

**Local Government Superannuation Scheme
Pool A
Financial Report
For the Year Ended 30 June 2012**

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

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LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

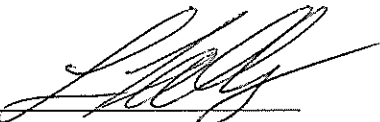
TRUSTEE'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

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

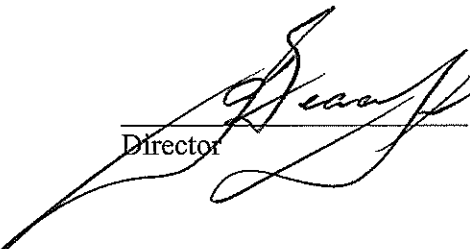
1. The accompanying financial statements of the Local Government Superannuation Scheme Pool A ("the Scheme") and its Consolidated Entity consisting of Local Government Superannuation Scheme Pool A and Local Investment Fund ("the Consolidated Scheme") are properly drawn up so as to present fairly the Financial Position of the Scheme as at 30 June 2012, the Operating Statement for the year ended 30 June 2012 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 25th day of October 2012



Director



Director

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

OPERATING STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	Note	Consolidated		Scheme	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Investment Revenue					
Interest Revenue		75,050	62,464	1,739	1,515
Dividend Revenue		71,071	90,911	-	-
Trust Distributions		93,742	94,911	111,555	310,419
Changes in Net Market Value of Investments	12	(196,300)	260,638	(34,813)	(36,393)
Other Investment Revenue		4,761	8,795	-	-
Total Investment Revenue		<u>48,324</u>	<u>517,719</u>	<u>78,481</u>	<u>275,541</u>
Investment Expenses	2(f)	(1,632)	(9,399)	(503)	(7,772)
Net Investment Revenue		<u>46,692</u>	<u>508,320</u>	<u>77,978</u>	<u>267,769</u>
Contributions Revenue					
Employer Contributions	13(a)	250,051	233,870	250,051	233,870
Member Contributions	13(c)	17,845	20,182	17,845	20,182
Transfers From Other Funds	13(d)	289,070	264,490	289,070	264,490
Total Contribution Revenue		<u>556,966</u>	<u>518,542</u>	<u>556,966</u>	<u>518,542</u>
Other Revenue					
Proceeds of Insurance Claims		9,512	8,316	9,512	8,316
Other Revenue		538	3	538	3
Total Other Revenue		<u>10,050</u>	<u>8,319</u>	<u>10,050</u>	<u>8,319</u>
Total Revenue		<u>613,708</u>	<u>1,035,181</u>	<u>644,994</u>	<u>794,630</u>
Expenses					
Superannuation Contributions Surcharge	2(i)	(7)	(7)	(7)	(7)
Scheme Administration Expenses	2(f)	(43,846)	(31,503)	(31,193)	(30,734)
Total Expenses		<u>(43,853)</u>	<u>(31,510)</u>	<u>(31,200)</u>	<u>(30,741)</u>
Benefits Accrued as a Result of Operations before Income Tax and Minority Interest		<u>569,855</u>	<u>1,003,671</u>	<u>613,794</u>	<u>763,889</u>
Income Tax Expense	8(a)	(37,603)	(50,656)	(37,603)	(50,656)
Benefits Accrued as a Result of Operations after Income Tax and before Minority Interest		<u>532,252</u>	<u>953,015</u>	<u>576,191</u>	<u>713,233</u>
Minority Interest		43,939	(239,782)	-	-
Benefits Accrued as a Result of Operations after Minority Interest		<u>576,191</u>	<u>713,233</u>	<u>576,191</u>	<u>713,233</u>

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

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

STATEMENT OF FINANCIAL POSITION AS AT 30 June 2012

	Note	Consolidated		Scheme	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Investments					
Listed Securities and Unit Trusts	4	1,708,343	2,104,566	-	-
Unlisted Unit Trusts	4	2,310,659	2,059,464	3,536,288	3,249,652
Fixed Interest Securities	4	1,448,503	1,111,570	-	-
Other Securities	4	79,274	192,251	-	-
Total Investments		<u>5,546,779</u>	<u>5,467,851</u>	<u>3,536,288</u>	<u>3,249,652</u>
Other Assets					
Cash and Cash Equivalents	16(a)	289,765	249,438	52,086	56,542
Interest Receivable		14,609	12,238	-	-
Dividends Receivable		7,920	8,658	-	-
Other Receivables	5	67,136	55,044	1,157	199
Deferred Tax Asset	8(c)	48,992	50,043	48,992	50,043
Total Other Assets		<u>428,422</u>	<u>375,421</u>	<u>102,235</u>	<u>106,784</u>
Total Assets		<u>5,975,201</u>	<u>5,843,272</u>	<u>3,638,523</u>	<u>3,356,436</u>
Less: Liabilities					
Payables	6	23,626	30,412	4,299	6,734
Other Financial Liabilities	7	39,237	14,482	-	-
Current Tax Liability	8(b)	17,664	39,669	17,664	39,669
Total Liabilities		<u>80,527</u>	<u>84,563</u>	<u>21,963</u>	<u>46,403</u>
Net Assets Available Before Minority Interest		<u>5,894,674</u>	<u>5,758,709</u>	<u>3,616,560</u>	<u>3,310,033</u>
Less Minority Interest		2,278,114	2,448,676	-	-
Net Assets Available to Pay Benefits		<u>3,616,560</u>	<u>3,310,033</u>	<u>3,616,560</u>	<u>3,310,033</u>
Represented by:					
Liability for Accrued Benefits					
Funds Allocated to Members' Accounts	10	3,606,830	3,301,731	3,606,830	3,301,731
Funds Not Yet Allocated to Members' Accounts					
Administration Reserve	9(b)	4,053	2,102	4,053	2,102
Contribution Tax Reserve	9(c)	660	500	660	500
Operational Risk Reserve	9(d)	37	368	37	368
	9(e)	4,980	5,332	4,980	5,332
Total Liability for Accrued Benefits	9(a)	<u>3,616,560</u>	<u>3,310,033</u>	<u>3,616,560</u>	<u>3,310,033</u>

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

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	Note	Consolidated		Scheme	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash Flows from Operating Activities					
Transaction costs		(946)	(1,563)	-	-
Contributions Received from Employers		250,051	233,870	250,051	233,870
Contributions Received from Members		15,012	16,822	15,012	16,822
Co-contributions Received		2,833	3,360	2,833	3,360
Transfers from Other Funds		289,070	264,490	289,070	264,490
Income Received		186,980	192,707	1,739	1,515
Benefits Paid		(268,145)	(210,337)	(268,145)	(210,337)
Investment Expenses Paid		(7,929)	(7,772)	(503)	(7,772)
Scheme Administration Expenses Paid		(27,466)	(22,191)	(26,057)	(21,383)
Surcharge Paid		(7)	(7)	(7)	(7)
Income Tax Paid		(58,555)	(47,942)	(58,555)	(47,942)
Net Cash Provided by Operating Activities	16(b)	<u>380,898</u>	<u>421,437</u>	<u>205,438</u>	<u>232,616</u>
Cash Flows from Investing Activities					
Redemptions from Investments		4,861,049	3,021,915	386,505	179,494
Applications to Investments		(5,024,380)	(3,358,530)	(596,399)	(398,941)
Net Cash Used in Investing Activities		<u>(163,331)</u>	<u>(336,615)</u>	<u>(209,894)</u>	<u>(219,447)</u>
Cash Flows from Financing Activities					
Proceeds from Applications by Unitholders		1,259,495	835,066	-	-
Payments for Redemptions by Unitholders		(1,438,967)	(881,647)	-	-
Net Cash (Used in) / Provided by Financing Activities		<u>(179,472)</u>	<u>(46,581)</u>	<u>-</u>	<u>-</u>
Net Increase / (Decrease) in Cash Held		38,095	38,241	(4,456)	13,169
Cash at the Beginning of the Financial Year		249,438	218,351	56,542	43,373
Cash on acquisition/(disposal) of subsidiaries by LIF		54	(7,561)	-	-
Effects of Foreign Exchange on Cash and Cash Equivalents		2,178	407	-	-
Cash at the End of the Financial Year	16(a)	<u>289,765</u>	<u>249,438</u>	<u>52,086</u>	<u>56,542</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 2012

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 ('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 25th October 2012.

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 and 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 or arrangements.

AASB 124 Related Party Disclosures

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

AASB 2010-5 Amendments to Australian Accounting Standards

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 Consolidated Scheme were in issue but not yet effective:

The directors anticipate the adoption of these Standards will not have a 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 13 Fair Value Measurements and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 10 Consolidated Financial Statements	1 January 2013	30 June 2014
AASB 12 Disclosure of Interests in Other Entity	1 January 2013	30 June 2014
AASB 1053 Applications of Tiers of Australian Accounting Standards and AASB 2010-2 'Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013

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 2012 and the comparative information presented in these financial statements for the year ended 30 June 2011.

(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 A (the Scheme) and its subsidiary Local Investment Fund (LIF) 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.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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. 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 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments (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 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.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income Tax (continued)

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 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 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. Where the distribution is not received at balance sheet date, the balance is reflected in the Statement of Financial Position.

Changes in Net Market Value of Investments

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

Employer and Member Contributions

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 at which measurement is reliable. Amounts are recognised where transfer receipts are received by the Scheme.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Expenses

Administrative expenses, other than the weekly administration fee, are charged directly to net assets of the Scheme. The Scheme's investment expenses are charged directly against investment income.

From July 2011, the Scheme's investment expenses are paid directly out of Local Investment Fund ("LIF"). As a result these fees are netted off against investment revenue received from LIF and not disclosed as investment expenses in the Operating Statement of the Scheme

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 Scheme's present obligation to pay benefits to members and beneficiaries and has been calculated as the difference between the carrying amounts of the assets and the sum of the sundry liabilities and income tax liabilities as at balance sheet date.

(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 translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Operating Statement.

(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.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 are recognised in the Statement of Financial Position and represent only those benefits where the benefit has been processed and authorised by the Scheme but has not yet been paid 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. They are recognised at their nominal value which is equivalent to net market value.

(n) 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 2012

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 four divisions. Divisions A, P and E 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 N.A. (JP Morgan).

FuturePlus Financial Services Pty Limited provides accounting and administration for the Consolidated Scheme.

The principal place of business of the Scheme is:

Level 12
28 Margaret Street
SYDNEY NSW 2000

4. INVESTMENTS

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Listed Securities and Unit Trusts	1,708,343	2,104,566	-	-
Unlisted Unit Trusts	2,310,659	2,059,464	3,536,288	3,249,652
Fixed Interest Securities	1,448,503	1,111,570	-	-
Other Securities	79,274	192,251	-	-
Total Investments Valued at Net Market Value	<u>5,546,779</u>	<u>5,467,851</u>	<u>3,536,288</u>	<u>3,249,652</u>

Listed Securities and Unit Trusts

Australian Securities Listed on a Prescribed Stock Exchange	991,842	1,123,828	-	-
International Securities Listed on a Prescribed Stock Exchange	569,504	752,132	-	-
Units in Trusts Listed on a Prescribed Stock Exchange	146,997	207,047	-	-
Australian Exchange Traded Securities Options	-	21,559	-	-
Total Listed Securities and Trusts	<u>1,708,343</u>	<u>2,104,566</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 2012

4. INVESTMENTS (continued)

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Unlisted Unit Trusts and Securities				
Units in Unlisted Australian Fixed Interest Securities	935,520	712,986	-	-
Units in Unlisted Australian Securities and Trusts	702,620	788,942	3,536,288	3,249,652
Units in Unlisted Australian Property Trusts	201,216	495,400	-	-
Units in Unlisted International Property Trusts	316,049	-	-	-
Units in Unlisted International Securities	155,254	62,136	-	-
Total Unlisted Securities and Trusts	<u>2,310,659</u>	<u>2,059,464</u>	<u>3,536,288</u>	<u>3,249,652</u>
Fixed Interest Securities				
Australian Fixed Interest Securities Listed on a Prescribed Stock Exchange	658,492	673,637	-	-
International Fixed Interest Securities Listed on a Prescribed Stock Exchange	147,240	153,228	-	-
Other Fixed Interest Securities	642,771	284,705	-	-
Total Fixed Interest Securities	<u>1,448,503</u>	<u>1,111,570</u>	<u>-</u>	<u>-</u>
Other Securities				
Currency Swaps	148	48	-	-
Currency Contracts	40,849	19,890	-	-
Money Market-Floating Rate Notes	23,724	172,313	-	-
Other Options and Futures	14,553	-	-	-
Total Other Securities	<u>79,274</u>	<u>192,251</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 2012

5. OTHER RECEIVABLES

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Deposits held with Brokers for Margins	14,708	10,901	-	-
Due from Brokers for Securities Sold	12,573	11,927	-	-
Trust Distribution Receivable	37,871	31,590	-	-
Other Receivables	1,984	626	1,157	199
Total Receivables	<u>67,136</u>	<u>55,044</u>	<u>1,157</u>	<u>199</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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Benefits Payable	1,528	8	1,528	8
Investment Management Fees Payable	4,270	2,867	-	2,837
Due to Brokers for Securities Purchased	14,911	23,529	-	-
Other Payables	2,917	4,008	2,771	3,889
Total Payables	<u>23,626</u>	<u>30,412</u>	<u>4,299</u>	<u>6,734</u>

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

7. OTHER FINANCIAL LIABILITIES

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Derivatives	21,388	4,805	-	-
Listed equity securities held short	17,849	9,677	-	-
Total Other Financial Liabilities	<u>39,237</u>	<u>14,482</u>	<u>-</u>	<u>-</u>
Derivatives				
Currency Contracts	11,511	3,316	-	-
Equity Futures	2,073	121	-	-
Fixed Interest Futures	1,861	601	-	-
Currency Swaps	5,943	767	-	-
Total Derivatives	<u>21,388</u>	<u>4,805</u>	<u>-</u>	<u>-</u>
Listed Equity Securities Held Short				
Listed equity securities held short	17,849	9,677	-	-
Total Listed Equity Securities Held Short	<u>17,849</u>	<u>9,677</u>	<u>-</u>	<u>-</u>

8. 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 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 is not subject to income taxes provided the taxable incomes of LIF is fully distributed either by way of cash or reinvestment.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. INCOME TAX (continued)

(a) Income Tax Recognised in Operating Statement:

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current Tax Expense	36,551	53,272	36,551	53,272
Deferred Tax (Benefit) / Expense	1,052	(2,616)	1,052	(2,616)
Total Income Tax Expense	<u>37,603</u>	<u>50,656</u>	<u>37,603</u>	<u>50,656</u>

The prima facie income tax expense on benefits accrued as a result of operations before income tax reconciles to the income tax expense as follows:

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Benefits Accrued as a Result of Operations before Income Tax	569,855	1,003,671	613,794	763,889
Income Tax Expense Calculated at 15%	<u>85,478</u>	<u>150,550</u>	<u>92,069</u>	<u>114,583</u>
Non-taxable Income – LIF (Minority interest)	6,591	(35,967)	-	-
Non-deductible Expenses	(86)	(90)	(86)	(90)
Non-assessable/deductible Investment Revenue/(Losses)	8,072	3,286	8,072	3,286
Non-assessable Contributions (includes Transfers)	(45,324)	(42,059)	(45,324)	(42,059)
Imputation and Foreign Tax Credits	(9,893)	(10,733)	(9,893)	(10,733)
Anti Detriment Deduction	(455)	(523)	(455)	(523)
Current Pension Liability Exemption	(4,730)	(9,967)	(4,730)	(9,967)
Death or Invalidity Assurance	8	(38)	8	(38)
Contributions Surcharge	1	1	1	1
Timing Differences	(104)	(5,130)	(104)	(5,130)
Over Provision in Prior Year	(202)	(842)	(202)	(842)
Discount on Capital Gains	(2,278)	1,527	(2,278)	1,527
TFN Withholding on Contributions from Members	525	641	525	641
Income Tax Expense	<u>37,603</u>	<u>50,656</u>	<u>37,603</u>	<u>50,656</u>

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. INCOME TAX (continued)

	Consolidated		Scheme	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
(b) Current Tax Liability:				
Income Tax Payable	17,644	39,669	17,664	39,669
	<u>17,664</u>	<u>39,669</u>	<u>17,664</u>	<u>39,669</u>

	Consolidated		Scheme	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
(c) Deferred Tax Balances:				
Deferred Tax Asset Comprises Temporary Differences	48,992	50,043	48,992	50,043
	<u>48,992</u>	<u>50,043</u>	<u>48,992</u>	<u>50,043</u>

(d) Taxable and deductible temporary differences arise from the following:

Consolidated			
	Opening Balance	Charged to Income	Closing Balance
	\$'000	\$'000	\$'000
30 June 2012			
Net Deferred Tax Asset			
Unrealised Taxable Capital Losses	49,446	(476)	48,970
Provisions	597	(575)	22
	<u>50,043</u>	<u>(1,051)</u>	<u>48,992</u>
30 June 2011			
Net Deferred Tax Asset			
Unrealised Taxable Capital Losses	46,953	2,493	49,446
Provisions	474	123	597
	<u>47,427</u>	<u>2,616</u>	<u>50,043</u>

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. INCOME TAX (continued)

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

Scheme	Opening Balance	Charged to Income	Closing Balance
30 June 2012	\$'000	\$'000	\$'000
Net Deferred Tax Asset			
Unrealised Taxable Capital Losses	49,446	(476)	48,970
Provisions	597	(575)	22
	<u>50,043</u>	<u>(1,051)</u>	<u>48,992</u>
30 June 2011	Opening Balance	Charged to Income	Closing Balance
30 June 2011	\$'000	\$'000	\$'000
Net Deferred Tax Asset			
Unrealised Taxable Capital Losses	46,953	2,493	49,446
Provisions	474	123	597
	<u>47,427</u>	<u>2,616</u>	<u>50,043</u>

9. LIABILITY FOR ACCRUED BENEFITS

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
(a) Changes in the Liability for Accrued Benefits				
Liability for Accrued Benefits – at Beginning of the Financial Year	3,310,033	2,804,224	3,310,033	2,804,224
Add: Benefits Accrued as a Result of Operations before Minority Interest	532,252	953,015	576,191	713,233
Less: Minority Interest	43,939	(239,782)	-	-
Less: Benefits - Members				
Paid and Payable Accounts	(269,889)	(207,306)	(269,889)	(207,306)
Net transfer to/(from) Reserves *	225	(118)	225	(118)
Liability for Accrued Benefits - at End of Year	<u>3,616,560</u>	<u>3,310,033</u>	<u>3,616,560</u>	<u>3,310,033</u>

* The net transfer from reserves includes amounts transferred in respect of vested benefits.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

9. LIABILITY FOR ACCRUED BENEFITS (continued)

(b) Funds Not Yet Allocated to Members' Accounts

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Funds not yet Allocated to Members' Accounts	4,053	2,102	4,053	2,102

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.

(c) Administration Reserve

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Balance at the Beginning of the Year	500	268	500	268
Transfer from Members' Accounts	4,419	4,530	4,419	4,530
Administration Fee Paid	(4,259)	(4,298)	(4,259)	(4,298)
Balance at End of the Year	660	500	660	500

(d) Contribution Tax Reserve

Balance at the Beginning of the Year	368	892	368	892
Transfer from Members' Accounts	18,601	13,793	18,601	13,793
Contribution Tax Paid/Payable	(18,932)	(14,317)	(18,932)	(14,317)
Balance at the End of the Year	37	368	37	368

(e) Operational Risk Reserve

Balance at the Beginning of the Year	5,332	5,157	5,332	5,157
Death or Invalidity Benefits Paid	(584)	(339)	(584)	(339)
Payments from Reserve	(10)	-	(10)	-
Investment Earnings	242	514	242	514
Balance at the End of the Year	4,980	5,332	4,980	5,332

The Operational Risk 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.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

10. 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Vested benefits at the End of the Year:	<u>3,606,830</u>	<u>3,301,731</u>	<u>3,606,830</u>	<u>3,301,731</u>
Net Assets at the End of the Year:	<u>3,616,560</u>	<u>3,310,033</u>	<u>3,616,560</u>	<u>3,310,033</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 2012 financial year was \$4,259,138 (2011: \$4,297,835).

11. GUARANTEED BENEFITS

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

12. CHANGES IN NET MARKET VALUE OF INVESTMENTS

Consolidated Scheme	Unrealised at Reporting Date \$'000	Realised During the Year \$'000	Total \$'000
30 June 2012			
Listed Securities and Unit Trusts	(197,236)	(46,053)	(243,289)
Unlisted Unit Trusts	(902)	-	(902)
Fixed Interest Securities	103,809	(21,942)	81,867
Foreign Exchange	12,219	(16,736)	(4,517)
Other	(5,878)	(23,581)	(29,459)
Total	<u>(87,988)</u>	<u>(108,312)</u>	<u>(196,300)</u>

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

Consolidated Scheme	Unrealised at Reporting Date	Realised During the Year	Total
30 June 2011	\$'000	\$'000	\$'000
Listed Securities and Unit Trusts	19,974	6,479	26,453
Unlisted Unit Trusts	275	-	275
Fixed Interest Securities	(29,742)	(5,109)	(34,851)
Foreign Exchange	48,812	228,114	276,926
Other	6,004	(14,169)	(8,165)
Total	<u>45,323</u>	<u>215,315</u>	<u>260,638</u>
Scheme			
30 June 2012			
Unlisted Unit Trusts	(34,526)	(287)	(34,813)
Total	<u>(34,526)</u>	<u>(287)</u>	<u>(34,813)</u>
30 June 2011			
Unlisted Unit Trusts	(37,202)	809	(36,393)
Total	<u>(37,202)</u>	<u>809</u>	<u>(36,393)</u>

13. SCHEME 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 2011 to 30 June 2012 was 9% (1 July 2010 to 30 June 2011: 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.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

13. SCHEME FUNDING ARRANGEMENTS (continued)

(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.

14. INVESTMENT STRATEGY SELECTION

Members can choose from twelve 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.

Investment Strategy	Members Age Group
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 2012

15. REMUNERATION OF AUDITORS

	Consolidated		Scheme	
	2012	2011	2012	2011
	\$	\$	\$	\$
Remuneration for audit of the financial report of the Scheme				
LGSS Pool A Financial Statements - Deloitte Touche Tohmatsu	101,658	129,660	101,658	129,660
LIF Audit – Deloitte Touche Tohmatsu	100,844	93,255	-	34,932
Other services - LIF	-	9,840	-	-
Other regulatory audit services				
LGSS Pool A RMS/RMP Audit - Deloitte Touche Tohmatsu	-	16,269	-	16,269
LGSS DRS – Deloitte Touche Tohmatsu	-	12,607	-	12,607
LGSS Pty Limited AFSL – Deloitte Touche Tohmatsu	-	7,578	-	7,578
Other Auditors				
LIF Audit	-	11,474	-	11,474
LGSS Pool A Audit	-	2,380	-	2,380
	<u>202,502</u>	<u>283,063</u>	<u>101,658</u>	<u>214,900</u>

Note: In the current year, the allocation of the audit fee has been charged as 56.95% for LGSS Pool A and 43.05% for LGSS Pool B (2011: 52.72% for LGSS Pool A and 47.28% for LGSS Pool B).

2012 audit fees are paid by LGSS Pty Limited on behalf of Local Government Superannuation Schemes.

16. 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	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Cash at Bank	<u>289,765</u>	<u>249,438</u>	<u>52,086</u>	<u>56,542</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 2012

16. 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Benefits Accrued as a Result of Operations after Tax and before Minority Interest	532,252	953,015	576,191	713,233
Benefits Paid	(269,889)	(207,306)	(269,889)	(207,306)
Transfers to/(from) Reserves	225	(118)	225	(118)
Movement in Net Market Value of Investments	196,300	(260,638)	34,813	36,393
Non cash Unit Trust Distribution	(47,474)	(64,239)	(111,555)	(310,419)
(Increase)/Decrease in Receivables	(9,646)	2,693	(958)	184
Increase/(Decrease) in Payables	1,777	(2,016)	(2,436)	(2,065)
Decrease/(Increase) in Dividend reinvested	(1,720)	(2,668)	-	-
Effect of foreign currency exchange rates changes	26	-	-	-
Decrease/(Increase) in Deferred Tax Liability	1,052	-	1,052	-
(Decrease)/Increase in Current Tax Liability	(22,005)	2,714	(22,005)	2,714
Net Cash Flow from Operating Activities	<u>380,898</u>	<u>421,437</u>	<u>205,438</u>	<u>232,616</u>

17. 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 2012

17. 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 an 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 2012

17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(e) Notional Principal Amounts

The notional principal amounts for the Consolidated Scheme's derivative instruments at year end are detailed as follows:

	Consolidated	
	2012	2011
	Notional \$'000	Notional \$'000
Forward Currency Contracts	616,992	1,530,593
	<u>616,992</u>	<u>1,530,593</u>
Australian Exchange Traded Options	5,581	13,741
International Exchange Traded Options	67,922	818
Australian Share Price Index Futures	11,562	13,572
International Share Price Index Futures	34,786	22,211
Australian Fixed Interest Futures	(51,127)	(386)
International Fixed Interest Funds	16,265	(213,552)
Australian Money Market Futures	50,820	40,266
International Money Market Futures	32,344	(67,888)
Australian Swaps	4,553	-
International Swaps	3,927	-
	<u>176,633</u>	<u>(191,218)</u>

18. 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 Trustees of the Scheme and LIF 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.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. FINANCIAL RISK MANAGEMENT (continued)

(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 9(e).

(d) Categories of Financial Instruments

The assets and liabilities of the Consolidated 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 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, interest rate risk and price risk), credit risk, liquidity risk and cash flow risk. The Trustees' 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 Trustees to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements, the Trustees have the function of overseeing the establishment and maintenance of risk-based systems and controls for the Scheme and LIF.

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 Trustees' 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 Trustees certify to APRA that adequate strategies have been put in place to monitor those risks, that the Trustees have systems in place to ensure compliance with legislative and prudential requirements and that the Trustees have satisfied itself as to the compliance with the RMS and RMP.

(f) Credit Risk

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 2012

18. FINANCIAL RISK MANAGEMENT (continued)

(f) Credit Risk (continued)

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.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

(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 Consolidated Scheme and 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 Consolidated Scheme and the Scheme's listed securities and unit trust investments are considered to be readily realisable. The Consolidated Scheme and 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 Consolidated Scheme and the Scheme's liquidity risk is managed in accordance with the Consolidated Scheme and 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 2012

18. 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
2012					
Vested benefits	3,606,830	-	-	-	3,606,830
Other					
Due to brokers for securities purchased	14,911	-	-	-	14,911
Other payables	8,715	-	-	-	8,715
Derivatives	9,220	6,266	5,902	-	21,388
Equity securities held short	17,849	-	-	-	17,849
Current tax liability	-	17,664	-	-	17,664
Minority interest	2,278,114	-	-	-	2,278,114
Total	5,935,639	23,930	5,902	-	5,965,471
Consolidated	Less than 3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000	Total \$'000
2011					
Vested benefits	3,301,731	-	-	-	3,301,731
Other					
Due to brokers for securities purchased	23,529	-	-	-	23,529
Other payables	6,734	149	-	-	6,883
Derivatives	4,805	-	-	-	4,805
Equity securities held short	9,677	-	-	-	9,677
Current tax liability	-	39,669	-	-	39,669
Minority interest	2,448,676	-	-	-	2,448,676
Total	5,795,152	39,818	-	-	5,834,970

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. 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
2012					
Vested benefits	3,606,830	-	-	-	3,606,830
Other					
Payables	4,299	-	-	-	4,299
Current tax liability	-	17,664	-	-	17,664
Total	3,611,129	17,664	-	-	3,628,793
2011					
Vested benefits	3,301,731	-	-	-	3,301,731
Other					
Payables	6,734	-	-	-	6,734
Current tax liability	-	39,669	-	-	39,669
Total	3,308,465	39,669	-	-	3,348,134

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. FINANCIAL RISK MANAGEMENT (continued)

(g) Liquidity Risk (continued)

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

	Consolidated				
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	1-5 years \$'000	Total \$'000
At 30 June 2012					
Foreign currency forward contracts					
Inflows	719,790	796,024	-	-	1,515,814
(Outflows)	(651,198)	(247,624)	-	-	(898,822)
Australian share price index futures					
Inflows	-	11,562	-	-	11,562
(Outflows)	-	-	-	-	-
International share price index futures					
Inflows	5,237	29,549	-	-	34,786
(Outflows)	-	-	-	-	-
Australian fixed interest futures					
Inflows	-	776	-	-	776
(Outflows)	-	(51,903)	-	-	(51,903)
International fixed interest futures					
Inflows	4,345	19,487	5,709	-	29,541
(Outflows)	(2,800)	(10,476)	-	-	(13,276)
Australian money market futures					
Inflows	-	31,526	29,425	7,938	68,889
(Outflows)	-	(8,414)	(6,660)	(2,995)	(18,069)
International money market futures					
Inflows	1,986	19,780	9,617	961	32,344
(Outflows)	-	-	-	-	-
Australian exchange traded options					
Inflows	-	3,648	13,172	2	16,822
(Outflows)	-	-	(11,241)	-	(11,241)
International exchange trade options					
Inflows	17,797	68,185	-	48	86,030
(Outflows)	(10,495)	(7,613)	-	-	(18,108)
Australian swaps					
Inflows	-	24,070	-	56,583	80,653
(Outflows)	-	(21,000)	-	(55,100)	(76,100)
International swaps					
Inflows	-	-	-	86,151	86,151
(Outflows)	-	(3,060)	-	(79,164)	(82,224)
Total	84,662	654,517	40,022	14,424	793,625

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. FINANCIAL RISK MANAGEMENT (continued)

(g) Liquidity Risk (continued)

	Consolidated				
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	1-5 years \$'000	Total \$'000
At 30 June 2011					
Foreign currency forward contracts					
Inflows	888,929	959,430	-	-	1,848,359
(Outflows)	(284,825)	(32,941)	-	-	(317,766)
Australian share price index futures					
Inflows	-	13,572	-	-	13,572
(Outflows)	-	-	-	-	-
International share price index futures					
Inflows	5,532	16,679	-	-	22,211
(Outflows)	-	-	-	-	-
Australian fixed interest futures					
Inflows	-	22,181	-	-	22,181
(Outflows)	-	(22,567)	-	-	(22,567)
International fixed interest futures					
Inflows	-	1,080	-	-	1,080
(Outflows)	-	(214,632)	-	-	(214,632)
International money market futures					
Inflows	-	-	-	-	-
(Outflows)	-	(67,888)	-	-	(67,888)
Australian exchange traded options					
Inflows	5,885	7,856	-	-	13,741
(Outflows)	-	-	-	-	-
International exchange trade options					
Inflows	818	-	-	-	818
(Outflows)	-	-	-	-	-
Australian other futures					
Inflows	-	40,266	-	-	40,266
(Outflows)	-	-	-	-	-
Total	616,339	723,036	-	-	1,339,375

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. FINANCIAL RISK MANAGEMENT (continued)

(g) Liquidity Risk (continued)

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.

Shares in listed corporations, units in unit trusts and PSTs have been excluded from this analysis, as they are exposed to market risks other than interest.

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
2012							
Fixed interest securities	4.74	25,264	140,161	39,926	500,890	742,262	1,448,503

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
2011							
Fixed interest securities	5.11	-	1,298	34,748	457,815	617,709	1,111,570

(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 Consolidated Scheme and 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.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

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

During the financial year the methodology used to measure the approximate risk of gains or losses from market movements for the various categories of risk has been changed from being calculated on a Value at Risk (VaR) basis, to a sensitivity basis. The change in methodology was to more closely align the disclosures in the financial report to the actual practices that are utilised throughout the year to manage risk exposures by the Scheme.

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 Rate Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposures to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 200 basis point increase or decrease is used when reporting interest rate risk internally to the Trustee and represents the Trustee's assessment of the possible change in interest rates.

The following table illustrates the effect on net assets and changes in net assets from possible changes in market risk that were reasonably possible based on the risk the Scheme was exposed to at reporting date:

	Change in Variable	Effect on Change in Net Assets	
		2012	2011
	+/-	\$'000	\$'000
Interest rate risk	+2%	(25,479)	(22,689)
Interest rate risk	-2%	25,479	22,689

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

Interest Income

The Scheme recorded interest income of \$1,738,782 for the year (2011: \$1,515,574). This income primarily comes from the cash assets held by the Scheme.

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 Consolidated Scheme and the Scheme's overall strategy to foreign currency risk management has not changed from the previous year.

Foreign currency sensitivity

The following table details the Scheme's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to the Trustee and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in net assets available to pay benefits and liability for accrued benefits where the Australian Dollar weakens against the respective currency. For a strengthening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the increase in net assets and on the net assets available to pay benefits, and the balances below would be negative.

	Change in Variable	Effect on Change in Net Assets			
		USD Impact		JPY Impact	
		2012	2011	2012	2011
	+/-	\$'000	\$'000	\$'000	\$'000
Forex Risk	+10%	(1,166)	(270)	(116)	(43)
Forex Risk	-10%	1,166	270	116	43

	Change in Variable	Effect on Change in Net Assets			
		EUR Impact		GBP Impact	
		2012	2011	2012	2011
	+/-	\$'000	\$'000	\$'000	\$'000
Forex Risk	+10%	(262)	119	98	109
Forex Risk	-10%	262	(119)	(98)	(109)

There have been no significant changes to the foreign currency sensitivity 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 2012

18. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

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 Consolidated Scheme and 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.

The following table illustrates the effect on changes in net assets and net assets available to pay benefits from possible changes in market risk that were reasonably possible based on the risk the Scheme was exposed to at reporting date. For a negative change in the variable there would be an equal and opposite impact on the increase in net assets and on the net assets available to pay benefits, and the balances below would be negative:

	Change in Variable +/-	Effect on Change in Net Assets	
		2012 \$'000	2011 \$'000
Equity Price Risk	+10%	196,949	152,903
Equity Price Risk	-10%	(196,949)	(152,903)

The Scheme's sensitivity to price risk has increased during the current period mainly due to the increase in unit trust and equity investments.

There have been no changes to the equity price or price sensitivity from the prior year.

(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).

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. FINANCIAL RISK MANAGEMENT (continued)

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

The fair value hierarchy has the following levels:

30 June 2012 Consolidated	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Listed Securities and Trusts	1,707,634	709	-	1,708,343
Unlisted Securities and Trusts	-	1,685,785	624,874	2,310,659
Fixed Interest Securities	40,851	1,407,652	-	1,448,503
Other Securities	8,388	70,886	-	79,274
Total	1,756,873	3,165,032	624,874	5,546,779
Financial Liabilities				
Derivatives	15,356	6,032	-	21,388
Equity Securities	17,849	-	-	17,849
Total	33,205	6,032	-	39,237

30 June 2011 Consolidated	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Listed Securities and Trusts	2,101,658	2,908	-	2,104,566
Unlisted Securities and Trusts	-	1,534,626	524,838	2,059,464
Fixed Interest Securities	-	1,111,570	-	1,111,570
Other Securities	-	192,251	-	192,251
Total	2,101,658	2,841,355	524,838	5,467,851
Financial Liabilities				
Derivatives	722	4,083	-	4,805
Equity Securities	9,677	-	-	9,677
Total	10,399	4,083	-	14,482

30 June 2012 Scheme	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Unlisted Securities and Trusts	-	3,536,288	-	3,536,288
Total	-	3,536,288	-	3,536,288

30 June 2011 Scheme	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Unlisted Securities and Trusts	-	3,249,652	-	3,249,652
Total	-	3,249,652	-	3,249,652

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. FINANCIAL RISK MANAGEMENT (continued)

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

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.

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 2012 Consolidated	Total
	\$'000
Opening balance	524,836
Purchases/Applications	120,402
Sales/Redemptions	(17,593)
Transfers in/out level 3	-
Total gains/(losses)	(2,771)
Closing balance	624,874
Total gains/(losses) recognised in the Operating Statement for assets held at the end of the year	(2,771)

30 June 2011 Consolidated	Total
	\$'000
Opening balance	545,658
Purchases/Applications	44,026
Sales/Redemptions	(26,796)
Transfers in/out level 3	(12,075)
Total gains/(losses)	(25,977)
Closing balance	524,836
Total gains/(losses) recognised in the Operating Statement for assets held at the end of the year	(25,977)

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. FINANCIAL RISK MANAGEMENT (continued)

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

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.

19. 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 B Miller (Appointed 1 July 2011)	Mr G Kelly (Resigned 24 October 2012)
	Mr C Peate (Appointed 25 October 2012)

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

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 and M O'Connell are Directors of Local Government Financial Services Pty Limited.

(b) Other Key Management Personnel

The Chief Executive Officer, Mr P Lambert, the Chief Investment Officer, Mr C Turnbull, and Chief Operating Officer, Mr A Griffin are considered to be members of the key management personnel.

(c) Compensation Received

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Short term Benefits	1,242,997	1,189,828	1,242,997	1,189,828
Post Employment Benefits	107,859	82,590	107,859	82,590
	<u>1,350,856</u>	<u>1,272,418</u>	<u>1,350,856</u>	<u>1,272,418</u>

The total group compensation due and receivable by the Directors of LGSS Pty Limited and other key management personnel during the financial year is paid on behalf of the Scheme 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 2012

19. 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 19(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.

Ms B Giegerl, Mr M O'Connell and Mr L Kelly are directors of the Trustee and received benefit payments during the year in accordance with the Trust Deed.

(e) Other Related Party Transactions

During the period 1 July 2011 to 30 June 2012, FuturePlus Financial Services Pty Limited was no longer a related party. It has not received any investment management and administration fees from Local Government Superannuation Scheme Pool A in the current financial year (2011: \$6,902,895). LGSS Pty Limited was paid administration fees and employee entitlements of \$21,070,793 (2011: \$10,521,523) from Local Government Superannuation Scheme Pool A.

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

Included within the investments of Local Government Superannuation Scheme Pool A are amounts held with Local Investment Fund \$3,536,288,211 (2011: \$3,249,651,709). Distributions received/receivable from Local Investment Fund were \$111,555,392 (2011: \$310,419,173).

20. 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 2012 or on the results for the year ended on that date.

21. CONTINGENT LIABILITIES AND ASSETS AND COMMITMENTS

The directors are not aware of any pending or contingent assets and liabilities (Nil for 2011).

There are outstanding commitments to investments in Quentin Ayers Trusts, through Local Investment Fund of \$350,961,600 as at 30 June 2012 (2011: \$176,515,287).

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL A

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

22. SUBSIDIARIES

Name of Entity	2012 Ownership Interest %	2011 Ownership Interest %
Parent Entity		
Local Government Superannuation Scheme Pool A		
Subsidiaries		
Local Investment Fund	61%	57%
Attunga Power & Enviro Fund	97%	93.60%
Quentin Ayers "Baring Asia Private Equity Fund V" Client Investment Trust	100%	100%
Quentin Ayers "Cerberus Loan Opportunities" Client Investment Trust	100%	-
Quentin Ayers "Golden Gate Capital Opportunity Fund-A, L.P." Client Investment Trust	100%	-
Quentin Ayers "ICE Focus EM Credit Fund" Client Investment Trust	100%	-
Quentin Ayers "ICE Focus EM Distressed Fund" Client Investment Trust	100%	-
Quentin Ayers "Quadrant Private Equity Fund No 3" Client Investment Trust	100%	100%

Report by the Independent 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 2012 as set out on pages 4 to 43.

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 A.

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 control relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

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

Auditor's opinion

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards, the financial position of Local Government Superannuation Scheme Pool A and the consolidated entity as at 30 June 2012 and the results of their operations and their cash flows for the year ended 30 June 2012.



DELOITTE TOUCHE TOHMATSU



S C Woodhouse
Partner
Chartered Accountants
Sydney, 25 October 2012