

**Local Government Superannuation Scheme  
Pool B and its Consolidated Entities**

**Financial Report**

**For The Year Ended 30 June 2009**

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2009**

<b>CONTENTS</b>	<b>PAGE</b>
TRUSTEE'S STATEMENT	3
STATEMENT OF CHANGES IN NET ASSETS	4
STATEMENT OF NET ASSETS	5
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS	6 – 40
INDEPENDENT AUDIT REPORT TO THE MEMBERS	41

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**TRUSTEE'S STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2009**

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

1. The accompanying financial statements of the Local Government Superannuation Scheme Pool B (the Scheme) and its Consolidated Entities consisting of Local Government Superannuation Scheme Pool B and its subsidiaries Local Government Financial Services Pty Limited, LGFS Facilities Trust, LG Diversified Trust, LG Secondaries Trust, Chifley Wholesale Fund, Fixed Out-Performance Cash Fund and Local Government Property Fund (the Consolidated Scheme) are properly drawn up so as to present fairly the Net Assets of the Consolidated Scheme as at 30 June 2009 and the Changes in Net Assets for the year ended 30 June 2009;
2. The financial statements have been prepared in accordance with the requirements of the Trust Deed;
3. The accompanying financial statements have been drawn up in accordance with the Accounting Standards in Australia and the *Superannuation Industry (Supervision) Act 1993*. Accounting Standards include Australian equivalents to the International Financial Reporting Standards ('AIFRS') to the extent they are not inconsistent with AAS 25 Financial Reporting by Superannuation Plans;
4. The Scheme has been conducted in accordance with its constituent Trust Deed dated 30 June 1997 as amended and all legislative requirements at all times during the period; and
5. In the Trustee's 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 21<sup>st</sup> day of October 2009

  
Director

  
Director

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009**

	Note	Consolidated		Scheme	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
<b>Investment Revenue</b>					
Interest Revenue		18,611	77,886	1,494	1,604
Dividend Revenue		125	127,464	263	1,000
Trust Distributions		57,017	158,737	36,043	199,423
Property Revenue		54,321	42,365	-	-
Changes in Net Market Value of Investments	5	(703,697)	(930,674)	(680,209)	(482,427)
Other Investment Revenue		124	5,848		
		<u>(573,499)</u>	<u>(518,374)</u>	<u>(642,409)</u>	<u>(280,400)</u>
Direct Investment Expenses		(51,618)	(60,003)	(6,191)	(8,387)
Net Investment Revenue		<u>(625,117)</u>	<u>(578,377)</u>	<u>(648,600)</u>	<u>(288,787)</u>
<b>Contributions Revenue</b>					
Employer Contributions	6	118,109	78,925	118,109	78,925
Member Contributions	6	16,244	20,624	16,244	20,624
Transfers From Other Funds		6,117	7,789	6,117	7,789
		<u>140,470</u>	<u>107,338</u>	<u>140,470</u>	<u>107,338</u>
Other Revenue		51	-	51	110
<b>Total Revenue</b>		<u>(484,596)</u>	<u>(471,039)</u>	<u>(508,079)</u>	<u>(181,339)</u>
<b>Benefits Paid and Expenses</b>					
Benefits Paid		(208,724)	(298,851)	(208,724)	(298,851)
Superannuation Contributions					
Surcharge Expense		19	(26)	19	(26)
Administration Expenses		(49,566)	(70,633)	(13,616)	(15,599)
<b>Total Benefits Paid and Expenses</b>		<u>(258,271)</u>	<u>(369,510)</u>	<u>(222,321)</u>	<u>(314,476)</u>
<b>(Decrease)/Increase in Net Assets for the Year Before Income Tax and Minority Interest</b>					
Income Tax (Expense)/Benefit	4(a)	65,560	21,170	68,618	18,227
<b>(Decrease)/Increase in Net Assets for the Year After Income Tax Before Minority Interest</b>					
		<u>(677,307)</u>	<u>(819,379)</u>	<u>(661,782)</u>	<u>(477,588)</u>
Minority Interest		15,525	342,133	-	-
<b>(Decrease) /Increase in Net Assets for the Year</b>		<u>(661,782)</u>	<u>(477,246)</u>	<u>(661,782)</u>	<u>(477,588)</u>
<b>Net Assets Available to Pay Benefits at the Beginning of the Financial Year</b>		<u>3,163,497</u>	<u>3,640,743</u>	<u>3,163,497</u>	<u>3,641,085</u>
<b>Net Assets Available to Pay Benefits at the End of the Financial Year</b>		<u>2,501,715</u>	<u>3,163,497</u>	<u>2,501,715</u>	<u>3,163,497</u>

The above Statement of Changes in Net Assets should be read in conjunction with the accompanying notes.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**STATEMENT OF NET ASSETS  
AS AT 30 JUNE 2009**

	Note	Consolidated		Scheme	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Investments</b>					
Listed Securities and Trusts	11 (a)	-	3,190,687	-	-
Unlisted Securities and Trusts	11 (a)	2,328,619	2,414,055	2,388,993	3,155,730
Fixed Interest Securities	11 (a)	151,239	977,322	-	-
Unlisted Property Trusts	11 (b)	519,964	522,455	-	-
Other Securities	11 (a)	-	16,616	-	-
<b>Total Investments</b>		<u>2,999,822</u>	<u>7,121,135</u>	<u>2,388,993</u>	<u>3,155,730</u>
<b>Other Assets</b>					
Cash and Cash Equivalents		27,629	175,296	13,264	15,007
Interest Receivable		627	13,310	-	-
Dividends Receivable		-	13,403	-	-
Other Receivables	12	19,922	115,617	26	183
Current Tax Asset	4(b)	11,027	-	10,981	-
Deferred Tax Asset	4(c)	92,669	30,312	92,669	27,254
<b>Total Other Assets</b>		<u>151,874</u>	<u>347,938</u>	<u>116,940</u>	<u>42,444</u>
<b>Total Assets</b>		<u>3,151,696</u>	<u>7,469,073</u>	<u>2,505,933</u>	<u>3,198,174</u>
<b>Less Liabilities</b>					
Payables	13	10,791	53,395	4,134	5,287
Deposits from Clients		475,533	1,095,057	-	-
Employee Benefits	14	214	-	84	-
Other Financial Liabilities	15	78,000	47,977	-	-
Current Tax Liability	4(b)	-	29,365	-	29,390
<b>Total Liabilities</b>		<u>564,538</u>	<u>1,225,794</u>	<u>4,218</u>	<u>34,677</u>
<b>Net Assets Available Before Minority Interest</b>		<u>2,587,158</u>	<u>6,243,279</u>	<u>2,501,715</u>	<u>3,163,497</u>
Less Net Assets Available – Minority Interest		85,443	3,079,782	-	-
<b>Net Assets Available to Pay Benefits</b>	9	<u>2,501,715</u>	<u>3,163,497</u>	<u>2,501,715</u>	<u>3,163,497</u>

The above Statement of Net Assets should be read in conjunction with the accompanying notes.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS CONSOLIDATED ENTITIES

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### 1. BASIS OF PREPARATION

#### Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Interpretations, the Superannuation Industry (Supervision) Act 1993 and provisions of the Trust Deed. The financial report includes the separate financial statements of the Scheme and the consolidated entity.

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 ("AAS 25").

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

The financial statements were authorised for issue by the Directors on 21st October 2009.

#### Use of judgments and estimates

In the application of Accounting Standards, 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 circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

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

Judgments 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.

#### Accounting Standards and Interpretations Issued, 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.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**1. BASIS OF PREPARATION (continued)**

**Accounting Standards and Interpretations Issued, but Not Yet Effective (continued)**

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	1 January 2009	30 June 2010
AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010
AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010
AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	1 July 2009	30 June 2010
AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments'	1 July 2009	30 June 2010

**2. SIGNIFICANT ACCOUNTING POLICIES**

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 accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2009 and the comparative information presented in these financial statements for the year ended 30 June 2008.

**(a) Principles of Consolidation**

The consolidated financial statements are prepared by combining the financial statements of all entities that comprise the consolidated entity, being Local Government Superannuation Scheme Pool B (the Scheme) and its subsidiaries Local Government Financial Services Pty Limited (LGFS), LGFS Facilities Trust (LGFS Trust), LG Diversified Trust (LGDT), LG Secondaries Trust (LGST), Chifley Wholesale Fund (CWF), Fixed Out-Performance Cash Fund (FOPCF) and Local Government Property Fund (LGPF) as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'.

As set out in Note 19, the Scheme lost control of its investment in Local Investment Fund (LIF) on 1 July 2008 and LIF has not been included in the consolidated financial statements with effect from that date.

The consolidated entity will be referred to as the Consolidated Scheme. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(a) Principles of Consolidation (continued)**

Control is achieved where the Scheme has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Controlled entities are fully consolidated from the date on which control is transferred to the Scheme. They are de-consolidated from the date that control ceases. On acquisition, the assets, liabilities and contingent liabilities are measured at their net market values at the date of acquisition. Any excess of the cost of acquisition over the net market values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the net market values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the net market values of the assets and liabilities recognised.

In preparing the consolidated financial statements, all inter-entity balances, transactions and unrealised profits arising within the consolidated scheme are eliminated in full.

**(b) Cash and Cash Equivalents**

Cash and cash equivalents includes deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash on hand at the managers' option and are subject to insignificant risk of changes in value.

**(c) Investments**

Investments are included in the Statement of Net Assets at net market value as at reporting date. Changes in net market values of assets are recognised in the Statement of Changes in Net Assets in the period in which they occur.

Net market values have been determined as follows:

Listed Securities and Trusts	Listed securities and trusts quoted on a recognised stock exchange are stated at market quotations as at the reporting date.
Unlisted Securities	Unlisted securities are stated at the Trustee valuation based on the advice of the Scheme's investment managers. This includes private equity investments which are valued by an independent valuer or the securities investment manager at net market value, as per the guidelines of the Australian Venture Capital Association Limited using the following approaches; discounted cash flow, market comparable and net assets.
Unlisted Unit Trusts	Redemption value of units based on market values of underlying assets as quoted by the trust manager.



**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Investments (continued)**

Fixed Interest Securities	Fixed interest securities quoted are stated at market quotations as at the reporting date.
Unlisted Property Trusts	Valuation of the investment properties is carried out by an independent registered valuer.
Other Securities	These include derivative financial instruments including futures, forward contracts, options and interest rate swaps. The net market value of derivatives that are not exchange-traded is estimated at the amount that would be received or paid to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. The net market value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The net market value of an option is determined by applying the Black-Scholes option valuation model.

**(d) 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 or substantively enacted by reporting date. 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.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Income 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 in 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 assets and liabilities 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 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 Consolidated 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 Statement of Changes in Net Assets.

**(e) Benefits Paid and Payable**

The Consolidated Scheme recognises a benefit to be payable to a member when a valid withdrawal notice has been received from the employer sponsor, and it has been approved by the Trustee in accordance with the Trust Deed. Accordingly benefits payable recognised in the Statement of Net Assets represent only those benefits where the payment has been processed and authorised by the Scheme but has not yet been issued to members.

**(f) Foreign Currency**

Functional and Presentation Currency

Items included in the Consolidated Scheme's financial statements are measured using the currency of the primary economic environment in which it operates (the functional currency). This is the Australian dollar, which reflects the currency of the economy in which the Consolidated Scheme competes for capital and is regulated. The Australian dollar is also the Consolidated Scheme's presentation currency.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Foreign Currency (continued)**

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transactions at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Changes in Net Assets.

**(g) Expenses**

Administrative expenses, other than the weekly administration fee are charged directly to net assets of the Scheme.

Investment expenses are charged directly against investment income.

**(h) Superannuation Contributions Surcharge**

The superannuation contributions surcharge which may be payable by the Consolidated 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. All amounts paid are allocated back against member accounts to which the surcharge relates.

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

**(i) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i) Where applicable GST incurred by the Consolidated Scheme that is not recoverable from the Australian Taxation Office, has been recognised as part of the expenses to which it applies.
- ii) Receivables and payables are stated with any applicable GST included 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 Net Assets.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Receivables**

Receivables may include amounts for deposits, dividends, trust distributions, interest and unsettled investments. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

**(k) Revenue Recognition**

Revenue is measured at the net market value of consideration received or receivable to the extent of which it is probable that the economic benefits will flow to the Consolidated Scheme and the income can be reliably measured, revenue is recognised.

The following recognition criteria relates to the different income streams the Consolidated Scheme has recognised.

Interest Revenue

Interest from fixed interest securities is recognised using the effective interest rate method and in accordance with the terms and conditions which apply to the fixed interest securities. Interest on cash deposits is recognised in accordance with the terms and conditions which apply to the deposits.

Dividend Revenue

Revenue from dividends is recognised on the date the shares are quoted ex-dividend. If the dividends are not received at balance sheet date, the balance is reflected in the Statement of Net Assets as a receivable.

Trust Distributions

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

Property Revenue

Property revenue from property investments includes rental revenue that is recognised on a straight line basis over the term of the lease.

Changes in Net Market Value of Investments

Changes in the net market value of investments are recognised as revenue 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).

Employer and Member Contributions

Member and employer contributions are recorded on a cash basis in relation to Divisions B, C and D members. This has resulted in contributions outstanding at the reporting date in relation to Divisions B, C and D members for the respective year ended.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(k) Revenue Recognition (continued)**

Transfers from other funds

Transfers from other funds are recognised on a cash basis. Amounts are recognised where transfer receipts are recovered by the Consolidated Scheme.

**(l) Payables**

Payables are recognised when the Consolidated Scheme becomes obliged to make future payments resulting from the purchase of goods and services.

**(m) Employee Benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Scheme in respect of services provided by employees up to reporting date.

Defined Contributions Plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

**(n) Deposits from Clients**

Deposits from clients include cash held and managed by the Consolidated Scheme on the behalf of councils. Deposits are recorded by the Consolidated Scheme when received from the depositor.

**(o) Borrowings**

Borrowings are recorded initially at net market value.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the Statement of Changes in Net Assets over the period of the borrowing using the effective interest rate method.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(p) Lease Incentives**

Lease incentives provided by the Consolidated Scheme to third parties are included in the measurement of net market value of investment property and are treated as separate assets. Such assets are amortised over the respective periods to which the lease incentives apply either using a straight line basis, or a basis which is more representative of the pattern of benefits.

**(q) Rounding**

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

**3. DESCRIPTION OF THE SCHEME**

The Local Government Superannuation Scheme Pool B (the Scheme) consists of local government members and was established in accordance with sections 127 and 128 of the Superannuation Administration Act, 1996 (the Act). LGSS Pty Limited acts as Trustee and holds in trust all assets of the Scheme.

The Scheme's custodial activities are provided by JP Morgan Chase Bank.

The Scheme consists of three Divisions. Division B and Division C comprise of both a defined benefit component and a defined contribution component, whilst Division D is a defined benefit scheme. All the divisions are closed to new members, except for members of eligible entities who can transfer their entitlements into the Scheme. The Scheme is a reporting entity for financial reporting purposes.

Administration of the Scheme was conducted by FuturePlus Financial Services Pty Limited during the year.

FuturePlus Financial Services Pty Limited also provides accounting, compliance and financial planning services for the Scheme.

The principal place of business of the Scheme is:

28 Margaret Street  
SYDNEY NSW 2000

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**4. INCOME TAX**

	Consolidated		Scheme	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Income Tax Recognised in Profit and Loss:</b>				
Current Tax Expense / (Benefit)	(3,203)	32,374	(3,203)	32,374
Deferred Tax Expense / (Benefit)	<u>(62,357)</u>	<u>(53,544)</u>	<u>(65,415)</u>	<u>(50,601)</u>
Total Income Tax Expense / (Benefit)	<u>(65,560)</u>	<u>(21,170)</u>	<u>(68,618)</u>	<u>(18,227)</u>

The prima facie income tax expense on pre tax changes in net assets to the income tax expense in the financial statements is as follows:

	Consolidated		Scheme	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
(Decrease)/Increase in Net Assets for the Year Before Income Tax and Minority Interest	<u>(742,867)</u>	<u>(840,549)</u>	<u>(730,400)</u>	<u>(495,815)</u>
Income Tax (Benefit)/Expense Calculated at 15%	(111,430)	(126,082)	(109,560)	(74,372)
Deferred Gains	756	(1,691)	756	(1,691)
Difference in Tax Rates	(2,555)	(3,844)	-	-
Impairment of Deferred Tax Balances	3,901	-	-	-
Non Taxable Income – Controlled Entities (Minority Interest)	(685)	47,866	-	-
Transfers In	(918)	(1,168)	(918)	(1,168)
Non-assessable Contributions	(2,279)	(3,094)	(2,279)	(3,094)
Benefit Payments	31,309	44,828	31,309	44,828
Tax on Grossed Up Imputation and Foreign Tax Credits Income	3,792	1,779	3,792	1,779
Death and Invalidity Insurance Deductions	(371)	(403)	(371)	(403)
Contributions Surcharge	(3)	4	(3)	4
Non Deductible Expenditures	4,575	-	-	-
Other Deductible Expenditure	52	66	52	66
Non-assessable Pension Related Investment Income	(257)	(896)	(257)	(896)
Non-assessable/Deductible Investment Losses /(Revenue)	34,286	33,753	34,286	29,004
Under/(Over) Provision Last Year	(525)	(494)	(217)	(490)
Imputation and Foreign Tax Credits	<u>(25,208)</u>	<u>(11,794)</u>	<u>(25,208)</u>	<u>(11,794)</u>
Income Tax Expense / (Benefit)	<u>(65,560)</u>	<u>(21,170)</u>	<u>(68,618)</u>	<u>(18,227)</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**4. INCOME TAX (continued)**

**(a) Income Tax Recognised in Profit and Loss: (continued)**

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 financial year. The tax rate 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. Under current legislation, LGPF is not subject to income tax provided the taxable income of LGPF is fully distributed either by way of cash or reinvestment.

	Consolidated		Scheme	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(b) Current Tax Balances:</b>				
Current Tax Asset	11,027	-	10,981	-
	<u>11,027</u>	<u>-</u>	<u>10,981</u>	<u>-</u>
Current Tax Liability	-	29,365	-	29,390
	<u>-</u>	<u>29,365</u>	<u>-</u>	<u>29,390</u>
<b>(c) Deferred Tax Balances:</b>				
Deferred Tax Asset Comprises:				
Temporary Differences	92,669	30,312	92,669	27,254
	<u>92,669</u>	<u>30,312</u>	<u>92,669</u>	<u>27,254</u>

**(d) Taxable and Deductible Temporary Differences Arise From the Following:**

30 June 2009 Consolidated	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
<b>Net Deferred Tax Liability/ (Asset)</b>			
Unrealised Taxable Capital Gains/(Losses)	(29,693)	(62,633)	(92,326)
Provisions	(619)	276	(343)
	<u>(30,312)</u>	<u>(62,357)</u>	<u>(92,669)</u>
<b>30 June 2008 Consolidated</b>	<b>Opening Balance \$'000</b>	<b>Charged to Income \$'000</b>	<b>Closing Balance \$'000</b>
<b>Net Deferred Tax Liability/(Asset)</b>			
Unrealised Taxable Capital Gains/(Losses)	23,874	(53,567)	(29,693)
Provisions	(647)	28	(619)
	<u>23,227</u>	<u>(53,539)</u>	<u>(30,312)</u>



**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**4. INCOME TAX (continued)**

**(d) Taxable and Deductible Temporary Differences Arise From the Following: (continued)**

<b>30 June 2009 Scheme</b>	<b>Opening Balance \$'000</b>	<b>Charged to Income \$'000</b>	<b>Closing Balance \$'000</b>
<b>Net Deferred Tax Liability/ (Asset)</b>			
Unrealised Taxable Capital Gains/(Losses)	(26,729)	(65,597)	(92,326)
Provisions	(525)	182	(343)
	<u>(27,254)</u>	<u>(65,415)</u>	<u>(92,669)</u>
<b>30 June 2008 Scheme</b>	<b>Opening Balance \$'000</b>	<b>Charged to Income \$'000</b>	<b>Closing Balance \$'000</b>
<b>Net Deferred Tax Liability/ (Asset)</b>			
Unrealised Taxable Capital Gains/(Losses)	23,910	(50,639)	(26,729)
Provisions	(563)	38	(525)
	<u>23,347</u>	<u>(50,601)</u>	<u>(27,254)</u>

**5. CHANGES IN NET MARKET VALUE OF INVESTMENTS**

<b>30 June 2009 Consolidated</b>	<b>Unrealised at Reporting Date Gain/(Loss) \$'000</b>	<b>Realised During the Year Gain/(Loss) \$'000</b>	<b>Total \$'000</b>
Listed Securities and Trusts	(474)	(477)	(951)
Unlisted Securities and Trusts	(554,517)	(26,255)	(580,772)
Unlisted Property Trusts	(110,681)	-	(110,681)
Fixed Interest Securities	-	(4,200)	(4,200)
Other	(7,093)	-	(7,093)
	<u>(672,765)</u>	<u>(30,932)</u>	<u>(703,697)</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**5. CHANGES IN NET MARKET VALUE OF INVESTMENTS (continued)**

**30 June 2008**

<b>Consolidated</b>	<b>Unrealised at Reporting Date Gain/(Loss) \$'000</b>	<b>Realised During the Year Gain/(Loss) \$'000</b>	<b>Total  \$'000</b>
Listed Securities and Trusts	(986,099)	1,249	(984,850)
Unlisted Securities and Trusts	(18,169)	(26,198)	(44,367)
Unlisted Property Trusts	17,965	-	17,965
Fixed Interest Securities	6,808	(1,559)	5,249
Foreign Exchange	6,268	92,541	98,809
Other	763	(24,243)	(23,480)
	<u>(972,464)</u>	<u>41,790</u>	<u>(930,674)</u>

**30 June 2009**

<b>Scheme</b>	<b>Unrealised at Reporting Date Gain/(Loss) \$'000</b>	<b>Realised During the Year Gain/(Loss) \$'000</b>	<b>Total  \$'000</b>
Unlisted Unit Trusts	(511,085)	(20,900)	(531,985)
Unlisted Securities	(52,048)	(5,355)	(57,403)
Unlisted Property Trusts	(90,821)	-	(90,821)
	<u>(653,954)</u>	<u>(26,255)</u>	<u>(680,209)</u>

**30 June 2008**

<b>Scheme</b>	<b>Unrealised at Reporting Date Gain/(Loss) \$'000</b>	<b>Realised During the Year Gain/(Loss) \$'000</b>	<b>Total  \$'000</b>
Unlisted Unit Trusts	(464,978)	(10,898)	(475,876)
Unlisted Securities	(29,709)	670	(29,039)
Unlisted Property Trusts	22,488	-	22,488
	<u>(472,199)</u>	<u>(10,288)</u>	<u>(482,427)</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**6. FUNDING ARRANGEMENTS**

For years ended 30 June 2009 and 30 June 2008, member and employer contributions for each of the schemes are determined on the basis described below.

**(a) Division B Scheme**

**Member Contributions:** Each member elects to contribute between 1% and 9% of salary (2008: between 1% and 9%).

**Employer Contributions:** Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2008/09 employers contributed at half the "nominal" contribution rate (0.95 times employee contributions). In 2007/08 employers contributed at half the "nominal" contribution rate (0.95 times employee contributions).

**(b) Division C Scheme**

**Member Contributions:** In relation to any defined benefit obligations, there are no member contributions. Members may elect to make voluntary contributions to the defined contribution component.

**Employer Contributions:** Employers contribute on a fully funded basis as determined by the Trustees based on actuarial advice. In 2008/09 employers contributed at half the "nominal" contribution rate (1.25% of superable salary). In 2007/08 employers contributed at half the "nominal" contribution rate (1.25% of Superable Salary).

**(c) Division D Scheme**

**Member Contributions:** Each member contributes on a "rate for age" basis to individual pension units which become available with salary increases. Members may elect to abandon units where total contributions payable would exceed 6% of the individuals salary (2008: exceed 6%).

**Employer Contributions:** Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2008/09 employers contributed at half the "nominal" contribution rate (0.82 times employee contributions). In 2007/08 employers contributed at half the "nominal" contribution rate (0.82 times employee contributions).

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**7. REMUNERATION OF AUDITORS**

	Consolidated		Scheme	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Audit of financial reports</b>				
LGSS Pool B Audit	84,396	83,659	84,396	83,659
LIF Audit	26,611	68,367	26,611	25,729
LGPF Audit	27,893	26,565	27,893	26,565
LGFS Audit	98,397	60,008	-	-
<b>Other regulatory services</b>				
LGSS Pool B RMS / RMP	14,095	13,766	14,095	13,766
	<u>251,392</u>	<u>252,365</u>	<u>152,995</u>	<u>149,719</u>
<b>Other Auditors</b>				
LGDT Audit	20,896	20,982	-	-
LGST Audit	7,700	5,575	-	-
LIF Audit	11,010	-	11,010	11,341
	<u>39,606</u>	<u>26,557</u>	<u>11,010</u>	<u>11,341</u>

Note: In the current year, the allocation of the audit fee has been charged as 47% for LGSS Pool A and 53% for LGSS Pool B (2008: 43% for LGSS Pool A and 57% for LGSS Pool B).

The LIF audit fees are paid by the LGSS Pool A and LGSS Pool B on behalf of LIF.

The auditors of the Scheme are Deloitte Touche Tohmatsu.

**8. LIABILITY FOR ACCRUED BENEFITS**

Accrued benefits have been determined on the basis of the present value of expected future payments which arise from membership of the Scheme at the date of the actuarial review. The value of the accrued benefits was undertaken by the actuary as part of the comprehensive actuarial review, which was performed for the year ended 30 June 2006.

The amount reported has been determined by reference to expected future salary increases, future Scheme earnings and other relevant actuarial assumptions used in the actuarial review.

	2006	2003
	\$'000	\$'000
Accrued Benefits as at 30 June	<u>3,045,231</u>	<u>2,251,639</u>
Net Assets (excluding minority interest) as at 30 June	<u>3,295,158</u>	<u>2,453,576</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**9. 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.

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
As at 30 <sup>th</sup> June	<u>2,188,821</u>	<u>*2,507,957</u>
Net Assets (excluding minority interest) as at 30 June	<u>2,501,715</u>	<u>3,163,497</u>

\* Excludes benefits for pensions where the Actuary has estimated the liability to be \$91.83 million (2008: \$82.35 million).

Total fees charged to members' benefits arising from trust and other fiduciary activities that result in the holding and investing of assets on behalf of individuals during 2009 financial year was \$1,383,253 (2008: \$3,649,180).

**10. 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 financial year ended 30th June 2009 are as follows:

<b>Employer representatives</b>	<b>Employee representatives</b>
Mr S Byrne	Mr J Beacroft
Ms B Giegerl OAM	Mr B Harris OAM (Resigned 30 June 2009)
Mr L Kelly OAM	Mr M O'Connell
Mr C Sullivan OAM	Mr I Robertson
	Ms M Clavijo (Appointed 29 July 2009)

LGSS Pty Limited is the Trustee for Local Government Superannuation Scheme – Pool A. LGSS Pty Limited owns 100% of LIF Pty Ltd. LIF Pty Limited owns 100% of LG Investment Fund Pty Limited.

The above Directors are also Directors of LIF Pty Limited and LG Investment Fund Pty Limited (ABN 92 099 664 285), wholly owned subsidiaries of the Trustee. LIF Pty Limited is the Trustee of the Local Investment Fund and Local Government Property Fund. LG Investment Fund Pty Limited is the Trustee of Fixed Out-Performance Cash Fund. J Beacroft, B Giegerl, L Kelly, M O'Connell, I Robertson, C Sullivan and D Tuxford are Directors of Local Government Financial Services Pty Limited.

**(b) Other Key Management Personnel**

The Chief Executive Officer, Mr P Lambert, is considered to be a key manager.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**10. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION (continued)**

	<b>Consolidated</b>		<b>Scheme</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>(c) Compensation Received</b>				
Short term Benefits	800,739	768,797	603,081	645,612
Post Employment Benefits	208,840	87,370	170,075	37,657
Other Long Term Benefits	-	-	-	-
Termination Benefits	-	-	-	-
Share-based Payments	-	-	-	-
	<u>1,009,579</u>	<u>856,167</u>	<u>773,156</u>	<u>683,269</u>

The total group compensation due and receivable by Directors of LGSS Pty Limited and the Chief Executive Officer (for both Pool A and Pool B) 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.

The Consolidated Entity also includes the remuneration during the financial year due and receivable by Directors of LGSS Pty Limited, payable directly or indirectly, by Local Government Financial Services Pty Limited.

**(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 payment to the Directors for services rendered in relation to their duties as Directors as set out in the note 10 (c), and for the reimbursement of administration costs incurred by the Directors whilst attending to Trustee business.

**Contributions and retirement benefits of key management personnel**

Certain key management personnel, including the directors of the Trustee paid member contributions into the Fund. These were in accordance with the normal terms and conditions of the Trust Deed.

Mr J Beacroft, Mr B Harris and Mr M O'Connell are directors of the Trustee and received benefit payments during the year in accordance with the Trust Deed.

**(e) Other Related Party Transactions**

The Scheme holds 50% of the share capital of FuturePlus Financial Services Pty Limited, which provides administration, accounting, compliance, financial planning and post retirement planning services to the Scheme. Included in investments is the Scheme's investment in FuturePlus Financial Services Pty Limited which has been brought to account at the independent valuation amount of \$4,850,218 (2008: \$7,113,211).

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**10. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION (continued)**

**(e) Other Related Party Transactions (continued)**

During the period 1 July 2008 to 30 June 2009, FuturePlus Financial Services Pty Limited was paid investment management and administration fees of \$12,543,098 (2008: \$15,399,128), for Local Government Superannuation Scheme Pool B. These fees are based on the cost to the relevant entity of providing these services.

The Scheme holds 33.33% of the share capital of Chifley Financial Services Limited (CFS), which provides investment management services to the Scheme. Included in investments is the independent valuation of this holding of \$3,911,332 (2008: \$3,540,662). No dividend income was received during the year (2008:\$1,000,000). During the year, the Consolidated Scheme paid management fees of \$119,000 (2008: 213,000) to CFS.

LIF Pty Limited is the Trustee of the Local Government Property Fund, in which the Scheme has an investment of \$372,658,230 (2008: \$455,702,155). During the current year a loss of \$70,718,434 (2008: income of \$41,526,989) has been made by the Local Government Property Fund.

The Scheme holds 100% of the share capital of Local Government Financial Services Limited. Included in investments is the Scheme's investment in Local Government Financial Services Limited which has been brought to account at the independent valuation amount of \$36,324,000 (2008: \$65,300,000). Dividend income of \$138,216 (2008: Nil) was received during the year.

During the year LGFS entered into the following transactions with related entities. LGFS paid \$91,295 (2008: \$163,355) in recharged rent and on costs and \$78,600 (2008: \$75,000) accounting fee to FuturePlus Financial Services Pty Limited. LGFS, as indemnifier in the Return Support Agreement, provided the Fixed Out-Performance Cash Fund \$69,471,824 (2008: \$12,487,922) as a loan. LGFS, as the residual unit holder in Fixed Out-Performance Cash Fund, did not receive a distribution for 2009 (2008: \$7,851,146). LGFS Facilities Trust has invested \$11,065,136 (2008: \$7,050,869) in Fixed Out-Performance Cash Fund as at balance date. LGFS in its capacity as Investment Manager of State Cover Mutual has nil (2008: \$2,777,685) of State Cover's monies in a unit trust product offered by Chifley Financial Services Limited. LGFS, in accordance with the 2004 Council Notes Deed of Trust and, in its capacity as Manager of the LGFS Facilities Trust, has invested \$41,782,764 (2008: \$73,926,799) in the LGFS Facilities Trust as at balance date. LGFST Pty Limited, a fully owned subsidiary of the company, is the trustee of the LGFS Facilities Trust.

Included within the investments of Local Government Superannuation Scheme Pool B are amounts held with Local Investment Fund \$1,927,240,776 (2008: \$2,552,644,132). Distributions received from Local Investment Fund were \$15,337,472 (2008: \$180,384,495).

On the 1 July 2005 Hawkesbridge Limited was appointed as Private Equity Manager for the Scheme. As at 30 June 2009 the Scheme has invested a total of \$757,263 representing 9.8% of total capital in Hawkesbridge Limited. During the year, 2,051,969 shares were sold resulting in a realised gain of \$105,882.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**10. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION (continued)**

**(f) Other Related Party Transactions (continued)**

The Scheme has no ownership interest in the Fixed Cash Out-Performance Cash Fund ("FOPCF"), however controls the FOPCF through a return support agreement whereby LGFS will provide funding to FOPCF in the event that the assets of FOPCF are insufficient to meet its liabilities to unitholders. LGFS also manages the portfolio of FOPCF.

**11. INVESTMENTS**

**(a) Total Investments**

	Consolidated		Scheme	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Listed Securities and Trusts	-	3,190,687	-	-
Unlisted Securities and Trusts	2,328,619	2,414,055	2,388,993	3,155,730
Fixed Interest Securities	151,239	977,322	-	-
Unlisted Property Trusts	519,964	522,455	-	-
Other Securities	-	16,616	-	-
<b>Total Investments Valued at Net Market Value</b>	<b><u>2,999,822</u></b>	<b><u>7,121,135</u></b>	<b><u>2,388,993</u></b>	<b><u>3,155,730</u></b>

**Listed Securities and Trusts**

Australian Securities Listed on a Prescribed Stock Exchange	-	1,547,431	-	-
International Securities Listed on a Prescribed Stock Exchange	-	1,464,786	-	-
Units in Trusts Listed on a Prescribed Stock Exchange	-	163,019	-	-
Australian Exchange Traded Securities Options	-	15,304	-	-
Equity Swaps	-	147	-	-
<b>Total Listed Securities and Trusts</b>	<b><u>-</u></b>	<b><u>3,190,687</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

	Consolidated		Scheme	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Unlisted Securities and Trusts</b>				
Units in Unlisted Australian Fixed Interest Trusts	356,995	1,280,190	-	-
Units in Unlisted Australian Securities	1,971,624	417,726	2,016,335	2,700,027
Units in Unlisted Australian Property Funds	-	697,638	372,658	455,703
Units in Unlisted International Securities	-	18,501	-	-
<b>Total Unlisted Securities and Trusts</b>	<b><u>2,328,619</u></b>	<b><u>2,414,055</u></b>	<b><u>2,388,993</u></b>	<b><u>3,155,730</u></b>



**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**11. INVESTMENTS (continued)**

	Consolidated		Scheme	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Fixed Interest Securities</b>				
Australian Fixed Interest Securities Listed on a Prescribed Stock Exchange	155,545	974,535	-	-
Interest Rate Swap	(4,306)	2,787	-	-
<b>Total Fixed Interest Securities</b>	<b>151,239</b>	<b>977,322</b>	<b>-</b>	<b>-</b>
<b>Unlisted Property Trusts</b>				
Unlisted Property Trusts	11 (b) 519,964	522,455	-	-
<b>Total Unlisted Property Trusts</b>	<b>519,964</b>	<b>522,455</b>	<b>-</b>	<b>-</b>
<b>Other Securities</b>				
Currency Swaps	-	1,557	-	-
Currency Contracts	-	15,059	-	-
<b>Total Other Securities</b>	<b>-</b>	<b>16,616</b>	<b>-</b>	<b>-</b>

**b) Unlisted Property Trusts**

The table below discloses the property investments held in the unlisted property trusts:

2009 - Property Investment	Opening Balance \$'000	Additions \$'000	Disposals \$'000	Net gain/ (loss) \$'000	Closing balance \$'000
Leichhardt Market Place, Leichhardt	85,229	2,172	-	(15,327)	72,074
100 Christie Street, St Leonards	48,219	1,620	-	(5,228)	44,611
76 Berry St, North Sydney	68,216	620	-	(9,864)	58,972
Allambie Grove Business Park, Frenchs Forest	44,188	117	-	(4,587)	39,718
63 Waterloo Road, North Ryde	25,060	-	-	(11,599)	13,461
28 Margaret Street, Sydney	38,737	322	-	(7,143)	31,916
2 Lyon Park Rd, North Ryde	45,808	496	-	(7,404)	38,900
Sturt Mall, Wagga Wagga	53,398	609	-	(7,786)	46,221
181 Miller Street, North Sydney	69,044	1,888	-	(11,413)	59,519
120 Sussex Street, Sydney	44,556	716	-	(6,664)	38,608
Bridge Plaza, Batemans Bay	-	13,876	-	(1,779)	12,097
Village Centre, Batemans Bay	-	73,733	-	(9,866)	63,867
<b>Total Property Investments</b>	<b>522,455</b>	<b>96,169</b>	<b>-</b>	<b>(98,660)</b>	<b>519,964</b>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**11. INVESTMENTS (continued)**

**b) Unlisted Property Trusts (continued)**

2008 - Property Investment	Opening Balance \$'000	Additions \$'000	Disposals \$'000	Net gain/ (loss) \$'000	Closing balance \$'000
Leichhardt Market Place, Leichhardt	83,725	3,400	-	(1,896)	85,229
100 Christie Street, St Leonards	48,852	1,843	-	(2,476)	48,219
76 Berry St, North Sydney	64,661	854	-	2,701	68,216
Allambie Grove Business Park, Frenchs Forest	43,874	48	-	266	44,188
63 Waterloo Road, North Ryde	20,449	221	-	4,390	25,060
28 Margaret Street, Sydney	34,367	415	-	3,955	38,737
2 Lyon Park Rd, North Ryde	43,682	480	-	1,646	45,808
Sturt Mall, Wagga Wagga	52,098	1,382	-	(82)	53,398
181 Miller Street, North Sydney	70,688	3,375	-	(5,019)	69,044
120 Sussex Street, Sydney	-	44,281	-	275	44,556
<b>Total Property Investments</b>	<b>462,396</b>	<b>56,299</b>	<b>-</b>	<b>3,760</b>	<b>522,455</b>

This table outlines additional disclosure relating to the property investments:

Property	Acquisition Date	Valuation Date	Valuer	Latest Independent Valuation \$'000	Market Value 2009 \$'000
Leichhardt Market Place, Leichhardt	Jul 97	Jun 09	Savills	73,000	72,074
100 Christie Street, St Leonards	Jul 97	Jun 09	Colliers	45,000	44,611
76 Berry St, North Sydney	Jul 97	Jun 09	Knight Frank	60,700	58,972
Allambie Grove Business Park, Frenchs Forest	Jul 97	Jun 09	Colliers	41,000	39,718
63 Waterloo Road, North Ryde	Jul 97	Jun 09	Knight Frank	13,500	13,461
28 Margaret Street, Sydney	Jul 97	Jun 09	CB Richard Ellis	32,200	31,916
2 Lyon Park Rd, North Ryde	Jul 97	Jun 09	CB Richard Ellis	39,800	38,900
Sturt Mall, Wagga Wagga	Aug 01	Jun 09	Savills	46,800	46,221
181 Miller Street, North Sydney	May 07	Jun 09	Savills	60,300	59,519
120 Sussex Street, Sydney	Aug 07	Jun 09	Jones Lang LaSalle	38,500	38,608
Bridge Plaza, Batemans Bay	Aug 08	Jun 09	CB Richard Ellis	12,100	12,097
Village Centre, Batemans Bay	Aug 08	Jun 09	CB Richard Ellis	63,900	63,867
<b>Total</b>				<b>526,800</b>	<b>519,964</b>

**12. OTHER RECEIVABLES**

	Consolidated		Scheme	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Deposits Held with Brokers	-	21,577	-	-
Unsettled Sale of Investments	-	21,599	-	-
Trust Distribution Receivable	-	50,469	-	-
Other Receivables	19,922	21,972	26	183
<b>Total Other Receivables</b>	<b>19,922</b>	<b>115,617</b>	<b>26</b>	<b>183</b>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**13. PAYABLES**

	Consolidated		Scheme	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Unsettled Purchase of Investments	-	24,616	-	-
Accruals	798	1,168	794	1,421
Interest	1,155	3,740	-	-
Other Payables	8,838	23,871	3,340	3,866
<b>Total Payables</b>	<u>10,791</u>	<u>53,395</u>	<u>4,134</u>	<u>5,287</u>

**14. EMPLOYEE BENEFITS**

	Consolidated		Scheme	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Current Liability</b>				
Annual Leave	94	-	60	-
Long Service Leave	95	-	-	-
	<u>189</u>	<u>-</u>	<u>60</u>	<u>-</u>
<b>Non Current Liability</b>				
Long Service Leave	25	-	24	-
	<u>25</u>	<u>-</u>	<u>24</u>	<u>-</u>

**15. OTHER FINANCIAL LIABILITIES**

	Consolidated		Scheme	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Derivatives	-	8,718	-	-
Loans	78,000	39,000	-	-
Other	-	259	-	-
<b>Total Other Financial Liabilities</b>	<u>78,000</u>	<u>47,977</u>	<u>-</u>	<u>-</u>
<b>Derivatives</b>				
Currency Contracts	-	636	-	-
Equity Futures	-	8,046	-	-
Options	-	36	-	-
Fixed Interest Futures	-	-	-	-
<b>Total Derivatives</b>	<u>-</u>	<u>8,718</u>	<u>-</u>	<u>-</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**16. DERIVATIVE FINANCIAL INSTRUMENTS**

A derivative is a financial contract whose value depends on, or is derived from, the value of underlying assets, liabilities or indices. Derivatives include an assortment of instruments such as futures and options.

Derivatives are considered to be part of the investment process. The Scheme has exposures in derivatives through LIF. The use of derivatives is an essential part of the Consolidated Scheme's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- Hedging to protect an asset or liability of the Consolidated Scheme against a fluctuation in market values or to reduce volatility
- A substitution for trading of physical securities
- Adjusting asset exposures within the parameters set in the investment strategy

While derivatives are used for trading purposes, they are not used to gear a portfolio. Gearing a portfolio would occur if the levels of exposure to the markets exceed the underlying value of the Consolidated Scheme.

The Consolidated Scheme holds the following derivative instruments:

**(a) Futures**

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are settled daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in a organised financial market.

**(b) Options**

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. The Consolidated Scheme is exposed to credit risk on purchased options to the extent of the carrying amount (net market value).

**(c) Forward Currency Contracts**

Forward currency contracts are primarily used by the Consolidated Scheme to hedge against foreign currency rate risk on its non Australian Dollar denominated trading securities. The Consolidated Scheme agrees to receive or deliver a fixed quantity of foreign currency for an agreed price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the reporting date. The Consolidated Scheme recognises gains or losses equal to the change in net market value at the reporting date.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**16. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

**(c) Forward Currency Contracts**

The Consolidated Scheme's derivative instruments at year end are detailed as follows:

	Consolidated	
	2009 \$'000	2008 \$'000
<b>Contract / Notional Amounts</b>		
Forward Currency Contracts	-	1,001,593
<b>Buy</b>		
Australian Share Price Index Futures	-	7,389
International Share Price Index Futures	-	120,050
Cross Currency Swaps	-	1
<b>Total Buy</b>	-	127,440
<b>Sell</b>		
Australian Exchange Traded Options	-	(1,419)
Australian Share Price Index Futures	-	(14,280)
International Share Price Index Futures	-	(62,006)
Cross Currency Swaps	-	(7)
<b>Total Sell</b>	-	(77,712)

**17. FINANCIAL RISK MANAGEMENT**

**(a) Financial Instruments Management**

The investments of the Scheme (other than cash held for meeting daily administrative and benefit expenses), are invested through the Local Investment Fund (LIF) on behalf of the Trustee by investment managers. The investment managers are required to invest the assets allocated for discrete management in accordance with the terms of a written investment management agreement; or through a pooled vehicle managed on the terms disclosed within the information memorandum. The Trustee of LIF has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with the Trustee's investment strategy.

J P Morgan acts as master custodian on behalf of the Trustee and as such provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**17. FINANCIAL RISK MANAGEMENT (continued)**

**(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 revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 2 to the financial statements.

**(c) Capital Risk Management**

The Trustee of the Scheme holds an RSE license, but there is no capital requirement stipulated by the license.

**(d) Categories of Financial Instruments**

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

**(e) Financial risk management objectives**

The Consolidated Scheme is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including currency risk, net market value and interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Trustee's risk management and investment policies seek to minimise the potential adverse effects of these risks on the Consolidated Scheme's financial performance and financial position.

It is ultimately the responsibility of the Trustee to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements the Trustee has the function of overseeing the establishment and maintenance of risk-based systems and controls for the Scheme.

The Trustee has developed, implemented and maintains a Risk Management Strategy (RMS) in respect of its activities as a Trustee and a Risk Management Plan (RMP) for the Scheme.

The RMS and RMP detail some of the Trustee's policies and procedures, processes and controls that comprise its risk management and control systems. They address all material risks, financial and non-financial, likely to be faced. Annually, the Trustee certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Trustee has systems in place to ensure compliance with legislative and prudential requirements and that the Trustee has satisfied itself as to the compliance with the RMS and RMP.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**17. FINANCIAL RISK MANAGEMENT (continued)**

**(f) Credit Risk**

The Scheme and its Consolidated Scheme's exposure to credit risk and policies in managing this risk are aligned and are detailed below.

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

- ensuring counterparties, together with the respective credit limit 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 is exposed to credit risk through its investment in LIF. LIF manages exposure to any individual counterparty or industry by investing the assets of the Scheme in a number of underlying investments trusts. The credit risk is managed not only by diversifying across investment managers but also by the investment managers having diversified portfolios, thus minimising the counterparty risk.

Credit risk arising on investments is mitigated by investing primarily in rated instruments or instruments issued by rated counterparties of credit ratings of at least 'BBB+' or better as determined by Standard and Poor's; unless these securities form part of the profile of specifically permitted market benchmarks within mandated or pooled investments as in the case of Emerging Market Debt, High Yield Bonds or as part of the exposure to Structured Products, Private Equity or Semi Liquid Assets. Regarding the less liquid assets, there is more risk than those securities rated BBB+, however this is managed by external professional investment managers. Their exposure to risk is undertaken when they believe the premium being paid is more than sufficient to cover the default risk on the debt. The risk is further mitigated by the diversification of the exposure across a range of investment managers.

**(g) Liquidity Risk**

The Scheme and its Consolidated Scheme's exposure to liquidity risk and policies in managing this risk are aligned and are detailed below.

The Scheme's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. The Scheme allows members to withdraw benefits and it is therefore exposed to the liquidity risk of meeting member's withdrawals at any time. The Scheme is exposed to additional liquidity risk through its underlying investment in LIF. The Scheme's listed securities and unit trust investments are considered to be readily realisable. The Scheme's financial instruments include investments in unlisted investments, direct property and private equity, which are not traded in an organised market and which generally may be illiquid. As a result, there is a risk that, the Scheme may not be able to liquidate all of these investments at their net market value in order to meet its liquidity requirements.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**17. FINANCIAL RISK MANAGEMENT (continued)**

**(g) Liquidity Risk (continued)**

The Scheme's liquidity risk is managed in accordance with the Scheme's investment strategy. The Scheme has a high level of net inward cash flows (through new contributions) which provides capacity to manage liquidity risk. The Scheme also manages liquidity risk by maintaining adequate banking facilities and through the continuous monitoring of forecast and actual cash flows. As a further risk mitigation strategy, it is the Trustee's policy that the Scheme cannot have an exposure of less than 70% of assets invested in liquid asset classes at any one point in time. The Scheme's overall strategy to liquidity risk management has not changed from the prior year.

The following tables summarise the maturity profile of the Scheme's financial liabilities. The tables have been drawn up based on the 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.

Consolidated	Less than 3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000	Total \$'000
<b>2009</b>					
Vested benefits	2,188,821	-	-	-	2,188,821
Other					
Other payables	10,791	-	-	-	10,791
Deposits from clients	475,533	-	-	-	475,533
Derivatives	-	-	-	-	-
Loans	78,000	-	-	-	78,000
Current tax liability	-	-	-	-	-
Minority interest	85,443	-	-	-	85,443
<b>Total</b>	<b>2,838,588</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,838,588</b>
<b>2008</b>					
Vested Benefits	2,507,957	-	-	-	2,507,957
Other					
Unsettled purchase of investments	24,616	-	-	-	24,616
Other payables	29,038	-	-	-	29,038
Deposits from clients	1,095,057	-	-	-	1,095,057
Derivatives	8,718	-	-	-	8,718
Loans	39,000	-	-	-	39,000
Current tax liability	-	29,365	-	-	29,365
Minority interest	3,079,782	-	-	-	3,079,782
<b>Total</b>	<b>6,784,168</b>	<b>29,365</b>	<b>-</b>	<b>-</b>	<b>6,813,533</b>



**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**17. FINANCIAL RISK MANAGEMENT (continued)**

**(g) Liquidity Risk (continued)**

Scheme	Less than 3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000	Total \$'000
<b>2009</b>					
Vested benefits	2,188,821	-	-	-	2,188,821
Other					
Accruals	794	-	-	-	794
Other payables	3,340	-	-	-	3,340
Current tax liability	-	-	-	-	-
<b>Total</b>	<b>2,192,955</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,192,955</b>
<b>2008</b>					
Vested benefits	2,507,957	-	-	-	2,507,957
Other					
Accruals	1,421	-	-	-	1,421
Other payables	3,866	-	-	-	3,866
Current tax liability	-	29,390	-	-	29,390
<b>Total</b>	<b>2,513,244</b>	<b>29,390</b>	<b>-</b>	<b>-</b>	<b>2,542,634</b>

The table below analyses the Consolidated Scheme's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period to the contractual maturity date at the year end date. The amounts disclosed in the table are the contractual undiscounted cash flows on a non look through basis.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**17. FINANCIAL RISK MANAGEMENT (continued)**

**(g) Liquidity Risk (continued)**

	Consolidated				Total \$'000
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	1-2 years \$'000	
<b>At 30 June 2009</b>					
Foreign currency forward contracts					
Inflows	-	-	-	-	-
(Outflows)	-	-	-	-	-
Australian share price index futures					
Inflows	-	-	-	-	-
(Outflows)	-	-	-	-	-
International share price index futures					
Inflows	-	-	-	-	-
(Outflows)	-	-	-	-	-
Aust. exchange traded options					
Inflows	-	-	-	-	-
(Outflows)	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 30 June 2008</b>					
Foreign currency forward contracts					
Inflows	402,277	690,756	-	-	1,093,033
(Outflows)	(43,981)	(47,459)	-	-	(91,440)
Aust share price index futures					
Inflows	-	7,389	-	-	7,389
(Outflows)	-	(14,280)	-	-	(14,280)
International share price index futures					
Inflows	39,380	80,670	-	-	120,050
(Outflows)	(22,703)	(39,303)	-	-	(62,006)
Australian exchange traded options					
Inflows	-	-	-	-	-
(Outflows)	-	(1,419)	-	-	(1,419)
<b>Total</b>	<b>374,973</b>	<b>676,354</b>	<b>-</b>	<b>-</b>	<b>1,051,327</b>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**17. FINANCIAL RISK MANAGEMENT (continued)**

**(h) Market Risk**

The Scheme and its Consolidated Entity's exposure to market risk and policies in managing this risk are aligned and are detailed below.

Market risk is the risk that the net market value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Scheme's policies and procedures put in place to mitigate the Scheme's exposure to market risk are detailed in the Trustee's investment policies and the RMS and the Scheme's RMP.

Whilst market risk is unavoidable the Scheme will look to minimise the volatility and absolute return fluctuations through thoughtful and well diversified portfolio construction. The relationships that varying asset classes display during volatile market conditions are critical in this construction process. The Scheme manages this risk via outsourcing its investment management; the investment manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's constitution and product disclosure statement.

The carrying amounts of financial assets best represent the maximum market risk exposure at the balance sheet date.

There has been no change to the Scheme's exposure to market risks or the manner in which it manages and measure the risk.

**Interest Rate Risk Management**

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

The Scheme through its investment in LIF is exposed to the interest rate markets. The Scheme invests in these 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.

These investments involve cash and cash equivalents, longer dated fixed interest instruments and credit instruments. Longer dated fixed interest instruments result in the Scheme having exposure to interest rate movements. The Scheme manages this risk by investing in diverse exposures through both floating interest rate instruments and fixed interest rate instruments. The Trustee monitors its exposures to interest rate risk. The Scheme's overall strategy to interest rate risk management has not changed from the previous year.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**17. FINANCIAL RISK MANAGEMENT (continued)**

**(h) Market Risk (continued)**

Interest Income

The Scheme recorded interest income of \$1,494,462 for the year (2008: \$1,603,624) for financial assets held at net market value through profit or loss.

Foreign Currency Risk Management

The Scheme is exposed to foreign currency risk as a result of LIF's investment in financial instruments denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising forward exchange rate contracts. The forward exchange rate contracts are designed to hedge 50% of its exposure to foreign currency for all international equities and 100% of all other international assets. This hedge percentage may be altered from time to time.

The Trustee uses a currency external overlay manager to manage its exposures to foreign currency risk. The Scheme's overall strategy to foreign currency risk management has not changed from the previous year.

Other Market Risk

Market price risk is the risk that the value of the Scheme's investment portfolio will fluctuate as a result of changes in market prices.

The Scheme is exposed to market price risk through its investment in LIF. This risk is managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly on a total portfolio basis which includes the effect of derivatives. The Scheme's overall strategy to market price risk management has not changed from the previous year.

Value-at-Risk (VaR) Analysis

The VaR measure estimates the potential loss in pre-taxation profit over a given holding period for the specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recording offsetting positions and correlations between products and markets. Our assumed volatilities and correlations of assets utilise 5 year forecasts of the returns, volatilities (standard deviations), and correlations of capital markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one year 95% VaR number is based on a one tail test. This reflects that there is a 5.0 % probability over a one year period the portfolio will perform at or worse than the stated VaR based on the assumptions made. These assumptions are detailed after the table.

While VaR captures the Scheme's exposure under normal market conditions, sensitivity and scenario analysis, and in particular stress testing, is used to add insight to the possible outcomes under abnormal market conditions. The Scheme assesses various scenarios to measure the impact on asset classes of extreme moves in markets, based on historical experience as well as hypothetical scenarios. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk, and consequently reflects the decline in liquidity that frequently accompanies market shocks.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**17. FINANCIAL RISK MANAGEMENT (continued)**

**(h) Market Risk (continued)**

The relative asset weightings utilised for the VaR calculation was at 30 June for each financial year end. These were calculated from both the Scheme's and underlying investment fund's registry data maintained for the holdings in each sector. In cases where cash assets were held in the relevant sector these were judged as likely to be invested in that asset class and so included as that asset class. The Private Equity classification has been used conservatively to include the alternative asset sector investments and related foreign exchange hedges and cash balances.

The Fund's VaR should be interpreted in light of the limitations of the methodologies used. These limitations include the following:

- Historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations;
- VaR using a 95 per cent confidence level does not reflect the extent of potential losses beyond that percentile.

These limitations and the nature of the VaR measure mean that the Fund can neither guarantee that losses will not exceed the VaR amounts indicated nor that losses in excess of the VaR amounts will not occur more frequently than is stipulated by the model.

The following table summarises the estimated market risk impact to the profitability of the Scheme. The estimated impact has been calculated on the basis of a VaR number incorporating market price, currency and interest rate factors into an overall return risk.

Year	VaR Factor- Scheme and its Consolidated entity	Net Assets available to pay benefits – Scheme and its Consolidated entity \$'000	Estimated impact of Net Assets available to pay benefits – Scheme and its Consolidated entity (+/-) \$'000
30 June 2009	6.89%	2,501,715	172,368
30 June 2008	8.76%	3,163,497	277,122

A number of assumptions have been used in setting a strategic asset allocation for the Scheme. These assumptions have been provided by the investment consultant of the Scheme.

The assumptions are expressed in terms of an expected annual return for each asset class, expected annual volatility of return for each asset class and correlations between asset class returns.

The assumptions are based on a combination of financial theory, historical returns over recent and long historical periods, current interest rates and market expectation of inflation. They are also based on a five year time horizon and before tax.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**17. FINANCIAL RISK MANAGEMENT (Continued)**

**(h) Market Risk (continued)**

The two key elements of the underlying structure of the assumptions are a model of bond yield (nominal and real) movements and a system of equations that relates returns for other asset classes to changes in bond yields.

Summarising the assumptions specific to asset classes:

Australian Equities

Expected returns for the equity classes include a premium over fixed interest return. The Trustee expects equities to outperform bonds in the long run.

International Equities

Expected returns for the international equities have been set equal to that of domestic equities.

Australian and International Property

As with equity asset classes, the expected return for property includes a premium over the fixed interest return.

Australian and International Fixed Interest

For setting the fixed interest assumptions, the Trustee has assumed that economic conditions remain difficult for the next two years, but that economic growth and inflation eventually get back to long term levels.

Inflation Linked Bonds

As opposed to Fixed Interest, the expected inflation is extracted from the difference between nominal yields on conventional bonds and real yields on inflation-linked bonds.

Cash

Cash returns are assumed to represent a discount relative to the expected domestic bond yields.

Absolute Return (Hedge)

As with equity asset classes, the expected return for Absolute Return (Hedge) includes a premium over the fixed interest return.

Private Equity or Other Less Liquid Assets

Are a combination of equity, debt and real assets, which by their nature require a longer term investment horizon. The expected return is in excess of what would be on listed exchanges or comparable trading systems, if it was offered there.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**18. 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.

**19. LOSS OF CONTROL OF SUBSIDIARY**

On 1 July 2008, the Scheme lost control of its investment in LIF through a reduction in ownership percentage of 51% to 47%. At this time, LIF had total assets of \$5,608,757,000, total liabilities of \$605,733,000 and total net assets of \$5,003,024,000.

**20. ACQUISITIONS**

Investment in LGDT as at 30 June 2009 is approximately \$29.5 million, with the value net assets of approximately \$30.2 million.

LG Secondaries Trust's investment as at 30 June 2009 is nil and has net assets of approximately \$11.7 million. The Scheme has a 65% controlling interest as at 30 June 2009. The interest of minority shareholders is stated at the minority's proportion of the net market values of the assets and liabilities recognised.

**21. SUBSEQUENT EVENTS**

During the year, Statements of Claim have been served on LGFS by various NSW Local Councils in relation to the purchase of a credit product from the company issued by ABN AMRO known as Rembrandt 2006-3. Without prejudicing the outcome, LGFS has received advice from its insurer that subject to certain limitations the claim is an insurable matter under its policy.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS  
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**22. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS**

On 24 April 2007, Local Government Property Fund entered into a \$65 million revolving cash advance facility agreement with Westpac Banking Corporation to provide general working capital to the Scheme at a variable interest rate. During the 2008 financial year, an additional facility of \$13 million was arranged. No additional facility was entered into for the current year.

There are outstanding commitments in Hawkesbridge Private Equity Fund 3 of \$8,651,946 as at 30 June 2009 (2008: 5,175,000).

As of 30 June 2009, approximately \$16.5 million has been committed to LGST.

**23. SUBSIDIARIES**

Name of Entity	2009 Ownership Interest %	2008 Ownership Interest %
<b>Parent Entity</b>		
Local Government Superannuation Scheme Pool B		
<b>Subsidiaries</b>		
Local Investment Fund	47%	51%
Chifley Wholesale Fund	89%	77%
Local Government Financial Services Pty Limited	100%	100%
LGFS Facilities Trust	100%	100%
Fixed Out-Performance Cash Fund*	-	-
LG Diversified Trust	100%	100%
LG Secondaries Trust	65%	65%
Local Government Property Fund	82%	87%

\* The Scheme has no ownership interest in the FOPCF, however controls the entity through the return support agreement. LGFS also manages the portfolio of the FOPCF.



## INDEPENDENT REPORT BY THE APPROVED AUDITOR TO THE MEMBERS OF LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

### (A) Financial Statements

I have audited the financial statements of Local Government Superannuation Scheme Pool B for the year ended 30 June 2009 as set out on pages 4 to 40.

#### *Trustee's Responsibility for the Financial Statements*

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee's responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of Local Government Superannuation Scheme Pool B.

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

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

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

# Deloitte.

## *Auditor's Opinion*

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the net assets of Local Government Superannuation Scheme Pool B as at 30 June 2009 and the changes in net assets for the year ended 30 June 2009.

## **(B) Compliance**

### *Trustee's Responsibility for Compliance*

The superannuation entity's trustee is responsible for complying with the requirements of the SIS Act, SIS Regulations, the Reporting Standards made under Section 13 of the *Financial Sector (Collection of Data) Act 2001* (FSCODA Reporting Standards), the *Corporations Act 2001* (Corporations Act) and *Corporations Regulations 2001* (Corporations Regulations).

### *Auditor's Responsibility*

My responsibility is to express an opinion on the trustee's compliance with the requirements of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations based on the audit. My audit has been conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the trustee of the Local Government Superannuation Scheme Pool B has, in all material respects:

- (a) complied with the relevant requirements of the following provisions (to the extent applicable) of the SIS Act and SIS Regulations:

Sections 19(2), 19(3), 35A, 35C, 36, 65, 66, 67, 69 to 85, 86 to 93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, , 117, 118, 122, 124, 125, 126k, 152, 154;

Regulations 2.33(2), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and

- (b) complied with the FSCODA Reporting Standards that are subject to audit (to the extent applicable); and

- (c) complied with the relevant requirements of the following provisions (to the extent applicable) of the Corporations Act and Corporations Regulations:

Sections 1012B, 1012F, 1012H(2), 1012I, 1013B, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 1017C(2), 1017C(3), 1017C(5), 1017C(8), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3), 1017E(4), 1020E(8) and 1020E(9); and

Regulation 7.9.32(3); and

- (d) complied with the requirement to prepare the respective forms comprising the APRA Annual Return; and

- (e) complied with the requirements of Section 155(2) of the SIS Act in that the trustee has appropriate processes in place to identify and resolve s.155 cases, and has adhered to those processes in determining issue and redemption prices.

for the year ended 30 June 2009.

# Deloitte.

My procedures with respect to SIS Regulation 6.17 included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of the SIS Regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts beyond a broad assessment of the apparent reasonableness of the calculations.

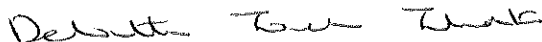
My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations apart from those specified. The superannuation entity's trustee is responsible for complying with the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations.

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

## *Auditor's Opinion*

In my opinion the trustee of Local Government Superannuation Scheme Pool B has complied, in all material respects, with the requirements of the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations for the year ended 30 June 2009.



DELOITTE TOUCHE TOHMATSU



Sarah Woodhouse  
Partner  
Chartered Accountants  
Sydney, 21 October 2009