Local Government Superannuation Scheme
Pool B

Financial Report

For The Year Ended 30 June 2011

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2011

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TRUSTEE'S STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

In the opinion of the directors 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 the Scheme and its subsidiaries Local Government Financial Services Pty Limited, LG Diversified Trust, LG Secondaries Trust, Fixed-Out Performance Cash Fund and Local Government Property Fund (the Consolidated Scheme) are properly drawn up so as to present fairly the Financial Position of the Consolidated Scheme as at 30 June 2011 and the Statement of Changes in Net Assets for the year ended 30 June 2011;

2. The financial statements have been prepared in accordance with the requirements of the Trust Deed and 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 ('A-IFRS') to the extent they are not inconsistent with AAS 25 Financial Reporting by Superannuation Plans;

3. 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

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 27th day of October 2011

Director

Director

STATEMENT OF CHANGES IN NET ASSETS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000	Scheme 2011 $'000	Scheme 2010 $'000
Investment Revenue					
Interest Revenue		9,574	7,061	933	884
Dividend Revenue		79	2,098	79	2,098
Trust Distributions		217,549	158,710	225,552	169,730
Property Revenue		60,643	59,166	-	-
Changes in Net Market Value of Investments	5	38,111	118,773	45,705	122,750
Other Investment Revenue		589	100	-	-
Total Investment Revenue		326,545	345,908	272,269	295,462
Direct Investment Expenses		(43,532)	(43,330)	(7,136)	(6,534)
Net Investment Revenue		283,013	302,578	265,133	288,928
Contributions Revenue					
Employer Contributions	6	191,065	190,587	191,065	190,587
Member Contributions	6	12,529	14,638	12,529	14,638
Transfers From Other Funds	6	6,674	3,741	6,674	3,741
		210,268	208,966	210,268	208,966
Other Revenue		32	57	32	57
Total Revenue		493,313	511,601	475,433	497,951
Benefits Paid and Expenses					
Benefits Paid		(246,268)	(186,078)	(246,268)	(186,078)
Superannuation Contributions Surcharge Expense		(8)	(19)	(8)	(19)
Administration Expenses		(28,677)	(24,272)	(18,182)	(15,952)
Total Benefits Paid and Expenses		(274,953)	(210,369)	(264,458)	(202,049)
Increase in Net Assets for the Year Before Income Tax and Minority Interest		218,360	301,232	210,975	295,902
Income Tax Expense	4(a)	(43,829)	(66,398)	(48,820)	(66,398)
Increase in Net Assets for the Year After Income Tax Before Minority Interest		174,531	234,834	162,155	229,504
Minority Interest		12,376	5,330	-	-
Increase in Net Assets for the Year		162,155	229,504	162,155	229,504
Net Assets Available to Pay Benefits at the Beginning of the Financial Year		2,731,219	2,501,715	2,731,219	2,501,715
Net Assets Available to Pay Benefits at the End of the Financial Year		2,893,374	2,731,219	2,893,374	2,731,219

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

STATEMENT OF NET ASSETS
AS AT 30 JUNE 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000	Scheme 2011 $'000	Scheme 2010 $'000
Investments					
Unlisted Securities and Unit Trusts	11 (a)	2,582,321	2,469,082	2,846,329	2,678,812
Fixed Interest Securities	11 (a)	11,459	169,058	-	-
Property Investments	11 (b)	521,920	506,330	-	-
Total Investments		3,115,700	3,144,470	2,846,329	2,678,812
Other Assets					
Cash and Cash Equivalents		53,592	49,427	18,795	21,483
Interest Receivable		168	1,106	-	-
Other Receivables	12	8,179	16,304	149	131
Deferred Tax Asset	4(c)	80,727	75,855	75,741	75,855
Total Other Assets		142,666	142,692	94,685	97,469
Total Assets		3,258,366	3,287,162	2,941,014	2,776,281
Less Liabilities					
Payables	13	11,392	9,558	4,681	3,984
Deposits from Clients		60,323	306,287	-	-
Employee Benefits	14	129	264	-	130
Other Financial Liabilities	15	66,252	67,238	-	-
Current Tax Liability	4(b)	42,959	40,948	42,959	40,948
Total Liabilities		181,055	424,295	47,640	45,062
Net Assets Available Before Minority Interest		3,077,311	2,862,867	2,893,374	2,731,219
Less Net Assets Available – Minority Interest		183,937	131,648	-	-
Net Assets Available to Pay Benefits	9	2,893,374	2,731,219	2,893,374	2,731,219

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

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 Scheme. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS') 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 27 October 2011.

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.

Standards and Interpretations adopted with no effect on Financial Statements

For the financial year ended 30 June 2011, there were no new and / or revised Standards and Interpretations which affected the amounts reported in the financial statements.

1. BASIS OF PREPARATION (continued)

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.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments and AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	30 June 2014
AASB 124 Related Party Disclosures (2009) and AASB 2009-12 ' Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	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 2011 and the comparative information presented in these financial statements for the year ended 30 June 2010.

(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), LG Diversified Trust (LGDT), LG Secondaries Trust (LGST) and Local Government Property Fund (LGPF) as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments (continued)

Net market values have been determined as follows:

Listed Securities and Unit 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.
Fixed Interest Securities	Fixed interest securities quoted are stated at market quotations as at the reporting date.
Property Investments	Valuation of the investment properties is carried out by an independent registered valuer. Investment properties, which comprise readily realisable interests in land and buildings held for the purpose of letting to produce rental income and capital appreciation are included in the financial statements on the basis of the Trustee's fair valuation as at the reporting date. Gains and losses arising from changes in the fair value of investment property are included in the Statement of Changes in Net Assets in the period in which they arise. Certain costs incurred in acquiring property investments, such as agents' commission and stamp duty, are capitalised in the initial cost of the investment. Expenditures incurred after investment property has been put into operation, such as maintenance costs, are normally recognised as expense in the period in which the costs are incurred.
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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 tax 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.

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 in the Statement of Changes in Net Assets.

(e) Benefits Paid and Payable

The 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

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 and 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. The effective interest rate is the rate that exactly discounts future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. 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. Where the distribution is not received at balance sheet date, the balance is reflected in the Statement of Net Assets.

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).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue Recognition (continued)

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 years ended.

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. They are recognised at their nominal value which is equivalent to net market value.

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Borrowings

Borrowings are recorded initially at net market value.

(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) Derivative Financial Instruments

Local Government Property Fund enters into derivative financial instruments to manage its exposure to interest rate risk by using interest rate swaps. Derivatives are categorised as held for trading and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the Statement of Change in Net Assets for this fund quarterly.

(r) 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 (JP Morgan).

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. From December 2010, LGSS Pty Ltd started providing financial planning services for the Consolidated Scheme. Therefore FuturePlus Financial Services Pty Ltd ceased to provide financial planning services from this date.

The principal place of business of the Scheme is:
Level 12
28 Margaret Street
SYDNEY NSW 2000

4. INCOME TAX

	Consolidated		Scheme	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Income Tax Recognised in Statement of Changes in Net Assets				
Tax expenses comprise:				
Current Tax Expense	49,702	50,551	48,707	49,584
Deferred Tax (Benefit)/Expense	(5,873)	15,847	113	16,814
Total Income Tax Expense	43,829	66,398	48,820	66,398

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

	Consolidated		Scheme	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Increase in Net Assets for the Year Before Income Tax and Minority Interest	218,360	301,232	210,975	295,902
Income Tax Expense Calculated at 15%	32,754	45,185	31,646	44,385
Deferred Gains	-	1,699	-	1,699
Difference in Tax Rates	(117)	1,028	-	-
Non Taxable Income – Controlled Entities (Minority Interest)	(1,225)	228	-	-
Transfers In	(826)	(160)	(826)	(160)
Non-assessable Contributions	(1,879)	(2,196)	(1,879)	(2,196)
Benefit Payments	36,940	27,912	36,940	27,912
Tax on Grossed Up Imputation and Foreign Tax Credits Income	2,106	1,065	2,106	1,065
Death and Invalidity Insurance Deductions	(225)	(250)	(225)	(250)
Contributions Surcharge	1	3	1	3
Non Deductible Expenditures	495	(1,010)	102	79
Non-assessable Pension Related Investment Income	(1,596)	(1,232)	(1,596)	(1,232)
Non-assessable/Deductible Investment (Revenue)/Losses	(3,112)	2,367	(3,112)	2,367
Over Provision Last Year	(1,562)	(274)	(313)	(274)
Imputation and Foreign Tax Credits	(14,024)	(7,000)	(14,024)	(7,000)
Utilisation of Unrecognised Tax Asset	-	(967)	-	-
Reversal of Impairment of Deferred Tax Balances	(3,901)	-	-	-
Income Tax Expense	43,829	66,398	48,820	66,398

4. INCOME TAX (continued)

(a) Income Tax Recognised in Statement of Changes in Net Assets (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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(b) Current Tax Balances:				
Current Tax Liability	42,959	40,948	42,959	40,948
	42,959	40,948	42,959	40,948
(c) Deferred Tax Balances:				
Deferred Tax Asset Comprises:				
Temporary Differences	80,727	75,855	75,741	75,855
	80,727	75,855	75,741	75,855

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

Consolidated 30 June 2011	Opening Balance	Charged to Income	Closing Balance
	$'000	$'000	$'000
Net Deferred Tax Asset			
Unrealised Taxable Capital Losses	75,313	3,710	79,023
Provisions	542	1,162	1,704
	75,855	4,872	80,727

30 June 2010	Opening Balance $'000	Charged to Income $'000	Closing Balance $'000
Net Deferred Tax Asset			
Unrealised Taxable Capital Losses/(Gains)	92,326	(17,013)	75,313
Provisions	343	199	542
	92,669	(16,814)	75,855

4. INCOME TAX (continued)

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

Scheme

30 June 2011	**Opening Balance**	**Charged to Income**	**Closing Balance**
	$'000	**$'000**	**$'000**
Net Deferred Tax Asset/(Liability)			
Unrealised Taxable Capital Losses/(Gains)	75,313	(229)	75,084
Provisions	542	115	657
	75,855	(114)	75,741

30 June 2010	**Opening Balance**	**Charged to Income**	**Closing Balance**
	$'000	**$'000**	**$'000**
Net Deferred Tax Asset/(Liability)			
Unrealised Taxable Capital Losses/(Gains)	92,326	(17,013)	75,313
Provisions	343	199	542
	92,669	(16,814)	75,855

5. CHANGES IN NET MARKET VALUE OF INVESTMENTS

Consolidated

30 June 2011	**Unrealised at Reporting Date Gain/(Loss)**	**Realised During the Year Gain/(Loss)**	**Total**
	$'000	**$'000**	**$'000**
Unlisted Securities and Trusts	28,028	9,713	37,741
Property Investments	(616)	-	(616)
Other	986	-	986
	28,398	9,713	38,111

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

Consolidated

30 June 2010	Unrealised at Reporting Date Gain/(Loss) $'000	Realised During the Year Gain/(Loss) $'000	Total $'000
Unlisted Securities and Trusts	120,666	4,028	124,694
Property Investments	(10,277)	2,288	(7,989)
Other	2,068	-	2,068
	112,457	6,316	118,773

Scheme

30 June 2011	Unrealised at Reporting Date Gain/(Loss) $'000	Realised During the Year Gain/(Loss) $'000	Total $'000
Unlisted Unit Trusts	18,532	9,704	28,236
Unlisted Securities	9,793	9	9,802
Unlisted Property Trusts	7,667	-	7,667
	35,992	9,713	45,705

30 June 2010	Unrealised at Reporting Date Gain/(Loss) $'000	Realised During the Year Gain/(Loss) $'000	Total $'000
Unlisted Unit Trusts	115,917	7,333	123,250
Unlisted Securities	1,305	(3,305)	(2,000)
Unlisted Property Trusts	1,500	-	1,500
	118,722	4,028	122,750

6. SCHEME FUNDING ARRANGEMENTS

For years ended 30 June 2011 and 30 June 2010, 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 (2010: between 1% and 9%).
Employer Contributions:	Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2010/11 employers contributed at half the "nominal" contribution rate (0.95 times employee contributions). In 2009/10 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 2010/11 employers contributed at half the "nominal" contribution rate (1.25% of superable salary). In 2009/10 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 individual salary (2010: exceed 6%).
Employer Contributions:	Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2010/11 employers contributed at half the "nominal" contribution rate (0.82 times employee contributions). In 2009/10 employers contributed at half the "nominal" contribution rate (0.82 times employee contributions).

7. REMUNERATION OF AUDITORS

	Consolidated		Scheme	
	2011	2010	2011	2010
	$	$	$	$
Audit of financial reports				
LGS Pool B Audit	94,251	89,120	94,251	89,120
LIF Audit	25,392	29,292	25,392	29,292
LGPF Audit	34,159	33,164	34,159	33,164
LGFS Audit	76,109	66,846	-	-
Other regulatory services				
LGSS Pool B RMS / RMP	11,826	13,700	11,826	13,700
LGSS DRS	9,164	9,965	9,164	9,965
LGSS PTY LIMITED AFSL	5,508	-	5,508	-
	256,409	242,087	180,300	175,241
Other Auditors				
LGDT Audit	24,714	21,543	-	-
LGST Audit	-	10,740	-	-
LIF Audit	10,290	6,149	10,290	6,149
LGS Pool B Audit	2,135	2,057	2,135	2,057
	37,139	40,489	12,425	8,206

Note: In the current year, the allocation of the audit fee has been charged as 53% for LGSS Pool A and 47% for LGSS Pool B (2010: 50% for LGSS Pool A and 50% for LGSS Pool B).

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

The auditor of the Scheme is 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 2009.

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.

	2009	2006
	$'000	$'000
Accrued Benefits as at 30 June	2,888,066	3,045,231
Net Assets of the Scheme as at 30 June	2,501,715	3,295,158

The accrued benefits were more than the Net Asset Value as at 30 June 2009. In order to address this shortfall, from 1 July 2009, Employers had already increased their contribution rate to the level recommended by the actuary. The financial position of the Scheme is under constant review and employer contribution rates will be adjusted as circumstances determine.

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.

	2011 $'000	2010 $'000
As at 30 June	*2,459,288	*2,355,939
Net Assets of the Scheme as at 30 June	2,893,374	2,731,219

* Excludes benefits for pension where the Actuary has estimated the liability to be $135.29 million (2010: $119.32 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 2011 financial year was $824,429 (2010: $590,377).

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 following persons held office as Directors of LGSS Pty Limited during the year or since the end of the year and up to the date of this report:

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 (Resigned 30 June 2011)	Ms M Clavijo (Resigned 30 March 2011)
Mr B Miller (Appointed 1 July 2011)	Mr G Kelly (Appointed 31 March 2011)

LGSS Pty Limited is also 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, and the Chief Investment Officer, Mr C Turnbull are considered to be key managers.

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

(c) Compensation Received

	Consolidated		Scheme	
	2011	2010	2011	2010
	$	$	$	$
Short term Benefits	1,459,868	1,238,368	1,189,828	1,028,046
Post Employment Benefits	107,920	110,892	82,590	77,968
	1,567,788	1,349,260	1,274,418	1,106,014

The total group compensation due and receivable by Directors of LGSS Pty Limited and the key managers (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 organisation.

The Consolidated Scheme 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 Scheme. These were in accordance with the normal terms and conditions of the Trust Deed.

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

(e) Other Related Party Transactions

At the end of October 2010, LGSS Pool B sold 50% of its shareholding of FuturePlus Financial Services Pty Limited. FuturePlus Financial Services Pty Limited ceases to be a related party of the Scheme for 30 June 2011.

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

(e) Other Related Party Transactions (continued)

During the period 1 July 2010 to 30 June 2011, FuturePlus Financial Services Pty Limited was paid investment management and administration fees of $5,312,024 (2010: $13,298,302), for Local Government Superannuation Scheme Pool B. These fees are based on the cost to the relevant entity of providing these services. During the same financial year, the Consolidated Scheme paid $9,728,583 to LGSS Pty Limited for administration and employee entitlements.

LIF Pty Limited is the Trustee of the Local Government Property Fund, in which the Scheme has an investment of $304,495,489 (2010: $340,215,864). During the current year a distribution of $15,336,085 (2010: distribution of $19,118,386) 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 $47,055,200 (2010: $42,506,000).

During the year LGFS entered into the following transactions with related entities. LGFS paid $65,219 (2010: $119,747) in recharged rent and on costs and $87,816 (2010: $83,002) accounting fee to FuturePlus Financial Services Pty Limited. LGFS, as indemnifier in the Return Support Agreement, provided the Fixed Out-Performance Cash Fund $63,799,076 (2010: $71,962,106) as a loan. LGFS, as the residual unit holder in Fixed Out-Performance Cash Fund, received a distribution of Nil (2010: Nil). LGFS Facilities Trust has invested of Nil (2010: $7,393,250) in Fixed Out-Performance Cash Fund as at balance date. LGFS, in accordance with the 2004 Council Notes Deed of Trust and, in its capacity as Manager of the LGFS Facilities Trust, has invested of Nil (2010: $33,460,930) 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 $2,445,179,758 (2010: $2,248,615,261). Distributions received from Local Investment Fund were $210,106,686 (2010: $150,289,992).

On the 1 July 2005 Hawkesbridge Limited was appointed as Private Equity Manager for the Scheme. As at 30 June 2011 the Scheme has invested a total of $757,263 (2010: $757,263), representing 9.8% (2010: 9.8%) of total capital in Hawkesbridge Limited.

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 2011 $'000	Consolidated 2010 $'000	Scheme 2011 $'000	Scheme 2010 $'000
Unlisted Securities and Trusts	2,582,321	2,469,082	2,846,329	2,678,812
Fixed Interest Securities	11,459	169,058	-	-
Property Investments	521,920	506,330	-	-
Total Investments Valued at Net Market Value	3,115,700	3,144,470	2,846,329	2,678,812

	Consolidated 2011 $'000	Consolidated 2010 $'000	Scheme 2011 $'000	Scheme 2010 $'000
Unlisted Securities and Trusts				
Units in Unlisted Australian Fixed Interest Trusts	87,570	178,820	-	-
Units in Unlisted Australian Securities and Trust	2,494,751	2,290,262	2,541,834	2,338,596
Units in Unlisted Australian Property Funds	-	-	304,495	340,216
Total Unlisted Securities and Trusts	2,582,321	2,469,082	2,846,329	2,678,812

	Consolidated 2011 $'000	Consolidated 2010 $'000	Scheme 2011 $'000	Scheme 2010 $'000
Fixed Interest Securities				
Australian Fixed Interest Securities Listed on a Prescribed Stock Exchange	11,459	169,058	-	-
Total Fixed Interest Securities	11,459	169,058	-	-

11. INVESTMENTS (continued)

b) Property Investments

The table below discloses the property investments held by the Consolidated Scheme:

2011 – Property Investment	Opening Balance $'000	Additions $'000	Disposals $'000	Net gain/(loss) from fair value $'000	Closing balance $'000
Leichhardt Marketplace, Leichhardt	73,160	759	-	3,095	77,014
100 Christie Street, St Leonards	45,167	767	-	(317)	45,617
76 Berry Street, North Sydney	60,455	4,400	-	(3,675)	61,180
Allambie Grove Business Park, Frenchs Forest	39,082	126	-	(421)	38,787
28 Margaret Street, Sydney	32,159	354	-	(190)	32,323
2 Lyon Park Road, North Ryde	39,469	637	-	986	41,092
Sturt Mall, Wagga Wagga	44,533	2,434	-	1,040	48,007
181 Miller Street, North Sydney	57,565	815	-	1,796	60,176
120 Sussex Street, Sydney	36,401	(13)	-	2,799	39,187
Bridge Plaza, Batemans Bay	13,479	430	-	(1,280)	12,629
Village Centre, Batemans Bay	64,860	1,204	-	(156)	65,908
TOTAL PROPERTY INVESTMENTS	506,330	11,913	-	3,677	521,920

2010 – Property Investment	Opening Balance $'000	Additions $'000	Disposals $'000	Net gain/(loss) from fair value $'000	Closing balance $'000
Leichhardt Marketplace, Leichhardt	72,074	915	-	171	73,160
100 Christie Street, St Leonards	44,611	361	-	195	45,167
76 Berry Street, North Sydney	58,972	1,462	-	21	60,455
Allambie Grove Business Park, Frenchs Forest	39,718	350	-	(986)	39,082
63 Waterloo Road, North Ryde	13,461	825	(13,461)	(825)	-
28 Margaret Street, Sydney	31,916	459	-	(216)	32,159
2 Lyon Park Road, North Ryde	38,900	1,227	-	(658)	39,469
Sturt Mall, Wagga Wagga	46,221	775	-	(2,463)	44,533
181 Miller Street, North Sydney	59,519	310	-	(2,264)	57,565
120 Sussex Street, Sydney	38,608	1,329	-	(3,536)	36,401
Bridge Plaza, Batemans Bay	12,097	116	-	1,266	13,479
Village Centre, Batemans Bay	63,867	1,889	-	(896)	64,860
TOTAL PROPERTY INVESTMENTS	519,964	10,018	(13,461)	(10,191)	506,330

11. INVESTMENTS (continued)

b) Property Investments (continued)

This table outlines additional disclosure relating to the property investments:

Property	Acquisition Date	Valuation Date	Valuer	Latest Independent Valuation $'000	Fair Value 2011 $'000
Leichhardt Marketplace, Leichhardt	July 1997	June 2011	CBRE	78,900	77,014
100 Christie Street, St Leonards	July 1997	June 2011	Savills	45,500	45,617
76 Berry Street, North Sydney	July 1997	June 2011	Savills	62,000	61,180
Allambie Grove Business Park, Frenchs Forest	July 1997	June 2011	Savills	40,300	38,787
28 Margaret Street, Sydney	July 1997	June 2011	Colliers	32,500	32,323
2 Lyon Park Road, North Ryde	July 1997	June 2011	Colliers	41,500	41,092
Sturt Mall, Wagga Wagga	August 2001	June 2011	Colliers	48,200	48,007
181 Miller Street, North Sydney	May 2007	June 2011	Colliers	60,750	60,176
120 Sussex Street, Sydney	August 2007	June 2011	CBRE	38,500	39,187
Bridge Plaza, Batemans Bay	August 2008	June 2011	KF	12,500	12,629
Village Centre, Batemans Bay	August 2008	June 2011	KF	65,500	65,908
TOTAL				526,150	521,920

12. OTHER RECEIVABLES

	Consolidated		Scheme	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Other Receivables	8,179	16,304	149	131
Total Other Receivables	8,179	16,304	149	131

13. PAYABLES

	Consolidated		Scheme	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Accruals	5,115	4,720	2,764	2,244
Interest	65	753	-	-
Other Payables	6,212	4,085	1,917	1,740
Total Payables	11,392	9,558	4,681	3,984

14. EMPLOYEE BENEFITS

	Consolidated		Scheme	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current Liability				
Annual Leave	20	120	-	91
Long Service Leave	109	115	-	12
	129	235	-	103
Non Current Liability				
Long Service Leave	-	29	-	27
	-	29	-	27

All existing employees of LGSS as at 1 December 2011 moved to LGSS Pty Limited at that date. In turn, all employees related provisions were transferred and settled at the time.

15. OTHER FINANCIAL LIABILITIES

	Consolidated		Scheme	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Derivatives	1,252	2,238	-	-
Loans	65,000	65,000	-	-
Total Other Financial Liabilities	66,252	67,238	-	-

The current $65M bank loan has been refinanced for 2.5 years beginning 01/01/10 expiring 01/07/12. The interest rate is the 90 day BBSY rate plus 1% and there is a 1.5% line fee. No collateral is provided for this loan.

16. 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.

16. 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. One of the requirements of the RSE License is that a balance of at least $100,000 must be maintained at all times in the Local Government Super Scheme Pool A's Operational Risk Reserve.

(d) Categories of Financial Instruments

The assets and liabilities of the Scheme are recognised at net market value as at the reporting date. The cost of realisation of investments is minimal and therefore net market 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 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 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.

16. FINANCIAL RISK MANAGEMENT (continued)

(f) Credit Risk

The Scheme and 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 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 the 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 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.

16. 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**
2011					
Vested Benefits	2,459,288	-	-	-	2,459,288
Other					
Other Payables	11,392	-	-	-	11,392
Deposits from Clients	60,323	-	-	-	60,323
Derivatives	-	-	1,252	-	1,252
Loans	-	65,000	-	-	65,000
Current Tax Liability	-	42,959	-	-	42,959
Minority Interest	183,937	-	-	-	183,937
Total	2,714,940	107,959	1,252	-	2,824,151
2010					
Vested Benefits	2,355,939	-	-	-	2,355,939
Other					
Other Payables	9,558	-	-	-	9,558
Deposits from Clients	306,287	-	-	-	306,287
Derivatives	-	-	2,238	-	2,238
Loans	-	65,000	-	-	65,000
Current Tax Liability	-	40,948	-	-	40,948
Minority Interest	131,648	-	-	-	131,648
Total	2,803,432	105,948	2,238	-	2,911,618

16. 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
2011					
Vested Benefits	2,459,288	-	-	-	2,459,288
Other					
Accruals	2,764	-	-	-	2,764
Other Payables	1,917	-	-	-	1,917
Current Tax Liability	-	42,959	-	-	42,959
Total	2,463,969	42,959	-	-	2,506,928
2010					
Vested Benefits	2,355,939	-	-	-	2,355,939
Other					
Accruals	2,244	-	-	-	2,244
Other Payables	1,740	-	-	-	1,740
Current Tax Liability	-	40,948	-	-	40,948
Total	2,359,923	40,948	-	-	2,400,871

Liquidity and Interest Rates Tables

The following tables summarise the maturity profile of the consolidated entity's non-derivative 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 consolidated entity can be required to pay. 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	Total
	%	$'000	$'000	$'000	$'000	$'000
2011						
Non-interest bearing		-	3,186	-	1,252	4,438
Variable interest rate instruments	4.94	1,278	40,237	11,000	65,000	117,515
Fixed Interest rate instruments	6.04	3,124	3,674	1,008	-	7,806
Total		**4,402**	**47,097**	**12,008**	**66,252**	**129,759**

16. FINANCIAL RISK MANAGEMENT (continued)

(g) Liquidity Risk (continued)

Consolidated	Weighted average effective interest rate	Less than 1 month	1 - 6 months	6 months to 1 year	1 - 5 years	Total
	%	$'000	$'000	$'000	$'000	$'000
2010						
Non-interest bearing		32,603	3,137	-	2,238	37,978
Variable interest rate instruments	5.12	6,529	117,247	11,126	77,205	212,107
Fixed Interest rate instruments	5.84	19,648	90,392	16,535	-	126,575
Total		**58,780**	**210,776**	**27,661**	**79,443**	**376,660**

The following tables detail the consolidated entity's and company'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	5+ years	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000
2011							
Non-interest bearing		-	87,571	-	-	-	87,571
Variable interest rate instruments	5.35	2,973	-	2,262	5,623	840	11,698
Fixed Interest rate instruments	5.60	5,612	1,000	-	-	-	6,612
Total		**8,585**	**88,571**	**2,262**	**5,623**	**840**	**105,881**

Consolidated	Weighted average effective interest rate	Less than 1 month	1 - 6 months	6 months to 1 year	1 - 5 years	5+ years	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000
2010							
Non-interest bearing		1	178,820	-	-	-	178,821
Variable interest rate instruments	3.11	16,970	4,914	11,548	46,863	-	80,295
Fixed Interest rate instruments	4.13	26,024	46,408	15,330	1,000	-	88,762
Total		**42,995**	**230,142**	**26,878**	**47,863**	-	**347,878**

16. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk

The Scheme and the Consolidated Scheme'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 managers manage 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 measures 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 $933,614 for the year (2010: $883,594). This income primarily comes from the cash assets held by the Scheme.

16. 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 an agreed percentage of its exposure to foreign currency for all international equities and 100% of all other international assets. The agreed percentage was 35% at balance sheet date.

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.

16. 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 across the Scheme and Consolidated Scheme's asset classes. 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 2011	5.74 %	2,893,374	166,080
30 June 2010	7.07 %	2,731,219	193,097

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 not adjusted to any tax impacts.

16. 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
Fixed interest assumption is based on the long term economic growth and inflation projection.

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
These 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.

16. 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).

30 June 2011 Consolidated	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets	**$'000**	**$'000**	**$'000**	**$'000**
Unlisted Securities and Trusts	-	2,533,318	48,318	2,581,636
Fixed Interest Securities	4,312	7,147	-	11,459
Total	**4,312**	**2,540,465**	**48,318**	**2,593,095**
Financial Liabilities				
Derivatives	-	1,252	-	1,252
Total	-	**1,252**	-	**1,252**

30 June 2010 Consolidated	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets	**$'000**	**$'000**	**$'000**	**$'000**
Unlisted Securities and Trusts	-	2,427,509	40,055	2,467,564
Fixed Interest Securities	80,293	88,765	-	169,058
Total	**80,293**	**2,516,274**	**40,055**	**2,636,622**
Financial Liabilities				
Derivatives	-	2,238	-	2,238
Total	-	**2,238**	-	**2,238**

30 June 2011 Scheme	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Unlisted Securities and Trusts	-	2,445,180	401,149	2,846,329
Fixed Interest Securities	-	-	-	-
Total	-	**2,445,180**	**401,149**	**2,846,329**

16. FINANCIAL RISK MANAGEMENT (continued)

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

30 June 2010 Scheme	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Unlisted Securities and Trusts	-	2,248,616	430,196	2,678,812
Fixed Interest Securities	-	-	-	-
Total	-	**2,248,616**	**430,196**	**2,678,812**

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

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.

30 June 2011 Consolidated	**Total**
	$'000
Opening balance	40,055
Purchases/Applications	4,626
Sales/Redemptions	(4,460)
Transfers in/out level 3	-
Total gains/(losses)	8,097
Closing balance	**48,318**
Total gains/(losses) recognised in the Statement of changes in Net Assets for assets held at the end of the year	8,097

30 June 2010 Consolidated	**Total**
	$'000
Opening balance	44,383
Purchases/Applications	1,989
Sales/Redemptions	(606)
Transfers in/out level 3	-
Total gains/(losses)	(5,711)
Closing balance	**40,055**
Total gains/(losses) recognised in the Statement of changes in Net Assets for assets held at the end of the year	(5,711)

16. FINANCIAL RISK MANAGEMENT (continued)

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

30 June 2011 Scheme	**Total**
	$'000
Opening balance	430,196
Purchases/Applications	4,112
Sales/Redemptions	(66,152)
Transfers in/out level 3	-
Total gains/(losses)	32,993
Closing balance	**401,149**
Total gains/(losses) recognised in the Statement of changes in Net Assets for assets held at the end of the year	32,993

30 June 2010 Scheme	**Total**
	$'000
Opening balance	461,752
Purchases/Applications	3,167
Sales/Redemptions	(55,764)
Transfers in/out level 3	
Total gains/(losses)	21,041
Closing balance	**430,196**
Total gains/(losses) recognised in the Statement of changes in Net Assets for assets held at the end of the year	21,041

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equites 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.

16. FINANCIAL RISK MANAGEMENT (continued)

(j) Interest Rate Risk Management

The Consolidated Scheme's activities, through Local Government Property Fund, expose it to the financial risk of changes in interest rates. Floating rate instruments expose this Fund to cash flow risk, whereas fixed interest rate risk instruments expose the Fund to fair value risk. LGSS Pty Ltd monitors the Local Government Property Fund's exposure to interest rate risk on a regular basis.

Under interest rate swap contracts, the Trustee agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Local Government Property Fund to mitigate the risk of changing interest rates on debt held. The average interest rate is based on the outstanding balances at the start of the financial year. The Consolidated Scheme is not exposed to interest rate risk as the interest rate swap contracts fully cover the bank loan interest.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at balance sheet date:

Outstanding Floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount $'000		Fair value amount $'000	
	2011	2010	2011	2010	2011	2010
Loan	4.8%	4.5%	65,000	65,000	65,000	65,000
Interest rate swap:						
2 to 5 years	5.95%	6.52%	65,000	65,000	(1,252)	(1,922)
2 to 5 years	-	7.00%	-	13,000	-	(316)

The interest rate swap contracts settle on a quarterly basis. The floating rate on the interest rate swap is the Australian 90 days BBSY. The Local Government Property Fund will settle the difference between the fixed and floating interest rate on a net basis.

17. SUBSEQUENT EVENTS

StateCover Mutual Limited agreed to an out of court settlement and have withdrawn their legal action against Local Government Financial Services Pty Limited.

18. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

Legal proceedings have been commenced against Local Government Financial Services Pty Limited by thirteen council investors in relation to losses incurred on Constant Proportion Debt Obligations (CPDO) sold by LGFS. Local Government Financial Services Pty Limited has filed defences and cross claims with the councils in relation to the rating agency, Standard & Poor's, and the originator of the CPDOs, ABN AMRO.

In addition the LGFS's insurer in this matter, Chartis, have identified several qualifications as possible bases on which it may, at some future time, deny indemnity under the policy. As a result, Chartis has been joined to the action.

There will be no liability in relation to the actions where the insurer fully indemnifies Local Government Financial Services Pty Limited. However, in the event that LGFS was not insured against loss and not successful in its counter claim, LGFS and the Consolidated Entity would be exposed to a liability. The Directors intend to defend this case vigorously and believe it is too early to identify the outcome.

There are outstanding commitments in Hawkesbridge Private Equity Fund 3 of $4,288,324 as at 30 June 2011 (2010: $7,501,859).

19. SUBSIDIARIES

Name of Entity	2011 Ownership Interest %	2010 Ownership Interest %
Parent Entity		
Local Government Superannuation Scheme Pool B		
Subsidiaries		
Local Government Financial Services Pty Limited	100%	100%
Fixed-Out Performance Cash Fund*	-	-
LG Diversified Trust	100%	100%
LG Secondaries Trust	-	65%
Local Government Property Fund	63%	73%

* 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.

Deloitte.

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Independent Report by the Approved Auditor to the Members of Local Government Superannuation Scheme Pool B (ABN: 28 901 371 321)

I have audited the financial statements of Local Government Superannuation Scheme Pool B for the year ended 30 June 2011 as set out on pages 4 to 41.

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 and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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 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, the net assets of Local Government Superannuation Scheme Pool B as at 30 June 2011 and the changes in net assets for the year ended 30 June 2011.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Woodhouse
Partner
Chartered Accountants
Sydney, 27 October 2011