is the present obligation to pay benefits to members and beneficiaries as is represented by the carrying amount of the Net Assets Available to Pay Benefits.

(h) Foreign Currency Transactions

Foreign currency transactions during the year are converted to Australian dollars at the rate of exchange applicable at the date of the transaction. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange at that date.

(i) Superannuation Contributions Surcharge

The superannuation contributions surcharge which may be payable by the Scheme under the Superannuation Contributions Tax (Assessment and Collection) Act 1997 is brought to account as a liability and an expense in the year when assessments are received from the Australian Taxation Office. As there is insufficient information to provide a reliable indication of any outstanding surcharge liability, the Trustee is unable to determine the amount of the surcharge until assessments are received from the Australian Taxation Office. No assessed surcharge liability remains unpaid at year end.

The surcharge is no longer levied on surchargeable contributions made after 1 July 2005, however assessments relating to the period prior to this date continue to be received.

As the surcharge is levied based upon individual members taxable income any surcharge for the year ended 30 June 2005 subsequently levied against the Consolidated Scheme will be charged to the relevant members benefits or otherwise dealt with in accordance with the provisions of the Trust Deed and relevant legislation. The benefits of members not subject to the surcharge will be unaffected.

(j) Goods and Services Tax (GST)

Where applicable GST incurred by the Scheme that is not recoverable from the Australian Taxation Office, has been recognised as part of the expenses to which it applies. Receivables and payables are stated with any applicable GST incurred in their carrying amounts.

The amount of any GST recoverable from, or payable to, the Australian Taxation Office 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 as operating cash flows.

(k) Benefits Paid and Payable

The Scheme recognises benefits on the date that they are paid to the member. Accordingly, benefits payable recognised in the Statement of Financial Position represent only those benefits where the payment has been processed by the Scheme but has not yet been issued to members.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(I) New Accounting Standards and UIG Interpretations

Australian Accounting Standards require the financial statements of the Scheme to disclose Australian Accounting Standards that have not been applied in regard to standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards. These amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005.

The table below illustrates standards and amendments that will become effective for the Scheme in the future. The nature of the impending change within the table has been out of necessity abbreviated and users should consult the full version available on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on the Trustee's initial assessment as this date, but may change. The Trustee intends to adopt all of the standards upon their application date.

Title	Standard affected	Application date	Nature of impending change	Impact Expected on financial report
2005-1	AASB 139	1 Jan 2006	Amends hedging requirements of foreign currency risk of a highly probable intra-group transaction.	No expected impact
2005-4	AASB 139, AASB 132, AASB 1, AASB 1023 AASB 1038	1 Jan 2006	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact
2005-6	AASB 3	1 Jan 2006	Amends the scope to exclude business combinations involving entities or businesses under common control.	No expected impact
2005-9	AASB 4, AASB 1023, AASB 139 AASB 132	1 Jan 2006	Amended standards in regards to financial guarantee contracts.	No expected impact
2005-10	AASB132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139. AASB 1, AASB 4, AASB 1023 AASB 1038	1 Jan 2007	Amended requirements subsequent to the issuing of AASB 7.	No expected impact
	AASB7 Financial Instruments: Disclosures	1 Jan 2007	Revise the disclosure requirements for financial instruments from AASB 132 requirements.	No expected impact, changes disclosure requirements

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(m) Rounding

All values reported in the financial statements have been rounded to the nearest thousand dollars, except where otherwise stated.

2. DESCRIPTION OF THE SCHEME

The Local Government Superannuation Scheme Pool A (the Scheme) is an accumulation Scheme established in accordance with sections 127 and 128 of the Superannuation Administration Act, 1996 (the Act). LGSS Pty Limited acts as Trustee to the Scheme and holds in trust all assets of the Scheme. The Scheme is a reporting entity for accounting purposes.

The Scheme consists of three divisions. Divisions A & E consist of Accumulation Funds, and Division F is an allocated pension and rollover scheme.

The Scheme's custodial activities are provided by JP Morgan Chase bank (JP Morgan).

Administration of the Scheme was conducted by FuturePlus Financial Services Pty Limited and Mercer Benefit Services (formerly Mellon Human Resources and Investor Solutions) during the year. On 23 September 2005 Mellon Human Resources and Investor Solutions ceased administration of the Scheme. Since this date the administration of the Scheme has been conducted solely by FuturePlus Financial Services Pty Limited.

FuturePlus Financial Services Pty Limited also provides secretariat services for the Scheme.

3. RECEIVABLES

	2006	2005
	\$'000	\$'000

Other Receivables	2,284	552
Total Receivables	<u>2,284</u>	<u>552</u>

4. PAYABLES

	2006	2005
	\$'000	\$'000

Other Payables	3,994	2,751
Total Payables	<u>3,994</u>	<u>2,751</u>

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

5. INCOME TAX

Income tax in the Operating Statement represents the tax on the benefits accrued as a result of operations before income tax, adjusted for permanent differences.

The tax effect of timing differences, which occur where items are allowed for income tax purposes in a period different from that in which they are recognised in the accounts, is included in the provisions of deferred income tax or future income tax benefit as applicable at current taxation rates. A rate of tax of 15% has been used on the assumption that the Scheme will continue to be a complying scheme for the purposes of the Income Tax Assessment Act 1936, as amended.

	2006	2005
	\$'000	\$'000
(a) Income Tax Recognised in Profit and Loss:		
Current Tax Expense	28,322	28,048
Deferred Tax Expense	3,559	<u>3,748</u>
 Total Income Tax Expense	 <u>31,881</u>	 <u>31,796</u>

The prima facie income tax expense on pre tax profit from operations reconciles to the income tax expense in the financial statements as follows:

Operating result before income tax	<u>597,163</u>	<u>470,385</u>
Income Tax Expense Calculated at 15%	89,574	70,558
Non-deductible expenses	154	6
Non-assessable/deductible Investment Revenue/Losses	(1,975)	240
Non-assessable Contributions (includes Transfers)	(33,231)	(20,651)
Imputation and Foreign Tax Credits	(16,199)	(6,971)
Anti Detriment Deduction	(235)	(110)
Current Pension Liability Exemption	(3,561)	(2,771)
Death or Invalidity Assurance	(288)	(290)
Contributions Surcharge	187	195
Timing differences	(2,236)	(8,426)
(Over)/Under Provision in prior year	<u>(309)</u>	<u>16</u>
 Income Tax Expense	 <u>31,881</u>	 <u>31,796</u>

The tax rate used in the above reconciliation is the superannuation tax rate of 15% payable by Australian superannuation funds on taxable profits under Australian tax law. There has been no change in the superannuation tax rate when compared with the previous reporting period.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

5. INCOME TAX (Continued)

	2006 \$'000	2005 \$'000
(b) Current Tax Liability:		
Income Tax Payable	15,878	15,615
	15,878	15,615
(c) Deferred Tax Balances:		
Deferred Tax Liability Comprises:		
Temporary Differences	10,307	6,748
	10,307	6,748

Taxable temporary differences arise from the following:

	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
30 JUNE 2006			
Gross Deferred Tax Liabilities:			
Unrealised Taxable Capital Gains	6,778	3,538	10,316
	6,778	3,538	10,316
Gross Deferred Tax Assets:			
Unrealised losses	17	(17)	-
Provisions	13	(4)	9
	30	(21)	9
Deferred Tax Liability	6,748	3,559	10,307
30 JUNE 2005			
Gross Deferred Tax Liabilities:			
Unrealised Taxable Capital Gains	3,016	3,762	6,778
	3,016	3,762	6,778
Gross Deferred Tax Assets:			
Unrealised losses	-	17	17
Provisions	16	(3)	13
	16	14	30
Deferred Tax Liability	3,000	3,748	6,748

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

6. LIABILITY FOR ACCRUED BENEFITS

	2006	2005
	\$'000	\$'000
(a) Changes in the Liability for Accrued Benefits		
Liability for Accrued Benefits – at Beginning of the Year	1,477,578	1,138,247
Add: Benefits Accrued as a Result of Operations	565,282	438,589
Less: Benefits Paid - Members' Accounts	(136,470)	(95,235)
- Death or Invalidity Reserve	(2,361)	(2,060)
Net transfer to/ (from) Reserve	99	(2,582)
Transfer in Unit Price Equalisation reserve	-	619
Liability for Accrued Benefits - at End of Year	1,904,128	1,477,578
 (b) Funds Not Yet Allocated to Members' Accounts	 4,119	 4,009

Funds not yet allocated to members' accounts relate mainly to:

1. Timing differences between receipt of investment earnings & allocation to members in the unit price; and
2. Timing differences between the receipt of Contributions and receipt of information required for allocation.
3. The Scheme operates a Unit Pricing Equalisation Reserve for the purpose of allowing reimbursement to Member's who have been disadvantaged by an error or anomaly to the unit price they have been allocated and that amount cannot be recovered from external sources. The maximum amount that will be maintained in this reserve for this purpose is 0.3% of assets. If the reserve exceeds this figure for any reason that excess amount will be credited to earnings and distributed to Members.

	2006	2005
	\$'000	\$'000
(c) Movement in Administration Reserve		
Balance at the Beginning of the Year	364	777
Transfer from Members' Accounts	3,194	3,065
Member Protection*	-	69
Administration Fee Paid	(3,055)	(3,547)
Balance at End of the Year	503	364

* In 2006 Member Protection Rebates of \$693,699 have been released against the Provision for Member Protection included in 'Other Payables' (Note 4).

	2006	2005
	\$'000	\$'000
(d) Movement in Death and Invalidity Reserve		
Balance at the Beginning of the Year	8,903	4,469
Transfer from Members' Accounts	2,505	2,310
Transfer from Accrued Benefits	-	4,184
Death or Invalidity Benefits Paid	(2,361)	(2,060)
Balance at the End of the Year	9,047	8,903

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

6. LIABILITY FOR ACCRUED BENEFITS (Continued)

	2006	2005
	\$'000	\$'000
(e) Movement in Contribution Tax Reserve		
Balance at the Beginning of the Year	-	558
Transfer to UPE Reserve	-	(558)
Transfer from Members' Accounts	20,944	22,956
Contribution Tax Paid/Payable	(12,087)	(22,956)
Balance at the End of the Year	8,857	-

7. VESTED BENEFITS

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

	2006	2005
	\$'000	\$'000
Vested benefits as at 30 June	1,881,602	1,464,302

8. GUARANTEED BENEFITS

No guarantees have been made in respect of any future payments to members concerning accrued benefits.

9. CHANGES IN NET MARKET VALUE

30 JUNE 2006

	HELD AT REPORTING DATE	REALISED DURING THE YEAR	TOTAL
	\$'000	\$'000	\$'000
Unit Trusts	39,124	1,702	40,826
Pooled Superannuation Trusts	1,332	67	1,399
Unlisted Hedge Fund	791	(9)	782
Total	41,247	1,760	43,007

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

9. CHANGES IN NET MARKET VALUE (Continued)

30 JUNE 2005

	HELD AT REPORTING DATE \$'000	REALISED DURING THE YEAR \$'000	TOTAL \$'000
<i>Divisions A & F</i>			
Unit Trusts	27,539	10,555	38,094
Pooled Superannuation Trusts	1,139	173	1,312
Australian Fixed Interest	-	102	102
International Investments	-	254	254
Unlisted Hedge Fund	(1,678)	-	(1,678)
Total	27,000	11,084	38,084

	2006 \$'000	2005 \$'000
10. INVESTMENT INCOME		
Interest	2,349	1,208
Unlisted Hedge Fund	6,002	1,732
Unit Trusts	173,097	135,644
Other	-	37
Total Investment Income	181,448	138,621

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

11. FUNDING ARRANGEMENTS

(a) Compulsory Employer Contributions

The percentage of salary or wages of employees prescribed as the rate of compulsory employer (Superannuation Guarantee) contributions between 1 July 2005 to 30 June 2006 was 9% (2005: 9%).

Optional Employer Contributions

Employers may make additional contributions to the Scheme for employees in respect of whom compulsory employer contributions are being made.

(b) Optional Member Contributions

Employees as defined in the Act, may make voluntary contributions to the Scheme in the form of periodical payments or single payments.

(c) Transfers In

Payments include benefits transferred or rolled over from another superannuation fund, approved deposit fund, or retirement savings account.

Optional Spouse Contributions

Employees may make voluntary contributions on behalf of their spouse, as defined in the Act, to the Scheme in the form of periodical payments or single payments. Payments include benefits transferred or rolled over from another superannuation fund, approved deposit fund, or retirement savings account.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

12. INVESTMENT STRATEGY SELECTION

Members can choose from five different options in determining their investment strategy. If a member subject to member protection has not chosen a particular investment strategy the account balance is invested in the Cash Plus strategy. If a member with an account balance greater than \$1,000 has not chosen a particular investment strategy, an automatic investment strategy selection will be made on the basis of the member's age as shown below.

INVESTMENT STRATEGY MEMBERS AGE GROUP

High Growth	No automatic allocation. Must be selected by members.
Diversified	Members aged 18 – 45
Balanced	Members aged 46 – 54
Capital Guarded	Members aged 55 and over
Cash Plus	Automatic strategy for accounts under \$1,000 (subject to 'member protection'). Must be selected by other members.

In addition to the above, members of Division E may choose to invest in either the BT Conservative Growth Fund or the BT Institutional Retirement Fund.

13. REMUNERATION OF AUDITORS

	2006	2005
	\$	\$
Remuneration for audit of the financial report of the Scheme		
Deloitte Touche Tohmatsu	<u>69,333</u>	<u>84,738</u>
	<u>69,333</u>	<u>84,738</u>

Note: In the current year, the allocation of the audit fee has been charged as 35% for LGSS Pool A and 65% for LGSS Pool B (2005: 33% for LGSS Pool A and 67% for LGSS Pool B).

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

14. 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:

	2006 \$'000	2005 \$'000
Cash at Bank	<u>36,572</u>	<u>36,551</u>

The Scheme does not have any credit standby arrangements or loan facilities.

(b) Reconciliation of Benefits Accrued as a Result of Operations to Net Cash Flows provided by Operating Activities

	2006 \$'000	2005 \$'000
Benefits Accrued as a Result of Operations	565,282	438,589
Benefits Paid & Transfers to/from Reserves	(138,732)	(99,258)
Movement in Net Market Value of Investments	<u>(43,007)</u>	<u>(38,084)</u>
	<u>383,543</u>	<u>301,247</u>
Changes in Assets and Liabilities		
Decrease / (Increase) in Receivables	(1,732)	(51)
Increase / (Decrease) in Deferred Tax Liability	3,559	3,748
Increase / (Decrease) in Creditors	1,243	(2,657)
Increase / (Decrease) in Current Tax Liability	<u>263</u>	<u>7,466</u>
	<u>3,333</u>	<u>8,506</u>
Net Cash Flow from Operating Activities	<u>386,876</u>	<u>309,753</u>

15. FINANCIAL INSTRUMENTS

The Scheme is exposed to market price risk, interest rate risk, credit risk, liquidity risk and currency risk arising from the financial instruments held. The risk management policies employed by the Scheme to manage these risks are discussed in this note.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

15. FINANCIAL INSTRUMENTS (Continued)

(i) Credit Risk Exposures

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract. Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved;
- ensuring that transactions are undertaken with a number of counterparties, and
- ensuring that the majority of transactions are undertaken on recognised exchanges.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. This also relates to financial assets carried at amortised cost as they have a short term to maturity.

The Scheme does not have any significant exposure to any individual counterparty or industry.

The underlying assets of the Scheme are managed by a number of unrelated investment managers.

(ii) Liquidity and Cash Flow Risk Exposures

Liquidity risk is the risk that the Scheme will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments.

Cash flow risk is the risk that the future cash flows from holding financial instruments will fluctuate. The risk management guidelines adopted by the Scheme are designated to minimise liquidity and cash flow risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments; and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

(iii) Derivatives

Derivatives are used by the unit trust managers in managing portfolios as a hedge against market movements in the values of physical assets and as a means of effecting a change in the asset mix of the investment portfolio of the Scheme. Derivative instruments currently used are futures contracts and forward rate agreements.

All derivative contracts are written against cash, physical securities or other specific commitments and are not leveraged. Derivatives are not used for speculative purposes. These activities are undertaken within authorised limits.

The Scheme has no direct exposure to derivatives.

(iv) Currency Risk Exposures

The Scheme is not exposed to currency risk as a result of investments in financial instruments denominated in foreign currencies.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

15. FINANCIAL INSTRUMENTS (Continued)

(v) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The interest rate risk disclosures have been prepared on the basis of the Scheme's direct investment and not on a look-through basis for investments held indirectly through unit trusts. Consequently, the disclosure of interest rate risk in the note may not represent the true risk profile of the Scheme where the Scheme has significant investments in unit trusts which also have exposure to the interest rate markets.

The Scheme invests in financial assets for the primary purpose of obtaining a return on investments on behalf of its members. The Scheme's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in market interest rates.

The Scheme's investments at 30 June 2006 involve cash and cash equivalents, longer dated fixed interest investments and equities. Longer dated fixed interest investments result in the Scheme having exposure to interest rate movements.

The Scheme's exposure to interest rate risk and the effective interest rates on financial instruments as at the reporting date is shown as follows. All other financial assets and liabilities are non-interest bearing.

2006	INTEREST RATE MATURING				NON-INTEREST BEARING	WEIGHTED AVG INTEREST RATE	TOTAL
	FLOATING INTEREST RATE	WITHIN 12 MONTHS	1 – 5 YRS	OVER 5 YRS			
	\$'000	\$'000	\$'000	\$'000	\$'000	%	\$'000
Assets							
Cash and Cash Equivalents							
- Australia	36,572	-	-	-	-	5.54%	36,572
Short Term Securities	-	-	-	-	7,376	-	7,376
Unit Trust	-	-	-	-	1,787,669	-	1,787,669
Pooled Superannuation Trusts	-	-	-	-	11,692	-	11,692
Unlisted Hedge fund	-	-	-	-	88,714	-	88,714
Receivables	-	-	-	-	2,284	-	2,284
Total Financial Assets	36,572	-	-	-	1,897,735		1,934,307
Liabilities							
Payables	-	-	-	-	3,994	-	3,994
Current Tax Liability	-	-	-	-	15,878	-	15,878
Deferred tax Liability	-	-	-	-	10,307	-	10,307
Total Financial Liabilities	-	-	-	-	30,179	-	30,179
Net Assets Available to Pay Benefits	36,572	-	-	-	1,867,556	-	1,904,128

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

15. FINANCIAL INSTRUMENTS (Continued)

2005	INTEREST RATE MATURING				NON- INTEREST BEARING	WEIGHTED AVG INTEREST RATE	TOTAL
	FLOATING INTEREST RATE	WITHIN 12 MONTHS	1 – 5 YRS	OVER 5 YRS			
	\$'000	\$'000	\$'000	\$'000	\$'000	%	\$'000
Assets							
Cash & Cash Equivalent – Australia	36,551	-	-	-	-	5.34%	36,551
Short Term Securities	-	-	-	-	6,990	-	6,990
Unit Trust	-	-	-	-	1,379,140	-	1,379,140
Pooled Superannuation Trusts	-	-	-	-	10,666	-	10,666
Unlisted Hedge Fund	-	-	-	-	68,793	-	68,793
Receivables	-	-	-	-	552	-	552
Total Financial Assets	36,551	-	-	-	1,466,141		1,502,692
Liabilities							
Payables	-	-	-	-	2,751	-	2,751
Current Tax Liability	-	-	-	-	15,615	-	15,615
Deferred Tax Liability	-	-	-	-	6,748	-	6,748
Total Financial Liabilities	-	-	-	-	25,114	-	25,114
Net Assets Available to Pay Benefits	36,551	-	-	-	1,441,027	-	1,477,578

(vi) Net Fair Values of Financial Assets and Liabilities

The Scheme's financial assets and liabilities are included in the Statement of Financial Position at amounts that approximate net fair value.

(vii) Net Fair Values Disclosures

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Cash, cash equivalents and short term investments: The carrying amounts approximate fair value because of their short term maturity.

Non-current investments/securities: For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset, adjusted for transaction costs necessary to realise the asset. For investments where there is no quoted market price, the last sale price or calculated underlying value is used, adjusted for transaction costs.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

16. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION

(a) Identification of Related Parties and Directors

The Trustee of the Scheme is LGSS Pty Limited (ABN 68 078 003 497). The names of the Directors of LGSS Pty Limited in office during or since the end of the year ended 30 June 2006 are as follows:

Resigned

Mr B Mason (19 June 2006)

Mr P Marzato (25 September 2006)

Employer representatives

Mr P Woods OAM

Mr J Wearne

Mr L Kelly

Ms B Giegerl

Employee representatives

Mr I Robertson

Mr J Ernst

Mr P Marzato (appointed 28 June 2006)

Mr M O'Connell

Mr B Harris (appointed 27 September 2006)

LGSS Pty Limited is also the Trustee for Local Government Superannuation Scheme – Pool B.

The above Directors are also Directors of LIF Pty Limited, a wholly owned subsidiary of the Trustee. LIF Pty Limited is the Trustee of the Local Investment Fund, which the Scheme has an investment in, of \$1,788 million at 30 June 2006 (2005: \$1,379 million). Revenue earned from the Local Investment Fund was \$213.536 million (2005 \$173.325 million).

(b) Other Key Management Personnel

The Fund Secretary, Mr P Lambert, is considered to be a key manager.

	2006	2005
	\$	\$
(c) Compensation Received:		
Short term Benefits	550,088	543,092
Post Employment Benefits	29,446	29,207
Other Long Term Benefits	-	-
Termination Benefits	-	-
Share-based Payment	-	-
	579,534	572,299

Remuneration due and receivable by the Directors of LGSS Pty Limited and the Fund Secretary during the financial year is payable directly or indirectly, by LGSS Pty Limited. A number of Directors have their emoluments paid to their sponsoring shareholder.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

16. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION (Continued)

(d) Transactions entered into during the year with Directors and their Related Entities

There have been no transactions between the Directors and their related entities, except for the Directors' fees as set out in note 16(c) and for the reimbursement of administration costs incurred by the Directors whilst attending to Trustee business.

(e) Other Related Party Transactions

Local Government Superannuation Scheme Pool B holds 50% of the share capital of FuturePlus Financial Services Pty Limited, which provides management, secretariat, administration, compliance, financial planning and post retirement planning services to the Schemes. Superannuation Services Company is a wholly owned subsidiary of FuturePlus Financial Services Pty Limited. Included within the investments of Local Government Superannuation Scheme Pool B is the value of this 50% holding \$9,649,966 (2005 : \$9,000,000).

During the period 1 July 2005 to 30 June 2006, FuturePlus Financial Services Pty Limited was paid investment management and administration fees of \$22,991,543 (2005:\$15,879,645) for Local Government Superannuation Scheme Pool A and Pool B.

During the period 1 July 2005 to 30 June 2006, Superannuation Services Company Pty Limited was paid investment management and administration fees of \$nil (2005: \$282,133) for Local Government Superannuation Scheme Pool A and Pool B.

These fees are based on the cost to the relevant entity of providing these services.

Included within the liabilities of the Scheme is an amount owing to FuturePlus Financial Services Pty Ltd For \$20,202 (2005 : \$293,730).

Local Government Superannuation Scheme Pool B holds 33.33% of the share capital of Chifley Financial Services Limited, which provides investment management services to the Local Government Superannuation Schemes. Included within the investments of Local Government Superannuation Scheme Pool B is the value of this 33.33% holding amounting to \$7,433,334 (2005 : \$6,000,000).

Included within the Scheme are amounts held with Chifley Investment Fund \$96,090,449 (2005: \$75,782,185). Revenue earned from the Chifley Investment Fund was \$7,496,888 (2005: \$466,972). Chifley Financial Services Limited is the Trustee of the Chifley Investment Fund.

Local Government Superannuation Scheme Pool A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

17. SEGMENT INFORMATION

Primary Segment *Business Segments*

The Scheme operates solely to provide benefits to its members in accordance with the Trust Deed and relevant legislative requirements.

Secondary Segment *Geographical Segments*

The Scheme operates in Australia and the primary assets it invests in on behalf of its members are managed and administered in Australia. The members of the Scheme are based in Australia.

18. SUBSEQUENT EVENTS

No significant events have occurred since balance date which would impact on the financial position of the scheme as disclosed in the Statement of Financial Position as at 30 June 2006 or on the results for the year ended on that date.