

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

**Financial Report**

**For the Year Ended 30 June 2010**

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

**FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2010**

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# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A AND ITS CONSOLIDATED ENTITIES

## TRUSTEE'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

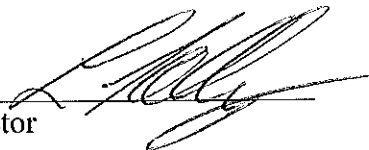
In the opinion of the directors of the Trustee of Local Government Superannuation Scheme Pool A :

1. The accompanying financial statements of the Local Government Superannuation Scheme Pool A ("the Scheme") and its Consolidated Entity consisting of Local Government Superannuation Scheme Pool A and Local Investment Fund ("the Consolidated Scheme") are properly drawn up so as to present fairly the Financial Position of the Scheme as at 30 June 2010, the Operating Statement for the year ended 30 June 2010 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 and in accordance with Australian Accounting Standards;
3. The Scheme has been conducted in accordance with its constituent Trust Deed; and
4. 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.

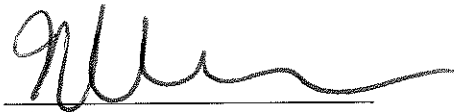
Signed in accordance with a resolution of the Board of Directors of LGSS Pty Limited (ABN 68 078 003 497).

Signed at Sydney this 20th day of October 2010

Director



Director



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

**OPERATING STATEMENT  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

	Note	Consolidated		Scheme	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Investment Revenue</b>					
Interest Revenue		47,926	34,326	1,050	2,257
Dividend Revenue		50,001	92,506	-	-
Trust Distributions		78,774	51,585	200,403	10,472
Changes in Net Market Value of Investments	13	422,726	(1,146,010)	112,734	(398,716)
Other Investment Revenue		3,231	4,746	-	-
<b>Total Investment Revenue</b>		<u>602,658</u>	<u>(962,847)</u>	<u>314,187</u>	<u>(385,987)</u>
Investment Expenses		<u>(8,300)</u>	<u>(15,795)</u>	<u>(6,819)</u>	<u>(5,541)</u>
<b>Net Investment Revenue</b>		<u>594,358</u>	<u>(978,642)</u>	<u>307,368</u>	<u>(391,528)</u>
<b>Contributions Revenue</b>					
Employer Contributions	14(a)	217,577	225,606	217,577	225,606
Member Contributions	14(c)	18,521	16,990	18,521	16,990
Transfers From Other Funds	14(d)	213,334	199,791	213,334	199,791
<b>Total Contribution Revenue</b>		<u>449,432</u>	<u>442,387</u>	<u>449,432</u>	<u>442,387</u>
Proceeds of Insurance Claims		4,367	87	4,367	87
Other Revenue		14	5	14	5
<b>Total Other Revenue</b>		<u>4,381</u>	<u>92</u>	<u>4,381</u>	<u>92</u>
<b>Total Revenue</b>		<u>1,048,171</u>	<u>(536,163)</u>	<u>761,181</u>	<u>50,951</u>
<b>Expenses</b>					
Superannuation Contributions	2(i)	23	2	23	2
Surcharge					
Scheme Administration Expenses	2(f)	(28,619)	(19,184)	(27,017)	(18,594)
<b>Total Expenses</b>		<u>(28,596)</u>	<u>(19,182)</u>	<u>(26,994)</u>	<u>(18,592)</u>
<b>Benefits Accrued as a Result of Operations before Income Tax and Minority Interest</b>		<u>1,019,575</u>	<u>(555,345)</u>	<u>734,187</u>	<u>32,359</u>
Income Tax (Expense) / Benefit	9(a)	(56,236)	13,588	(56,236)	13,588
<b>Benefits Accrued as a Result of Operations after Income Tax and before Minority Interest</b>		<u>963,339</u>	<u>(541,757)</u>	<u>677,951</u>	<u>45,947</u>
Minority Interest		<u>(285,388)</u>	<u>(587,704)</u>	<u>-</u>	<u>-</u>
<b>Benefits Accrued as a Result of Operations after Minority Interest</b>		<u>677,951</u>	<u>45,947</u>	<u>677,951</u>	<u>45,947</u>

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

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A AND ITS CONSOLIDATED ENTITIES

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	Consolidated		Scheme	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Investments</b>					
Listed Securities and Unit Trusts	4	1,831,130	1,607,092	-	-
Unlisted Unit Trusts	4	1,843,755	1,607,033	2,756,178	2,207,913
Fixed Interest Securities	4	953,453	590,425	-	-
Other Securities	4	193,773	117,442	-	-
<b>Total Investments</b>		<u>4,822,111</u>	<u>3,921,992</u>	<u>2,756,178</u>	<u>2,207,913</u>
<b>Other Assets</b>					
Cash and Cash Equivalents	17(a)	218,351	229,364	43,373	42,443
Interest Receivable		10,254	5,423	-	-
Dividends Receivable		6,734	7,138	-	-
Other Receivables	5	69,681	129,386	383	1,099
Deferred Tax Asset	9(c)	47,427	54,823	47,427	54,823
<b>Total Other Assets</b>		<u>352,447</u>	<u>426,134</u>	<u>91,183</u>	<u>98,365</u>
<b>Total Assets</b>		<u>5,174,558</u>	<u>4,348,126</u>	<u>2,847,361</u>	<u>2,306,278</u>
Less:					
<b>Liabilities</b>					
Payables	6	22,965	26,226	8,678	3,614
Employee Benefits	7	121	75	121	75
Other Financial Liabilities	8	49,283	5,608	-	-
Current Tax Liability	9(b)	34,338	2,389	34,338	2,389
<b>Total Liabilities</b>		<u>106,707</u>	<u>34,298</u>	<u>43,137</u>	<u>6,078</u>
<b>Net Assets Available Before Minority Interest</b>		<u>5,067,851</u>	<u>4,313,828</u>	<u>2,804,224</u>	<u>2,300,200</u>
Less Minority Interest		<u>2,263,627</u>	<u>2,013,628</u>	-	-
<b>Net Assets Available to Pay Benefits</b>		<u>2,804,224</u>	<u>2,300,200</u>	<u>2,804,224</u>	<u>2,300,200</u>
Represented by:					
<b>Liability for Accrued Benefits</b>					
Funds Allocated to Members' Accounts	11	2,797,907	2,284,801	2,797,907	2,284,801
Funds Not Yet Allocated to Members' Accounts	10(b)	-	3,748	-	3,748
Administration Reserve	10(c)	268	195	268	195
Contribution Tax Reserve	10(e)	892	6,178	892	6,178
Operational Risk Reserve	10(f)	5,157	5,278	5,157	5,278
<b>Total Liability for Accrued Benefits</b>	10(a)	<u>2,804,224</u>	<u>2,300,200</u>	<u>2,804,224</u>	<u>2,300,200</u>

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

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A AND ITS CONSOLIDATED ENTITIES

## STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	Consolidated		Scheme	
		2010	2009	2010	2009
		\$'000	\$'000	\$'000	\$'000
<b>Cash Flows from Operating Activities</b>					
Transaction costs		(1,430)	(1,681)	-	-
Contributions Received from Employers		217,577	225,606	217,577	225,606
Contributions Received from Members		12,365	16,989	12,365	16,989
Co-contributions Received		6,156	2	6,156	2
Transfers from Other Funds		213,334	199,791	213,334	199,791
Income Received		126,865	170,757	1,011	2,257
Benefits Paid		(171,583)	(233,981)	(171,583)	(233,981)
Investment Expenses Paid		(8,539)	(15,794)	(6,819)	(5,541)
Scheme Administration Expenses Paid		(20,578)	(26,370)	(19,114)	(20,103)
Surcharge Paid		23	2	23	2
Income Tax Paid		(16,892)	(47,012)	(16,892)	(47,012)
<b>Net Cash Provided by Operating Activities</b>	17(b)	<u>357,298</u>	<u>288,309</u>	<u>236,058</u>	<u>138,010</u>
<b>Cash Flows from Investing Activities</b>					
Cash Acquired upon consolidation of subsidiaries		8,923	-	-	-
Redemptions from Investments		3,928,175	7,224,184	192,594	306,234
Applications to Investments		(4,569,489)	(7,095,939)	(427,722)	(446,462)
<b>Net Cash Provided by /(used in) Investing Activities</b>		<u>(632,391)</u>	<u>128,245</u>	<u>(235,128)</u>	<u>(140,228)</u>
<b>Cash Flows from Financing Activities</b>					
Proceeds from Applications by Unitholders		4,824,515	1,081,106	-	-
Payments for Redemptions by Unitholders		(4,559,275)	(1,458,724)	-	-
<b>Net Cash Provided by /(used in) Financing Activities</b>		<u>265,240</u>	<u>(377,618)</u>	<u>-</u>	<u>-</u>
<b>Net (Decrease) / Increase in Cash Held</b>		(9,853)	38,936	930	(2,218)
Cash at the Beginning of the Financial Year		229,364	44,661	42,443	44,661
Cash on Acquisition of Local Investment Fund		-	132,749	-	-
Effects of foreign exchange on cash and cash equivalents		(1,160)	13,018	-	-
<b>Cash at the End of the Financial Year</b>	17(a)	<u>218,351</u>	<u>229,364</u>	<u>43,373</u>	<u>42,443</u>

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 2010**

### **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 20 October 2010.

#### **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 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 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.

#### **Standards and Interpretations adopted with no effect on Financial Statements**

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

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 1. BASIS OF PREPARATION (continued)

#### Standards and Interpretations adopted with no effect on Financial Statements (continued)

AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments	The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.
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#### 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 Consolidated 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 Consolidated Scheme.

Standard / Interpretation	Effective for annual reporting periods beginning on and after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments and AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	30 June 2014
AASB 2009-5 'Further amendments to Australian Accounting Standards arising from the Annual Improvements Process	1 January 2010	30 June 2011
AASB 124 Related Party Disclosures (2009) and AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012

### 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 2010 and the comparative information presented in these financial statements for the year ended 30 June 2009.



# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all entities that comprise the Group, being Local Government Superannuation Scheme Pool A (the Scheme) and its subsidiary Local Investment Fund (LIF) as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. The Group will be referred to as the Consolidated Scheme. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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. The subsidiary is 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 the Operating Statement 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 entity are eliminated in full.

#### (b) Cash and cash equivalents

Cash and cash equivalents include 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 and which are subject to insignificant risk of changes in value.

#### (c) Investments

Investments are valued at net market value which approximates fair 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.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Net market values have been determined as follows:

Listed Securities and Unit Trusts	Listed securities and foreign securities quoted on a recognised stock exchange are stated at market quotations as at the reporting date.
Unlisted Unit Trusts	Redemption value of units based on market values of underlying assets as quoted by the managers of the trusts.
Fixed Interest Securities	Fixed interest securities quoted are stated at market quotations as at the reporting date.
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.

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.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) Income Tax (continued)

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 Consolidated 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 or benefit in the Operating Statement.

#### (e) 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 relate 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 Financial Position as a receivable.

#### 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 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).

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Employer and Member Contributions

Contributions are recognised when control of the asset has been attained and are recorded in the period to which they relate.

#### Transfers From Other Funds

Transfers from other Funds are recognised on a cash basis as this is the only point in which measurement is reliable. Amounts are recognised where transfer receipts are received by the Scheme.

#### **(f) Expenses**

Administrative expenses are charged directly to net assets. Investment expenses are charged directly against investment income.

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

#### **(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**

##### 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.

##### 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 Operating Statement.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) 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 surchargeable contributions made after 1 July 2005; however assessments relating to the period prior to this date continue to be received.

#### (j) Goods and Services Tax (GST)

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 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) 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.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) 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 Financial Position and represent only those benefits where the payment has been processed and authorised by the Scheme but has not yet been issued to members.

#### (m) Payables

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

#### (n) 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 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.

#### (o) Rounding

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

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 3. DESCRIPTION OF THE SCHEME

The Local Government Superannuation Scheme Pool A 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 Consolidated Scheme is a reporting entity for accounting purposes.

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

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

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

The principal place of business of the Scheme is:  
28 Margaret Street  
SYDNEY NSW 2000

### 4. INVESTMENTS

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Listed Securities and Unit Trusts	1,831,130	1,607,092	-	-
Unlisted Unit Trusts	1,843,755	1,607,033	2,756,178	2,207,913
Fixed Interest Securities	953,453	590,425	-	-
Other Securities	193,773	117,442	-	-
Total Investments Valued at Net Market Value	<u>4,822,111</u>	<u>3,921,992</u>	<u>2,756,178</u>	<u>2,207,913</u>

#### Listed Securities and Unit Trusts

Australian Securities Listed on a Prescribed Stock Exchange	946,144	878,768	-	-
International Securities Listed on a Prescribed Stock Exchange	708,868	627,476	-	-
Units in Trusts Listed on a Prescribed Stock Exchange	157,859	88,954	-	-
Australian Exchange Traded Securities Options	18,259	11,894	-	-
Total Listed Securities and Trusts	<u>1,831,130</u>	<u>1,607,092</u>	<u>-</u>	<u>-</u>

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 4. INVESTMENTS (continued)

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Unlisted Unit Trusts</b>				
Units in Unlisted Australian Fixed Interest Securities	602,285	493,457	-	-
Units in Unlisted Australian Securities and Trusts	725,470	562,539	2,756,178	2,207,913
Units in Unlisted Australian Property Funds	462,529	525,894	-	-
Units in Unlisted International Securities	53,471	25,143	-	-
<b>Total Unlisted Securities and Trusts</b>	<u>1,843,755</u>	<u>1,607,033</u>	<u>2,756,178</u>	<u>2,207,913</u>
<b>Fixed Interest Securities</b>				
Australian Fixed Interest Securities Listed on a Prescribed Stock Exchange	609,269	483,354	-	-
International Fixed Interest Securities Listed on a Prescribed Stock Exchange	144,465	100,934	-	-
Other Fixed Interest Securities	199,719	6,137	-	-
<b>Total Fixed Interest Securities</b>	<u>953,453</u>	<u>590,425</u>	<u>-</u>	<u>-</u>
<b>Other Securities</b>				
Currency Swaps	146	-	-	-
Currency Contracts	12,412	72,278	-	-
Money Market	181,215	45,164	-	-
<b>Total Other Securities</b>	<u>193,773</u>	<u>117,442</u>	<u>-</u>	<u>-</u>



# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 5. OTHER RECEIVABLES

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Receivable from director related entity	196	924	196	924
Deposits held with brokers for margins	13,175	6,950	-	-
Due from brokers for securities sold	17,558	101,139	-	-
Trust Distribution Receivable	37,875	18,577	-	-
Other Receivables	877	1,796	187	175
<b>Total Receivables</b>	<u>69,681</u>	<u>129,386</u>	<u>383</u>	<u>1,099</u>

There are no significant terms or conditions applicable to the above receivables. All amounts are expected to be recoverable in whole within the next 12 months.

### 6. PAYABLES

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Benefits Payable	2,921	577	2,921	577
Investment Management Fees Payable	2,826	1,473	2,801	906
Due to Brokers for Securities Purchased	6,703	20,664	-	-
Loans held with Brokers with Margin	7,159	350	-	-
Other Payables	3,356	3,162	2,956	2,131
<b>Total Payables</b>	<u>22,965</u>	<u>26,226</u>	<u>8,678</u>	<u>3,614</u>

### 7. EMPLOYEE BENEFITS

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Current Liability</b>				
Annual Leave	84	53	84	53
Long Service Leave	12	-	12	-
	<u>96</u>	<u>53</u>	<u>96</u>	<u>53</u>
<b>Non Current Liability</b>				
Long Service Leave	25	22	25	22
	<u>25</u>	<u>22</u>	<u>25</u>	<u>22</u>

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 8. OTHER FINANCIAL LIABILITIES

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Derivatives	49,283	5,608	-	-
Total Other Financial Liabilities	<u>49,283</u>	<u>5,608</u>	<u>-</u>	<u>-</u>
<b>Derivatives</b>				
Currency Contracts	44,348	4,825	-	-
Equity Futures	2,993	706	-	-
Fixed Interest Futures	1,203	-	-	-
Currency Swaps	739	-	-	-
Options	-	77	-	-
Total Derivatives	<u>49,283</u>	<u>5,608</u>	<u>-</u>	<u>-</u>

### 9. INCOME TAX

Income tax expense in the Operating Statement represents the tax on the benefits accrued as a result of operations before income tax, adjusted for non-taxable and non-deductible amounts.

The tax effect of temporary 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 Fund will continue to be a complying fund for the purposes of the Income Tax Assessment Act 1936, as amended. Under current legislation, LIF and its subsidiary, Chifley Wholesale Fund (CWF) are not subject to income taxes provided the taxable incomes of LIF and CWF are fully distributed either by way of cash or reinvestment.

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>(a) Income Tax Recognised in Operating Statement:</b>				
Current Tax Expense /(Benefit)	48,841	19,412	48,841	19,412
Deferred Tax Expense/(Benefit)	7,395	(33,000)	7,395	(33,000)
Total Income Tax Expense/(Benefit)	<u>56,236</u>	<u>(13,588)</u>	<u>56,236</u>	<u>(13,588)</u>

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 9. INCOME TAX (continued)

#### (a) Income Tax Recognised in Operating Statement: (continued)

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

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Benefits Accrued as a Result of Operations before Income Tax	1,019,575	(555,345)	734,187	32,359
Income Tax Expense / (Benefit) Calculated at 15% (2009:15%)	152,936	(83,302)	110,128	4,854
Non-taxable Income – LIF (Minority interest)	(42,808)	88,156	-	-
Non-deductible Expenses	(131)	(110)	(131)	(110)
Non-assessable/deductible Investment Revenue/(Losses)	(3,317)	9,119	(3,317)	9,119
Non-assessable Contributions (includes Transfers)	(34,154)	(32,037)	(34,154)	(32,037)
Imputation and Foreign Tax Credits	(5,035)	(15,270)	(5,035)	(15,270)
Anti Detriment Deduction	(319)	(272)	(319)	(272)
Current Pension Liability Exemption	(6,687)	149	(6,687)	149
Death or Invalidity Assurance	(23)	(324)	(23)	(324)
Contributions Surcharge	(3)	-	(3)	-
Timing Differences	(29)	(366)	(29)	(366)
(Over) Provision in Prior Year	(29)	(85)	(29)	(85)
Discount on Capital Gains	(4,792)	20,070	(4,792)	20,070
TFN Withholding on Contributions from Members	627	684	627	684
Income Tax Expense	<u>56,236</u>	<u>(13,588)</u>	<u>56,236</u>	<u>(13,588)</u>

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
(b) Current Tax Liability:				
Income Tax Payable	34,338	2,389	34,338	2,389
	<u>34,338</u>	<u>2,389</u>	<u>34,338</u>	<u>2,389</u>

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 9. INCOME TAX (continued)

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>(c) Deferred Tax Balances:</b>				
Deferred Tax Asset Comprises				
Temporary Differences	47,427	54,823	47,427	54,823
	<u>47,427</u>	<u>54,823</u>	<u>47,427</u>	<u>54,823</u>
 <b>(d) Taxable and deductible temporary differences arise from the following:</b>				
<b>30 June 2010 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)	(54,563)	7,610	(46,953)	
Provisions	(260)	(215)	(474)	
	<u>(54,823)</u>	<u>7,395</u>	<u>(47,427)</u>	
 <b>30 June 2009 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)	(21,497)	(33,066)	(54,563)	
Provisions	(325)	65	(260)	
	<u>(21,822)</u>	<u>(33,001)</u>	<u>(54,823)</u>	
 <b>30 June 2010 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)	(54,563)	7,610	(46,953)	
Provisions	(260)	(215)	(474)	
	<u>(54,823)</u>	<u>7,395</u>	<u>(47,427)</u>	

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 9. INCOME TAX (continued)

#### (d) Taxable temporary differences arise from the following: (continued)

30 June 2009 Scheme	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
Net Deferred Tax Liability/ (Asset)			
Unrealised Taxable Capital Gains/(Losses)	(21,497)	(33,066)	(54,563)
Provisions	(325)	65	(260)
	<u>(21,822)</u>	<u>(33,001)</u>	<u>(54,823)</u>

### 10. LIABILITY FOR ACCRUED BENEFITS

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>(a) Changes in the Liability for Accrued Benefits</b>				
Liability for Accrued Benefits – at Beginning of the Year	2,300,200	2,489,451	2,300,200	2,489,451
Add: Benefits Accrued as a Result of Operations	677,951	45,947	677,951	45,947
Less: Benefits - Members' Paid and Payable	(173,561)	(217,214)	(173,561)	(217,214)
Accounts				
- Death or Invalidation Reserve	-	(1,098)	-	(1,098)
Net transfer to/ (from) Reserves *	(366)	(16,886)	(366)	(16,886)
<b>Liability for Accrued Benefits - at End of Year</b>	<u>2,804,224</u>	<u>2,300,200</u>	<u>2,804,224</u>	<u>2,300,200</u>

\* The net transfer to /(from) reserves includes amounts transferred in respect of vested benefits.

#### (b) Funds Not Yet Allocated to Members' Accounts

<u>-</u>	<u>3,748</u>	<u>-</u>	<u>3,748</u>
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Funds not yet allocated to members' accounts relate mainly to:

1. Timing differences between receipt of investment earnings and allocation to members in the unit price; and
2. Timing differences between the receipt of contributions and receipt of information required for allocation.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 10. LIABILITY FOR ACCRUED BENEFITS (continued)

#### (b) Funds Not Yet Allocated to Members' Accounts (continued)

3. Until 1/12/08, the Scheme operated a Unit Pricing Equalisation Reserve for the purpose of allowing reimbursement to members who had been disadvantaged by an error or anomaly to the unit price they had been allocated and that amount could not be recovered from external sources. The maximum amount that could be maintained in this reserve for this purpose was 0.3% of assets. If the reserve exceeded this figure for any reason that excess amount was credited to earnings and distributed to Members. Post 1/12/08, the Scheme closed the Unit Pricing Equalisation Reserve and transferred this amount to the Operational Risk Reserve.

#### (c) Administration Reserve

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Balance at the Beginning of the Year	195	96	195	96
Transfer from Members' Accounts	4,540	4,127	4,540	4,127
Administration Fee Paid	(4,467)	(4,028)	(4,467)	(4,028)
<b>Balance at End of the Year</b>	<u>268</u>	<u>195</u>	<u>268</u>	<u>195</u>

#### (d) Death and Invalidity Reserve

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Balance at the Beginning of the Year	-	12,197	-	12,197
Transfer from Members' Accounts	-	1,296	-	1,296
Investment Earnings	-	259	-	259
Transfer to Operational Risk Reserve	-	(1,417)	-	(1,417)
Distribution to Members	-	(11,235)	-	(11,235)
Death or Invalidity Benefits Paid	-	(1,100)	-	(1,100)
<b>Balance at the End of the Year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

#### (e) Contribution Tax Reserve

Balance at the Beginning of the Year	6,178	1,588	6,178	1,588
Transfer from Members' Accounts	9,157	21,498	9,157	21,498
Contribution Tax Paid/Payable	(14,443)	(16,908)	(14,443)	(16,908)
<b>Balance at the End of the Year</b>	<u>892</u>	<u>6,178</u>	<u>892</u>	<u>6,178</u>

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 10. LIABILITY FOR ACCRUED BENEFITS (continued)

#### (f) Operational Risk Reserve

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Balance at the Beginning of the Year	5,278	-	5,278	-
Transfer in from Closed Reserves	-	6,018	-	6,018
Transfer from Members Accounts- Premiums	-	192	-	192
Death or Invalidity Benefits Paid	(592)	(720)	(592)	(720)
Payments from Reserve	110	(369)	110	(369)
Investment Earnings	361	157	361	157
<b>Balance at the End of the Year</b>	<u>5,157</u>	<u>5,278</u>	<u>5,157</u>	<u>5,278</u>

On 1/12/08, both the Unit Pricing Reserve and Death and Invalidity Reserve were closed. These 2 reserves were transferred and consolidated into one new reserve, Operational Risk Reserve.

This Reserve is used to pay any insurance claims which cannot be recovered from an external insurer; to compensate members for any unrecoverable losses as well as any amounts deemed necessary by the Trustee in the interests of the members.

A balance of at least \$100,000 is maintained at all times in the Operational Risk Reserve to satisfy one of the requirements of the Trustee's RSE licence.

### 11. 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.

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Vested benefits as the End of the Year:	<u>2,797,907</u>	<u>2,284,801</u>	<u>2,797,907</u>	<u>2,284,801</u>
Net Assets at the End of the Year:	<u>2,804,224</u>	<u>2,300,200</u>	<u>2,804,224</u>	<u>2,300,200</u>

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 2010 financial year was \$4,467,555 (2009: \$4,027,789).

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 12. GUARANTEED BENEFITS

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

### 13. CHANGES IN NET MARKET VALUE OF INVESTMENTS

<b>Consolidated</b>	<b>Unrealised at Reporting Date \$'000</b>	<b>Realised During the Year \$'000</b>	<b>Total \$'000</b>
<b>30 June 2010</b>			
Listed Securities and Unit Trusts	566,237	(263,168)	303,069
Unlisted Unit Trusts	144	-	144
Fixed Interest Securities	21,515	(2,125)	19,390
Foreign Exchange	(98,799)	208,930	110,131
Other Securities	(3,549)	(6,459)	(10,008)
<b>Total</b>	<b>485,548</b>	<b>(62,822)</b>	<b>422,726</b>

<b>Consolidated</b>	<b>Unrealised at Reporting Date \$'000</b>	<b>Realised During the Year \$'000</b>	<b>Total \$'000</b>
<b>30 June 2009</b>			
Listed Securities and Unit Trusts	3,255	(1,023,179)	(1,019,924)
Unlisted Unit Trusts	15,006	(9)	14,997
Fixed Interest Securities	(24,505)	8,190	(16,315)
Foreign Exchange	53,484	(131,163)	(77,679)
Other	236	(47,325)	(47,089)
<b>Total</b>	<b>47,476</b>	<b>(1,193,486)</b>	<b>(1,146,010)</b>

#### **Scheme**

#### **30 June 2010**

Unlisted Unit Trusts	112,551	183	112,734
Pooled Superannuation Trusts	-	-	-
<b>Total</b>	<b>112,551</b>	<b>183</b>	<b>112,734</b>

#### **30 June 2009**

Unlisted Unit Trusts	(392,776)	(5,931)	(398,707)
Pooled Superannuation Trusts	-	(9)	(9)
<b>Total</b>	<b>(392,776)</b>	<b>(5,940)</b>	<b>(398,716)</b>



# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 14. 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 2009 to 30 June 2010 was 9% (1 July 2008 to 30 June 2009: 9%).

#### (b) Optional Employer Contributions

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

#### (c) 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.

#### (d) Transfers From Other Funds

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

#### (e) 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.

### 15. 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 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.

<b>Investment Strategy</b>	<b>Members Age Group</b>
High Growth	No automatic allocation. Must be selected by members.
Balanced Growth	Members aged 18 – 45
Balanced	Members aged 46 – 54
Conservative	Members aged 55 and over
Cash	Automatic strategy for accounts under \$1,000 (subject to 'member protection'). Must be selected by other members.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 16. REMUNERATION OF AUDITORS

	Consolidated		Scheme	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>Remuneration for audit of the financial report of the Scheme</b>				
LGS Pool A Financial Statements - Deloitte Touche Tohmatsu	122,207	100,758	122,207	100,758
LIF Audit – Deloitte Touche Tohmatsu	52,228	45,899	29,274	23,876
CWF Audit – Deloitte Touche Tohmatsu	31,973	29,433	-	-
<b>Other regulatory audit services</b>				
LGSS Pool A RMS/RMP Audit - Deloitte Touche Tohmatsu	13,692	12,647	13,692	12,647
<b>Other Auditors</b>				
LIF Audit	11,176	21,056	6,145	9,235
LGS Pool A Audit	2,055	561	2,055	561
CWF Audit	39,331	55,041	-	-
	<u>272,662</u>	<u>265,395</u>	<u>173,373</u>	<u>147,077</u>

Note: In the current year, the allocation of the audit fee has been charged as 49.98% for LGSS Pool A and 50.02% for LGSS Pool B (2009: 47.29% for LGSS Pool A and 52.71% for LGSS Pool B).

### 17. 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:

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Cash at Bank</b>	<u>218,351</u>	<u>229,364</u>	<u>43,373</u>	<u>42,443</u>

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

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 17. CASH FLOW INFORMATION (continued)

#### (b) Reconciliation of Net Cash Provided by Operating Activities to Benefits Accrued as a Result of Operations After Income Tax

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Benefits Accrued as a Result of Operations after Tax and before Minority Interest	963,339	(541,757)	677,951	45,947
Benefits Paid	(173,561)	(218,313)	(173,561)	(218,313)
Transfers to/from Reserves	(366)	(16,886)	(366)	(16,886)
Movement in Net Market Value of Investments	(422,726)	1,146,010	(112,734)	398,716
Non cash Unit Trust Distribution	(30,291)	(52,820)	(200,403)	(10,472)
Decrease/(Increase) in Receivables	(22,019)	39,348	716	(936)
Increase/(Decrease) in Deferred Tax Liability	-	-	-	-
Increase/(Decrease) in Payables	3,578	(6,673)	5,110	554
Increase/(Decrease) in Current Tax Liability	39,344	(60,600)	39,345	(60,600)
<b>Net Cash Flow from Operating Activities</b>	<u>357,298</u>	<u>288,309</u>	<u>236,058</u>	<u>138,010</u>

### 18. 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.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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) Swaps

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the reporting date, taking into account interest rates and the current creditworthiness of the swap counterparties.

#### (c) 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).

#### (d) 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 A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

#### (d) Forward Currency Contracts

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Australian Exchange Traded Options	161	333
International Exchange Traded Options	22	-
Australian Share Price Index Futures	17,794	16,373
International Share Price Index Futures	32,324	(6,370)
Futures in respect of money market securities	(45,112)	4,840
Australian Fixed Interest Futures	(8,217)	-
International Fixed Interest Funds	(111,650)	-
Australian Other OTC Futures	(39,015)	-
Australian Other OTC Options	4,411	-
	<u>(149,282)</u>	<u>15,176</u>

### 19. 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.

#### (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. There is a capital requirement stipulated in the licence to maintain a balance of at least \$100,000 at all times in a reserve account. See note 10(f).

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. FINANCIAL RISK MANAGEMENT (continued)

#### (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 Operating Statement.

#### (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 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.

#### (e) Financial Risk Management Objectives (continued)

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.

The Scheme and its Consolidated Entity'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.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. FINANCIAL RISK MANAGEMENT (continued)

#### (f) Credit Risk

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 Entity'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.

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.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. FINANCIAL RISK MANAGEMENT (continued)

#### (g) Liquidity Risk (continued)

The following tables summarise the maturity profile of the Scheme's financial liabilities. The tables have been drawn up based on the 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>2010</b>					
Vested benefits	2,797,907	-	-	-	2,797,907
Other					
Due to brokers for securities purchased	6,703	-	-	-	6,703
Other payables	9,103	-	-	-	9,103
Derivatives	49,283				49,283
Current tax liability		34,338	-	-	34,338
Minority interest	2,263,627				2,263,627
<b>Total</b>	<b>5,126,623</b>	<b>34,338</b>	<b>-</b>	<b>-</b>	<b>5,160,961</b>

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	2,284,801	-	-	-	2,284,801
Other					
Due to brokers for securities purchased	20,664	-	-	-	20,664
Other payables	5,562	-	-	-	5,562
Derivatives	5,608	-	-	-	5,608
Current tax liability	-	2,389	-	-	2,389
Minority interest	2,013,628	-	-	-	2,013,628
<b>Total</b>	<b>4,330,263</b>	<b>2,389</b>	<b>-</b>	<b>-</b>	<b>4,332,652</b>



# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. 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>2010</b>					
Vested benefits	2,797,907	-	-	-	2,797,907
Other					
Payables	8,678	-	-	-	8,678
Current tax liability		34,338	-	-	34,338
<b>Total</b>	<b>2,806,585</b>	<b>34,338</b>	<b>-</b>	<b>-</b>	<b>2,840,923</b>
<b>2009</b>					
Vested benefits	2,284,801	-	-	-	2,284,801
Other					
Payables	3,614	-	-	-	3,614
Current tax liability	-	2,389	-	-	2,389
<b>Total</b>	<b>2,288,415</b>	<b>2,389</b>	<b>-</b>	<b>-</b>	<b>2,290,804</b>

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. FINANCIAL RISK MANAGEMENT (continued)

#### (g) Liquidity Risk (continued)

The table below analyses the Scheme and its Consolidated Entity'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.

	Consolidated				Total \$'000
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	1-2 years \$'000	
<b>At 30 June 2010</b>					
Foreign currency forward contracts					
Inflows	1,125,004	537,240	4,308	10,712	1,677,264
(Outflows)	(204,477)	(31,396)	(2,768)	-	(238,641)
Australian share price index					
futures					
Inflows	-	17,794	-	-	17,794
(Outflows)	-	-	-	-	-
International share price index					
futures					
Inflows	-	32,324	-	-	32,324
(Outflows)	-	-	-	-	-
Aust fixed interest futures					
Inflows	-	2,564	-	-	2,564
(Outflows)	-	(10,781)	-	-	(10,781)
International fixed interest futures					
Inflows	-	3,587	-	-	3,587
(Outflows)	-	(115,237)	-	-	(115,237)
Aust money market futures					
Inflows	-	(45,112)	-	-	(45,112)
(Outflows)	-	-	-	-	-
Aust. exchange traded options					
Inflows	160	-	-	1	161
(Outflows)	-	-	-	-	-
International exchange trade					
options					
Inflows	22	-	-	-	22
(Outflows)	-	-	-	-	-
Aust other OTC futures					
Inflows	-	4,715	8,381	2,898	15,994
(Outflows)	-	(7,996)	(20,447)	(26,566)	(55,009)
Aust. other OTC options					
Inflows	-	-	2,179	3,962	6,141
(Outflows)	-	-	(858)	(872)	(1,730)
Total	920,709	387,702	(9,205)	(9,865)	1,289,341

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. FINANCIAL RISK MANAGEMENT (continued)

#### (g) Liquidity Risk (continued)

	Consolidated				
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	1-2 years \$'000	Total \$'000
<b>At 30 June 2009</b>					
Foreign currency forward contracts					
Inflows	378,217	738,907	1,381	8,138	1,126,643
(Outflows)	(18,774)	(22,453)	(182)	(2,768)	(44,177)
Aust share price index futures					
Inflows	-	16,372	-	-	16,372
(Outflows)	-	-	-	-	-
International share price index futures					
Inflows	4,763	3,535	-	-	8,298
(Outflows)	(7,287)	(7,381)	-	-	(14,668)
Australian money market futures					
Inflows	-	4,840	-	-	4,840
(Outflows)	-	-	-	-	-
Australian exchange traded options					
Inflows	-	-	-	1	1
(Outflows)	(296)	(328)	-	-	(624)
<b>Total</b>	<b>356,623</b>	<b>733,492</b>	<b>1,199</b>	<b>5,371</b>	<b>1,096,685</b>

The following tables detail the Consolidated Scheme's expected maturity for its non-derivative financial assets. No table is included for the Scheme as the values would be zero.

Consolidated	Weighted average effective interest rate	Less than 1 month	1 - 6 months	6 months to 1 year	1 - 5 years	More than 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2010</b>							
Fixed interest securities	4.43	-	35,572	34,408	401,807	481,666	953,453

Consolidated	Weighted average effective interest rate	Less than 1 month	1 - 6 months	6 months to 1 year	1 - 5 years	More than 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2009</b>							
Fixed interest securities	4.45	-	22,255	9,650	218,817	339,703	590,425

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. 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.

#### Interest Income

The Scheme recorded interest income of \$1,049,952 for the year (2009:\$2,257,330). This income primarily comes from the cash assets held by the Scheme.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. FINANCIAL RISK MANAGEMENT (continued)

#### (h) Market Risk (continued)

##### 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 A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. 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 2010	4.40 %	2,804,224	123,386
30 June 2009	4.31%	2,300,200	99,139

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.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. FINANCIAL RISK MANAGEMENT (continued)

#### (h) Market Risk (continued)

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.

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 A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. FINANCIAL RISK MANAGEMENT (continued)

#### (i) Classification of Financial Instruments under the Fair Value Hierarchy

The Consolidated Scheme has adopted the amendments to AASB 7, effective 1 July 2009. AASB 7 requires the classification of financial instruments at fair value (net market value) determined by reference to the source of inputs used to derive the fair value. The fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy has the following levels:

<b>30 June 2010 Consolidated</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets</b>				
Listed Securities and Trusts	1,718,615	100,264	12,251	1,831,130
Unlisted Securities and Trusts	-	1,310,346	533,409	1,843,755
Fixed Interest Securities	-	953,453	-	953,453
Other Securities	-	193,773	-	193,773
<b>Total</b>	<b>1,718,615</b>	<b>2,557,837</b>	<b>545,660</b>	<b>4,822,111</b>
<b>Financial Liabilities</b>				
Derivatives	4,196	45,087	-	49,283
<b>Total</b>	<b>4,196</b>	<b>45,087</b>	<b>-</b>	<b>49,283</b>

<b>30 June 2010 Scheme</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets</b>				
Listed Securities and Trusts	-	-	-	-
Unlisted Securities and Trusts	-	2,756,178	-	2,756,178
Fixed Interest Securities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>2,756,178</b>	<b>-</b>	<b>2,756,178</b>

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

The Scheme has recorded its investment in LIF as a level 2 asset due to it being an unlisted unit trust and it not meeting the Level 1 requirement to be actively traded. The Scheme can redeem or purchase units in LIF on a weekly basis.



# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 19. FINANCIAL RISK MANAGEMENT (continued)

#### (i) Classification of Financial Instruments under the Fair Value Hierarchy (continued)

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within level 3 between the beginning and the end of the reporting period.

<b>30 June 2010 Consolidated</b>	<b>Total</b>
	<b>\$'000</b>
Opening balance	452,578
Purchases/Applications	295,153
Sales/Redemptions	(222,170)
Transfers in/out level 3	-
Total gains/(losses)	20,099
Closing balance	<b>545,660</b>
Total gains/(losses) recognised in the Operating Statement for assets held at the end of the year	20,099

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and certain unlisted unit trusts and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investment grade corporate bonds, certain listed equities, certain unlisted unit trusts, and over-the-counter derivatives.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include private equity securities. As observable prices are not available for these securities, the Trustee has used valuation techniques, such as adjusted net assets and market comparables to derive fair value.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 20. 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 2010 are as follows:

Employer representatives	Employee representatives
Mr S Byrne	Mr J Beacroft
Ms B Giegerl OAM	Mr M O'Connell
Mr L Kelly OAM	Mr I Robertson
Mr C Sullivan OAM	Ms M Clavijo (Appointed 29 July 2009)

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

#### (a) Identification of Related Parties and Directors (continued)

The above Directors are also Directors of LIF Pty Limited (ABN 92 099 664 285), a wholly owned subsidiary of the Trustee. LIF Pty Limited is the Trustee of the Local Investment Fund. LIF Pty Limited is also the Trustee of Local Government Property 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, and the Chief Investment Officer, Mr C Turnbull are considered to be key managers.

#### (c) Compensation Received

	Consolidated		Scheme	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Short term Benefits	1,028,046	877,768	1,028,046	877,768
Post Employment Benefits	77,968	200,184	77,968	200,184
Other Long Term Benefits	-	-	-	-
Termination Benefits	-	-	-	-
Share-based Payments	-	-	-	-
	<u>1,106,014</u>	<u>1,077,952</u>	<u>1,106,014</u>	<u>1,077,952</u>

The total group compensation due and receivable by the Directors of LGSS Pty Limited and the key managers during the financial year is payable indirectly, by LGSS Pty Limited. A number of Directors have their emoluments paid to their sponsoring organisation.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 20. 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 20(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 Scheme. These were in accordance with the normal terms and conditions of the Trust Deed.

No directors of the Trustee received benefit payments during the year in accordance with the Trust Deed.

#### (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, accounting, administration, compliance, financial planning and post retirement planning services to the Schemes. Included within the investments of Local Government Superannuation Scheme Pool B is the value of this 50% holding, \$4,450,999 (2009: \$4,850,218).

During the period 1 July 2009 to 30 June 2010, FuturePlus Financial Services Pty Limited was paid investment management and administration fees of \$15,810,773 (2009: \$15,039,879) from Local Government Superannuation Scheme Pool A.

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

Local Government Superannuation Scheme Pool B no longer holds any share capital of Chifley Financial Services Limited, which provides investment management services to the Local Government Superannuation Schemes (2009: Valuation of \$3,911,332). Chifley Financial Services Limited is the trustee for Chifley Wholesale Fund which is consolidated.

Included within the investments of Local Government Superannuation Scheme Pool A are amounts held with Local Investment Fund \$2,756,178,494 (2009: \$2,207,913,366). Distributions received/ receivable from Local Investment Fund was \$200,402,733 (2009: \$10,471,848).

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### 21. SUBSEQUENT EVENTS

No significant events have occurred since balance date which would impact on the financial position of the Consolidated Scheme as disclosed in the Statement of Financial Position as at 30 June 2010 or on the results for the year ended on that date.

### 22. CONTINGENT LIABILITIES AND ASSETS AND COMMITMENTS

The Trustee is not aware of any pending or contingent assets and liabilities in relation to any life or disability claims (Nil for 2009).

There are outstanding commitments to investments in Quentin Ayers, through Local Investment Fund of \$414,856,352 as at 30 June 2010 (2009: \$248,154,906).

### 23. SUBSIDIARIES

Name of Entity	2010 Ownership Interest %	2009 Ownership Interest %
<b>Parent Entity</b>		
Local Government Superannuation Scheme Pool A		
<b>Subsidiaries</b>		
Local Investment Fund	55%	53%

## **INDEPENDENT REPORT BY THE APPROVED AUDITOR TO THE MEMBERS OF LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A (ABN: 74 925 979 278)**

I have audited the financial statements of Local Government Superannuation Scheme Pool A and the consolidated entity for the year ended 30 June 2010 as set out on pages 4 to 44.

### ***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 A.

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 controls 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 financial position of Local Government Superannuation Scheme Pool A and the consolidated entity as at 30 June 2010 and the results of its operations and its cash flows for the year ended 30 June 2010.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



SC Woodhouse  
Partner  
Chartered Accountants  
Sydney, 20 October 2010