

**Local Government Superannuation Scheme
Pool B**

Financial Report

For The Year Ended 30 June 2012

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

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LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

TRUSTEE'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

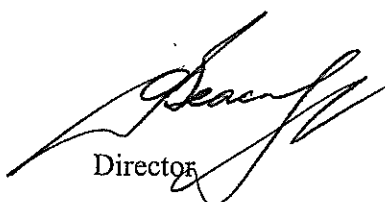
In the opinion of the directors of the Trustee of the Local Government Superannuation Scheme Pool B:

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, Fixed-Out Performance Cash Fund (up to 19 April 2012) 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 2012 and the Statement of Changes in Net Assets for the year ended 30 June 2012;
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 25th day of October 2012


Director


Director

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012**

	Note	Consolidated		Scheme	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
Investment Revenue					
Interest Revenue		2,470	9,574	495	933
Dividend Revenue		79	79	79	79
Trust Distributions		57,517	217,549	72,704	225,552
Property Revenue		61,857	60,643	-	-
Changes in Net Market Value of Investments	5	(112,635)	38,111	(109,386)	45,705
Other Investment Revenue		168	589	-	-
Total Investment Revenue		<u>9,456</u>	<u>326,545</u>	<u>(36,108)</u>	<u>272,269</u>
Direct Investment Expenses	2(g)	(28,839)	(43,532)	(399)	(7,136)
Net Investment Revenue		<u>(19,383)</u>	<u>283,013</u>	<u>(36,507)</u>	<u>265,133</u>
Contributions Revenue					
Employer Contributions	6	162,038	191,065	162,038	191,065
Member Contributions	6	10,914	12,529	10,914	12,529
Transfers From Other Funds	6	9,112	6,674	9,112	6,674
Total Contributions Revenue		<u>182,064</u>	<u>210,268</u>	<u>182,064</u>	<u>210,268</u>
Other Revenue		12	32	12	32
Total Revenue		<u>162,693</u>	<u>493,313</u>	<u>145,569</u>	<u>475,433</u>
Benefits Paid and Expenses					
Benefits Paid		(273,085)	(246,268)	(273,085)	(246,268)
Superannuation Contributions					
Surcharge Expense		101	(8)	101	(8)
Administration Expenses	2(g)	(18,098)	(28,677)	(13,243)	(18,182)
Total Benefits Paid and Expenses		<u>(291,082)</u>	<u>(274,953)</u>	<u>(286,227)</u>	<u>(264,458)</u>
Increase in Net Assets for the Year Before Income Tax and Minority Interest					
Income Tax Expense	4(a)	(128,389)	218,360	(140,658)	210,975
		<u>(15,930)</u>	<u>(43,829)</u>	<u>(14,948)</u>	<u>(48,820)</u>
Increase in Net Assets for the Year After Income Tax Before Minority Interest					
		<u>(144,319)</u>	<u>174,531</u>	<u>(155,606)</u>	<u>162,155</u>
Minority Interest		11,287	12,376	-	-
Increase in Net Assets for the Year		<u>(155,606)</u>	<u>162,155</u>	<u>(155,606)</u>	<u>162,155</u>
Net Assets Available to Pay Benefits at the Beginning of the Financial Year		<u>2,893,374</u>	<u>2,731,219</u>	<u>2,893,374</u>	<u>2,731,219</u>
Net Assets Available to Pay Benefits at the End of the Financial Year		<u>2,737,768</u>	<u>2,893,374</u>	<u>2,737,768</u>	<u>2,893,374</u>

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

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

**STATEMENT OF NET ASSETS
AS AT 30 JUNE 2012**

		Consolidated		Scheme	
	Note	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Investments					
Unlisted Securities and Unit Trusts	11 (a)	2,316,698	2,582,321	2,648,315	2,846,329
Fixed Interest Securities	11 (a)	16,622	11,459	-	-
Property Investments	11 (b)	529,439	521,920	-	-
Total Investments		<u>2,862,759</u>	<u>3,115,700</u>	<u>2,648,315</u>	<u>2,846,329</u>
Other Assets					
Cash and Cash Equivalents		50,855	53,592	14,364	18,795
Interest Receivable		-	168	-	-
Other Receivables	12	19,941	8,179	990	149
Deferred Tax Asset	4(c)	87,266	80,727	83,262	75,741
Total Other Assets		<u>158,062</u>	<u>142,666</u>	<u>98,616</u>	<u>94,685</u>
Total Assets		<u>3,020,821</u>	<u>3,258,366</u>	<u>2,746,931</u>	<u>2,941,014</u>
Less Liabilities					
Payables	13	5,916	11,392	258	4,681
Deposits from Clients		-	60,323	-	-
Employee Benefits	14	-	129	-	-
Other Financial Liabilities	15	68,923	66,252	-	-
Current Tax Liability	4(b)	8,905	42,959	8,905	42,959
Total Liabilities		<u>83,744</u>	<u>181,055</u>	<u>9,163</u>	<u>47,640</u>
Net Assets Available Before Minority Interest		<u>2,937,077</u>	<u>3,077,311</u>	<u>2,737,768</u>	<u>2,893,374</u>
Less Minority Interest		199,309	183,937	-	-
Net Assets Available to Pay Benefits	9	<u>2,737,768</u>	<u>2,893,374</u>	<u>2,737,768</u>	<u>2,893,374</u>

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

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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 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 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 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

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 B
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 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 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 119 Employee Benefits (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)' and AASB 2011-11 'Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements'	1 January 2013	30 June 2014
AASB 13 Fair Value Instruments and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-02 '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.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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

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), Fixed-Out Performance Cash Fund (up to 19 April 2012) 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.

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.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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 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 on a recognised exchange 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.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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 are recognised in the Statement of Net Assets and represent only those benefits where the benefit has been processed but has not yet been paid to members.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

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.

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

(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 surchargeable 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; and
- ii) Receivables and payables are stated with any applicable GST included in their carrying amounts.

The amount of any GST recoverable from, or payable to, the Australian Taxation Office is included as an asset or liability in the Statement of Net Assets.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

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 as a receivable.

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).

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

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.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Borrowings

Borrowings are recorded 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 N.A. (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 and compliance services for the Scheme. During the financial year LGSS Pty Limited provided financial planning services for the Consolidated Scheme.

The principal place of business of the Scheme is:

Level 12
28 Margaret Street
SYDNEY NSW 2000

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

4. INCOME TAX

	Consolidated		Scheme	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
(a) Income Tax Recognised in Statement of Changes in Net Assets				
Tax expenses comprise:				
Current Tax Expense	22,469	49,702	22,469	48,707
Deferred Tax (Benefit)/Expense	<u>(6,539)</u>	<u>(5,873)</u>	<u>(7,521)</u>	<u>113</u>
Total Income Tax Expense	<u>15,930</u>	<u>43,829</u>	<u>14,948</u>	<u>48,820</u>

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	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Increase in Net Assets for the Year Before Income Tax and Minority Interest	<u>(128,389)</u>	<u>218,360</u>	<u>(140,658)</u>	<u>210,975</u>
Income Tax Expense Calculated at 15%	(19,258)	32,754	(21,099)	31,646
Difference in Tax Rates	(316)	(117)	-	-
Non Taxable Income – Controlled Entities (Minority Interest)	(2,156)	(1,225)	-	-
Transfers In	(1,367)	(826)	(1,367)	(826)
Non-assessable Contributions	(1,637)	(1,879)	(1,637)	(1,879)
Benefit Payments	40,963	36,940	40,963	36,940
Tax on Grossed Up Imputation and Foreign Tax Credits Income	1,590	2,106	1,590	2,106
Death and Invalidity Insurance Deductions	(124)	(225)	(124)	(225)
Contributions Surcharge	(15)	1	(15)	1
Non Deductible Expenditures	1,954	495	49	102
Non-assessable Pension Related Investment Income	(649)	(1,596)	(649)	(1,596)
Non-assessable/Deductible Investment (Revenue)/Losses	7,658	(3,112)	7,658	(3,112)
Over Provision Last Year	(195)	(1,562)	(192)	(313)
Imputation and Foreign Tax Credits	(10,229)	(14,024)	(10,229)	(14,024)
Reversal of Impairment of Deferred Tax Balances	-	(3,901)	-	-
Recognition of Prior Year Deferred Tax Balances	<u>(289)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income Tax Expense	<u>15,930</u>	<u>43,829</u>	<u>14,948</u>	<u>48,820</u>

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
(b) Current Tax Balances:				
Current Tax Liability	<u>8,905</u>	<u>42,959</u>	<u>8,905</u>	<u>42,959</u>
	<u>8,905</u>	<u>42,959</u>	<u>8,905</u>	<u>42,959</u>

(c) Deferred Tax Balances:

Deferred Tax Asset Comprises:
Temporary Differences

	<u>87,266</u>	<u>80,727</u>	<u>83,262</u>	<u>75,741</u>
	<u>87,266</u>	<u>80,727</u>	<u>83,262</u>	<u>75,741</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	79,023	8,296	87,319
Provisions	<u>1,704</u>	<u>(1,757)</u>	<u>(53)</u>
	<u>80,727</u>	<u>6,539</u>	<u>87,266</u>
30 June 2011			
Net Deferred Tax Asset			
Unrealised Taxable Capital Losses/(Gains)	75,313	3,710	79,023
Provisions	<u>542</u>	<u>1,162</u>	<u>1,704</u>
	<u>75,855</u>	<u>4,872</u>	<u>80,727</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

4. INCOME TAX (continued)

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

Scheme	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
30 June 2012			
Net Deferred Tax Asset/(Liability)			
Unrealised Taxable Capital Losses/(Gains)	75,084	8,249	83,333
Provisions	657	(728)	(71)
	<u>75,741</u>	<u>7,521</u>	<u>83,262</u>
30 June 2011			
Net Deferred Tax Asset/(Liability)			
Unrealised Taxable Capital Losses/(Gains)	75,313	(229)	75,084
Provisions	542	115	657
	<u>75,855</u>	<u>(114)</u>	<u>75,741</u>

5. CHANGES IN NET MARKET VALUE OF INVESTMENTS

Consolidated

30 June 2012	Unrealised at Reporting Date Gain/(Loss) \$'000	Realised During the Year Gain/(Loss) \$'000	Total \$'000
Unlisted Securities and Trusts	(98,823)	(5,281)	(104,104)
Property Investments	(6,139)	-	(6,139)
Other	(2,392)	-	(2,392)
	<u>(107,354)</u>	<u>(5,281)</u>	<u>(112,635)</u>

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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FOR THE YEAR ENDED 30 JUNE 2012

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

Consolidated

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

Scheme

30 June 2012	Unrealised at Reporting Date Gain/(Loss) \$'000	Realised During the Year Gain/(Loss) \$'000	Total \$'000
Unlisted Unit Trusts	(94,268)	(6,134)	(100,402)
Unlisted Securities	(8,446)	-	(8,446)
Unlisted Property Trusts	(538)	-	(538)
	<u>(103,252)</u>	<u>(6,134)</u>	<u>(109,386)</u>

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
	<u>35,992</u>	<u>9,713</u>	<u>45,705</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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6. SCHEME FUNDING ARRANGEMENTS

For years ended 30 June 2012 and 30 June 2011, 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 (2011: between 1% and 9%).

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2011/12 employers contributed at the standard contribution rate (1.9 times employee contributions). In 2010/11 employers contributed at double the “nominal” contribution rate (3.8 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 2011/12 employers contributed at the “nominal” contribution rate (2.5% of superable salary). In 2010/11 employers contributed at double the “nominal” contribution rate (5% 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 (2011: exceed 6%).

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2011/12 employers contributed at the “nominal” contribution rate (1.64 times employee contributions). In 2010/11 employers contributed at double the “nominal” contribution rate (3.28 times employee contributions).

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7. REMUNERATION OF AUDITORS

	Consolidated		Scheme	
	2012 \$	2011 \$	2012 \$	2011 \$
Audit of financial reports				
LGSS Pool B Audit	76,846	94,251	76,846	94,251
LIF Audit	-	25,392	-	25,392
LGPF Audit	32,450	34,159	-	34,159
LGFS Audit	88,655	76,109	-	-
Other regulatory services				
LGSS Pool B RMS / RMP	-	11,826	-	11,826
LGSS DRS	-	9,164	-	9,164
LGSS PTY LIMITED AFSL	-	5,508	-	5,508
	<u>197,951</u>	<u>256,409</u>	<u>76,846</u>	<u>180,300</u>
Other Auditors				
LGDT Audit	25,178	24,714	-	-
LGST Audit	-	-	-	-
LIF Audit	-	10,290	-	10,290
LGSS Pool B Audit	-	2,135	-	2,135
	<u>25,178</u>	<u>37,139</u>	<u>-</u>	<u>12,425</u>

Note: In the current year, the allocation of the audit fee has been charged as 57% for LGSS Pool A and 43% for LGSS Pool B (2011: 53% for LGSS Pool A and 47% for LGSS Pool B).

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

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

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.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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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.

	2012	2011
	\$'000	\$'000
As at 30 June	<u>*2,374,714</u>	<u>*2,459,288</u>
Net Assets of the Scheme as at 30 June	<u>2,737,768</u>	<u>2,893,374</u>

* Excludes benefits for pension where the Actuary has estimated the liability to be \$151.96 million (2011: \$135.29 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 2012 financial year was \$402,320 (2011: \$824,429).

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 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 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 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.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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10. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION (continued)

	Consolidated		Scheme	
	2012	2011	2012	2011
	\$	\$	\$	\$
(c) Compensation Received				
Short term Benefits	1,438,046	1,459,868	1,242,997	1,189,828
Post Employment Benefits	120,696	107,920	107,859	82,590
	<u>1,558,742</u>	<u>1,567,788</u>	<u>1,350,856</u>	<u>1,274,418</u>

The total group compensation due and receivable by Directors of LGSS Pty Limited and the key management personnel (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 ceased to be a related party of the Scheme for the year ended 30 June 2011.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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10. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION (continued)

(e) Other Related Party Transactions (continued)

During the period 1 July 2011 to 30 June 2012, FuturePlus Financial Services Pty Limited was not paid any investment management and administration fees (2011: \$5,312,024), from Local Government Superannuation Scheme Pool B. The fees are based on the cost to the relevant entity of providing these services. During the same financial year, the Consolidated Scheme paid \$14,063,110 to LGSS Pty Limited for administration and employee entitlements (2011: \$9,728,583).

LIF Pty Limited is the Trustee of the Local Government Property Fund, in which the Scheme has an investment of \$278,989,619 (2011: \$304,495,489). During the current year a distribution of \$16,689,624 (2011: distribution of \$15,336,085) has been made by the Local Government Property Fund to Local Government Superannuation Scheme Pool B.

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 \$46,900,000 (2011: \$47,055,200).

During the year LGFS entered into the following transactions with related entities. LGFS paid Nil (2011: \$65,219) in recharged rent and on costs and Nil (2011: \$87,816) accounting fee to FuturePlus Financial Services Pty Limited. During the same year, LGFS paid \$126,290 to LGSS Pty Limited for administration and employee entitlements. LGFS, as indemnifier in the Return Support Agreement, provided the Fixed Out-Performance Cash Fund of Nil (2011: \$63,799,076) as a loan. LGFST Pty Limited, a fully owned subsidiary of the company, is the trustee of the LGFS Facilities Trust. LGFST Pty Limited was deregistered on 6 March 2012 and the Trust was terminated on 14 December 2011.

Included within the investments of Local Government Superannuation Scheme Pool B are amounts held with Local Investment Fund \$2,278,038,118 (2011: \$2,445,179,758). Distributions received from Local Investment Fund were \$53,024,559 (2011: \$210,106,686).

On the 1 July 2005 Hawkesbridge Limited was appointed as Private Equity Manager for the Scheme. As at 30 June 2012 the Scheme has invested a total of \$757,263 (2011: \$757,263), representing 9.8% (2011: 9.8%) of total capital in Hawkesbridge Limited. C Turnbull, Chief Investment Officer of the Scheme is also one of the directors of 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. The FOPCF was terminated up on 30 April 2012. LG Investment Fund Pty Limited, the Trustee of FOPCF, has lodged documents with ASIC to be deregistered.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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11. INVESTMENTS

(a) Total Investments

	Consolidated		Scheme	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Unlisted Securities and Trusts	2,316,698	2,582,321	2,648,315	2,846,329
Fixed Interest Securities	16,622	11,459	-	-
Property Investments	529,439	521,920	-	-
Total Investments Valued at Net Market Value	<u>2,862,759</u>	<u>3,115,700</u>	<u>2,648,315</u>	<u>2,846,329</u>

	Consolidated		Scheme	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Unlisted Securities and Trusts				
Units in Unlisted Australian Fixed Interest Trusts	5,732	87,570	-	-
Units in Unlisted Australian Securities and Trust	2,310,966	2,494,751	2,369,325	2,541,834
Units in Unlisted Australian Property Funds	-	-	278,990	304,495
Total Unlisted Securities and Trusts	<u>2,316,698</u>	<u>2,582,321</u>	<u>2,648,315</u>	<u>2,846,329</u>

	Consolidated		Scheme	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Fixed Interest Securities				
Australian Fixed Interest Securities Listed on a Prescribed Stock Exchange	16,622	11,459	-	-
Total Fixed Interest Securities	<u>16,622</u>	<u>11,459</u>	<u>-</u>	<u>-</u>

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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11. INVESTMENTS (continued)

b) Property Investments

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

2012 – Property Investment	Opening Balance \$'000	Additions \$'000	Disposals \$'000	Net gain/(loss) from fair value \$'000	Closing balance \$'000
Leichhardt Marketplace, Leichhardt	77,014	3,603	-	(2,989)	77,628
100 Christie Street, St Leonards	45,617	(336)	-	736	46,017
76 Berry Street, North Sydney	61,180	2,172	-	(1,648)	61,704
Allambie Grove Business Park, Frenchs Forest	38,787	247	-	(269)	38,765
28 Margaret Street, Sydney	32,323	317	-	2,520	35,160
2 Lyon Park Road, North Ryde	41,092	85	-	1,561	42,738
Sturt Mall, Wagga Wagga	48,007	1,630	-	276	49,913
181 Miller Street, North Sydney	60,176	2,161	-	96	62,433
120 Sussex Street, Sydney	39,187	491	-	(275)	39,403
Bridge Plaza, Batemans Bay	12,629	251	-	(419)	12,461
Village Centre, Batemans Bay	65,908	645	-	(3,336)	63,217
TOTAL PROPERTY INVESTMENTS	521,920	11,266	-	(3,747)	529,439

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

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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 2012 \$'000
Leichhardt Marketplace, Leichhardt	June 2003	June 2012	JLL	79,000	77,628
100 Christie Street, St Leonards	June 2003	June 2012	JLL	45,500	46,017
76 Berry Street, North Sydney	June 2003	June 2012	CBRE	62,300	61,704
Allambie Grove Business Park, Frenchs Forest	June 2003	June 2012	JLL	40,000	38,765
28 Margaret Street, Sydney	June 2003	June 2012	KF	35,000	35,160
2 Lyon Park Road, North Ryde	June 2003	June 2012	Savills	43,500	42,738
Sturt Mall, Wagga Wagga	June 2003	June 2012	KF	50,000	49,913
181 Miller Street, North Sydney	May 2007	June 2012	KF	63,000	62,433
120 Sussex Street, Sydney	August 2007	June 2012	Colliers	38,500	39,403
Bridge Plaza, Batemans Bay	August 2008	June 2012	CBRE	12,300	12,461
Village Centre, Batemans Bay	August 2008	June 2012	CBRE	62,500	63,217
TOTAL				<u>531,600</u>	<u>529,439</u>

12. OTHER RECEIVABLES

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Other Receivables	14,136	2,699	990	149
Accrued Rent and Lease Incentives	5,805	5,480	-	-
Total Other Receivables	<u>19,941</u>	<u>8,179</u>	<u>990</u>	<u>149</u>

13. PAYABLES

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Accruals	3,996	5,115	-	2,764
Interest	-	65	-	-
Other Payables	1,920	6,212	258	1,917
Total Payables	<u>5,916</u>	<u>11,392</u>	<u>258</u>	<u>4,681</u>

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14. EMPLOYEE BENEFITS

	Consolidated		Scheme	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current Liability				
Annual Leave	-	20	-	-
Long Service Leave	-	109	-	-
	<u>-</u>	<u>129</u>	<u>-</u>	<u>-</u>
Non Current Liability				
Long Service Leave	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Derivatives	3,923	1,252	-	-
Loans	65,000	65,000	-	-
Total Other Financial Liabilities	<u>68,923</u>	<u>66,252</u>	<u>-</u>	<u>-</u>

The current \$65M bank loan has been refinanced for 3 years beginning 17/10/11 expiring 15/10/14. The interest rate is the 90 day BBSY rate plus 0.89% and there is a 0.89% 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.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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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 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 Statement of Changes in Net Assets.

(e) Financial Risk Management Objectives

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

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

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

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

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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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 Consolidated Scheme's exposure to liquidity risk and policies in managing this risk are aligned and are detailed below.

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

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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
2012					
Vested Benefits	2,374,714	-	-	-	2,374,714
Other					
Other Payables	5,916	-	-	-	5,916
Derivatives	99	-	3,824	-	3,923
Loans	-	-	65,000	-	65,000
Current Tax Liability	-	8,905	-	-	8,905
Minority Interest	199,309	-	-	-	199,309
Total	2,580,038	8,905	68,824	-	2,657,767
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	42,959	66,252	-	2,824,151

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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
2012					
Vested Benefits	2,374,714	-	-	-	2,374,714
Other					
Accruals	-	-	-	-	-
Other Payables	258	-	-	-	258
Current Tax Liability	-	8,905	-	-	8,905
Total	2,374,972	8,905	-	-	2,383,877
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

Liquidity and Interest Rates Tables

The following tables detail 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.

Shares in listed corporation, 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	Total
	%	\$'000	\$'000	\$'000	\$'000	\$'000
2012						
Non-interest bearing		-	5,269	-	3,644	8,913
Variable interest rate instruments	7.63	-	-	-	65,000	65,000
Total			5,269	-	68,644	73,913

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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
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

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

Consolidated	Weighted average effective interest rate	Less than 1 month	1 - 6 months	6 months to 1 year	1 - 5 years	5+ years	Total
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2012							
Non-interest bearing		4,054	-	-	-	-	4,054
Variable interest rate instruments	3.77	15,907	-	1,290	9,454	-	26,651
Fixed Interest rate instruments	4.69	5,000	-	4,964	727	-	10,691
Total		24,961	-	6,254	10,181	-	41,396

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		-	88,824	-	-	-	88,824
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	89,824	2,262	5,623	840	107,134

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

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.

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 our disclosures in the financial report to the actual practices that are utilised throughout the year to manage risk exposure 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.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

16. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

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 \$'000	2011 \$'000
Interest rate risk	+2%	(8,888)	(6,254)
Interest rate risk	-2%	8,888	6,254

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 maturity of the loan and related swap contracts, that have been entered into to reduce entity's exposure to adverse changes in interest rates is not in line. As a result, the Consolidated Scheme is exposed to interest rate risk as the notional values of interest rate swap contracts are higher than the bank loan balance.

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	
	2012	2011	2012	2011	2012	2011
Loan	7.63%	4.8%	65,000	65,000	65,000	65,000
Interest rate swap:						
2 to 5 years	5.5%	5.95%	65,000	65,000	(3,644)	(1,252)
2 to 5 years	-	-	-	-	-	-

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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16. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

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.

Interest Income

The Scheme recorded interest income of \$494,493 for the year (2011: \$933,614). This income primarily comes from the cash assets held by the Scheme.

Foreign Currency Risk Management

The Consolidated 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.

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%	(1,026)	(231)	(102)	(37)	
Forex Risk	-10%	1,026	231	102	37	

	Change in Variable	Effect on Change in Net Assets				
		+/-	EUR Impact		GBP Impact	
			2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000	
Forex Risk	+10%	(230)	102	86	93	
Forex Risk	-10%	230	(102)	(86)	(93)	

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FOR THE YEAR ENDED 30 JUNE 2012**

16. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

There have been no significant changes to the foreign currency sensitivity from the prior year.

Other Market Risk

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

The Consolidated 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 Consolidated 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 Consolidated 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%	203,026	190,777
Equity Price Risk	-10%	(203,026)	(190,777)

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).

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16. FINANCIAL RISK MANAGEMENT (continued)

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

30 June 2012 Consolidated	Level 1	Level 2	Level 3	Total
Financial Assets	\$'000	\$'000	\$'000	\$'000
Unlisted Securities and Trusts	-	2,282,092	34,606	2,316,698
Fixed Interest Securities	-	16,622	-	16,622
Total	-	2,298,714	34,606	2,333,320
Financial Liabilities				
Derivatives	-	3,644	-	3,644
Total	-	3,644	-	3,644

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 2012 Scheme	Level 1	Level 2	Level 3	Total
Financial Assets	\$'000	\$'000	\$'000	\$'000
Unlisted Securities and Trusts	-	2,278,038	370,277	2,648,315
Total	-	2,278,038	370,277	2,648,315

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

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

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

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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FOR THE YEAR ENDED 30 JUNE 2012**

16. FINANCIAL RISK MANAGEMENT (continued)

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

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

30 June 2012 Consolidated	Total
	\$'000
Opening balance	48,318
Purchases/Applications	1,440
Sales/Redemptions	(3,815)
Transfers in/out level 3	-
Total gains/(losses)	(11,337)
Closing balance	34,606
Total gains/(losses) recognised in the Statement of changes in Net Assets for assets held at the end of the year	(11,337)

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 2012 Scheme	Total
	\$'000
Opening balance	401,149
Purchases/Applications	2,250
Sales/Redemptions	(43,897)
Transfers in/out level 3	-
Total gains/(losses)	10,775
Closing balance	370,277
Total gains/(losses) recognised in the Statement of changes in Net Assets for assets held at the end of the year	10,775

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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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

17. 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.

All parties have made their submissions to the court and are now awaiting judgement.

There are outstanding commitments in Hawkesbridge Private Equity Fund 3 of \$1,954,268 as at 30 June 2012 (2011: \$4,288,324).

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B
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18. SUBSIDIARIES

Name of Entity	2012 Ownership Interest %	2011 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%
Local Government Property Fund	59%	63%

* The Scheme has no ownership interest in the FOPCF, however controls the entity through the return support agreement which was cancelled on 19 April 2012. LGFS also manages the portfolio of the FOPCF.

Report by the Independent 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 and the consolidated entity for the year ended 30 June 2012 as set out on pages 4 to 40.

Trustee's responsibility for the financial statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards 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 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.

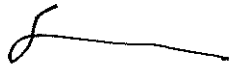
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditor's opinion

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards, the net assets of Local Government Superannuation Scheme Pool B and the consolidated entity as at 30 June 2012 and the changes in net assets for the year ended 30 June 2012.



DELOITTE TOUCHE TOHMATSU



S C Woodhouse
Partner
Chartered Accountants
Sydney, 25 October 2012