# Local Government Super
## (ABN 28 901 371 321)

Financial Statements for the Year Ended 30 June 2018

Issued by LGSS Pty Limited (ABN 68 078 003 497) as Trustee for Local Government Super

**LOCAL GOVERNMENT SUPER**
**Financial Statements for the year ended 30 June 2018**

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## LOCAL GOVERNMENT SUPER

### Statement of Financial Position
### As at 30 June 2018

| | Note | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 15 | 109,186 | 92,420 |
| Receivables | 8 | 3,735 | 3,282 |
| Investments | | | |
| Cash and Short Term Deposits | | 1,866,735 | 1,678,081 |
| Other Interest Bearing Securities | 7 | 1,929,168 | 1,748,403 |
| Australian Equities | 7 | 4,197,896 | 3,123,168 |
| International Equities | 7 | 2,920,250 | 2,276,333 |
| Australian Unit Trusts | 7 | 168,192 | 1,177,471 |
| International Unit Trusts | 7 | 303,293 | 330,097 |
| Derivative Assets | 7 | 23,091 | 78,400 |
| Deferred tax assets | 10 | 2,364 | 204 |
| **Total assets** | | 11,523,910 | 10,507,859 |
| **Liabilities** | | | |
| Payables | 9 | (11,376) | (4,671) |
| Derivative Liabilities | 7 | (85,204) | (16,868) |
| Income tax payable | | (45,485) | (14,839) |
| Deferred tax liabilities | 10 | (52,063) | (41,600) |
| **Total liabilities excluding member benefits** | | (194,128) | (77,978) |
| **Net assets available for member benefits** | | 11,329,782 | 10,429,881 |
| **Member benefits** | | | |
| Defined contribution member liabilities | 3 | (7,668,819) | (6,924,978) |
| Defined benefit member liabilities | 4 | (3,532,201) | (3,423,390) |
| Unallocated to members | 4 | (838) | (2,230) |
| Total member liabilities | | (11,201,858) | (10,350,598) |
| **Total net assets** | | **127,924** | **79,283** |
| **Equity** | | | |
| Other reserves | 6 | 8,217 | 1,792 |
| Operational risk reserve | 6 | 33,010 | 27,241 |
| Defined benefits that are overfunded | 5 | 86,697 | 50,250 |
| **Total equity** | | **127,924** | **79,283** |

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

# LOCAL GOVERNMENT SUPER

## Income Statement
## For the year ended 30 June 2018

| | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Superannuation activities** | | | |
| Interest | | 73,465 | 42,263 |
| Dividend revenue | | 106,998 | 54,065 |
| Distributions from unit trusts | | 271,888 | 1,608,867 |
| Changes in assets measured at fair value | 11 | 472,889 | (716,258) |
| Other investment income | | 6,675 | 2,104 |
| Other income | | 261 | 99 |
| **Total superannuation activities income** | | **932,176** | **991,140** |
| Administration expenses | | (6,942) | (6,720) |
| Investment expenses | | (35,899) | (12,379) |
| Operating expenses | 13 | (27,383) | (28,486) |
| Anti-detriment expenses | | (655) | (1,192) |
| **Total expenses** | | **(70,879)** | **(48,777)** |
| **Net result from superannuation activities** | | **861,297** | **942,363** |
| **Profit from operating activities** | | **861,297** | **942,363** |
| Net change in Defined Benefit member liabilities | | (265,607) | (212,914) |
| Net benefits allocated to Defined Contribution member accounts | | (507,459) | (546,001) |
| **Profit before income tax** | | **88,231** | **183,448** |
| **Income tax expense** | 10 | 39,590 | 54,705 |
| **Profit after income tax** | | **48,641** | **128,743** |

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

## LOCAL GOVERNMENT SUPER

**Statement of Changes in Member Benefits**
**For the year ended 30 June 2018**

| | Defined Contribution Members ("DC") $'000 | Defined Benefit Members ("DB") $'000 | Total $'000 |
|---|---|---|---|
| **Opening balance as at 1 July 2017** | 6,924,978 | 3,425,620 | 10,350,598 |
| Contributions: | | | |
| Employer | 343,693 | 126,240 | 469,933 |
| Member | 128,445 | 10,367 | 138,812 |
| Transfer from other superannuation plans | 284,637 | 11,584 | 296,221 |
| Government co-contributions | 353 | 28 | 381 |
| Income tax on contributions | (48,917) | (18,831) | (67,748) |
| **Net after tax contributions** | **708,211** | **129,388** | **837,599** |
| Benefits to members/beneficiaries | (488,888) | (273,006) | (761,894) |
| Transfer from defined benefit to defined contribution | 14,570 | (14,570) | - |
| Insurance premiums charged to members' accounts | (13,743) | - | (13,743) |
| Death and disability insurance benefits credited to members' accounts | 16,232 | - | 16,232 |
| Benefits allocated to members' accounts, comprising: | | | |
| Net investment income | 514,158 | 286,268 | 800,426 |
| Administration fees | (6,699) | (1,103) | (7,802) |
| Actuarial Deficiency ** | - | (19,558) | (19,558) |
| **Closing balance as at 30 June 2018** | **7,668,819** | **3,533,039** | **11,201,858** |

| | Defined Contribution Members ("DC") $'000 | Defined Benefit Members ("DB") $'000 | Total $'000 |
|---|---|---|---|
| **Opening balance as at 1 July 2016** | 6,065,461 | 3,373,915 | 9,439,376 |
| Contributions: | | | |
| Employer | 341,763 | 137,357 | 479,120 |
| Member | 168,717 | 17,712 | 186,429 |
| Transfer from other superannuation plans | 310,248 | 10,160 | 320,408 |
| Government co-contributions | 269 | 61 | 330 |
| Income tax on contributions | (47,536) | (20,649) | (68,185) |
| **Net after tax contributions** | **773,461** | **144,641** | **918,102** |
| Benefits to members/beneficiaries | (458,233) | (305,850) | (764,083) |
| Insurance premiums charged to members' accounts | (18,019) | - | (18,019) |
| Death and disability insurance benefits credited to member's accounts | 16,307 | - | 16,307 |
| Benefits allocated to members' accounts, comprising: | | | |
| Net investment income | 552,751 | 323,623 | 876,374 |
| Administration fees | (6,750) | (1,182) | (7,932) |
| Refund from ORFR Reserve * | - | 1,000 | 1,000 |
| Actuarial Deficiency ** | - | (110,507) | (110,507) |
| Net change in DB member benefits | - | (20) | (20) |
| **Closing balance as at 30 June 2017** | **6,924,978** | **3,425,620** | **10,350,598** |

* In line with the Fund's Operational Risk Financial Requirement ("ORFR") policy, which has been reviewed annually by the Fund's actuary, Mercer, a one-time transfer from the ORFR Reserve to the Employer Reserve occurred on 21 June 2017.

** Actuarial Deficiency equates to the relative change in the value of the net assets and the related defined benefit accrued liability.

The above Statement of Changes in Member Benefits should be read in conjunction with the accompanying notes.

# LOCAL GOVERNMENT SUPER

## Statement of Changes in Reserves
## For the year ended 30 June 2018

| | Defined Benefits that are overfunded $'000 | Other reserves $'000 | ORFR $'000 | Total equity $'000 |
|---|---|---|---|---|
| **Opening balance as at 1 July 2017** | 50,250 | 1,792 | 27,241 | 79,283 |
| Increase in DB member accounts | (265,607) | - | - | (265,607) |
| Operating result | 302,054 | 6,425 | 5,769 | 314,248 |
| **Closing balance as at 30 June 2018** | **86,697** | **8,217** | **33,010** | **127,924** |

| | Defined Benefits that are overfunded/ $'000 | Other reserves $'000 | ORFR $'000 | Total equity $'000 |
|---|---|---|---|---|
| **Opening balance as at 1 July 2016** | (78,469) | 2,062 | 26,947 | (49,460) |
| Increase in DB member accounts | (212,914) | - | - | (212,914) |
| Operating result | 341,633 | (270) | 294 | 341,657 |
| **Closing balance as at 30 June 2017** | **50,250** | **1,792** | **27,241** | **79,283** |

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

## LOCAL GOVERNMENT SUPER

### Statement of Cash Flows
### For the year ended 30 June 2018

| | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest from cash and cash equivalents | | 73,465 | 42,263 |
| Administration expenses | | (34,236) | (34,797) |
| Insurance Proceeds | | 16,452 | 16,340 |
| Insurance Premiums | | (14,046) | (18,153) |
| Other (expenses) / income | | (193) | 74 |
| Anti-detriment expenses | | (655) | (1,192) |
| Income tax (paid) | | (641) | (31,745) |
| **Net cash inflows/(outflows) from operating activities** | 15 | 40,146 | (27,210) |
| **Cash flows from investing activities** | | | |
| Purchase of investments | | (2,370,949) | (1,371,589) |
| Proceeds from sale of investments | | 2,307,763 | 1,247,755 |
| Investment expenses | | (35,899) | (12,379) |
| **Net cash outflows from investing activities** | | (99,085) | (136,213) |
| **Cash flows from financing activities** | | | |
| Employer contributions | | 469,933 | 479,120 |
| Member contributions | | 138,812 | 186,429 |
| Transfers from other superannuation plans received | | 296,221 | 320,408 |
| Government co-contributions received | | 381 | 330 |
| Benefits paid to members | | (761,894) | (764,083) |
| Income tax paid on contributions received | | (67,748) | (68,185) |
| **Net cash inflows from financing activities** | | 75,705 | 154,019 |
| **Net increase / (decrease) in cash** | | 16,766 | (9,404) |
| **Cash at the beginning of the financial period** | | 92,420 | 101,824 |
| **Cash at the end of the financial period** | 15 | **109,186** | **92,420** |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

## 1. Operation of the Fund

Local Government Super ("LGS" or "the Fund") consists primarily of members who are employed by an LGS participating employer, as well as a public offer division which is open for anyone who is eligible to join a superannuation fund.

The Fund 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 Fund. During the financial year, LGSS Pty Limited also provided financial planning services to the Fund.

LIF Pty Limited, a subsidiary of LGSS Pty Limited acts as Trustee of Local Government Property Fund ("LGPF"). LIF Pty Limited also acted as Trustee for Local Investment Fund ("LIF") until the entity vested on 31 March 2017. The assets and liabilities of LIF were transferred to the Fund, effective 30 November 2016.

Local Government Superannuation Scheme Pool A ("LGS Pool A") executed a Successor Fund Transfer Deed dated 16 June 2016, with LGSS Pty Limited as Trustee, to transfer all of LGS Pool A's members and investments to the Fund. Following the transfer the merged fund is known as Local Government Super (formerly known as Local Government Superannuation Scheme Pool B).

The Fund consists of six divisions which are set out in the Trust Deed. The Accumulation Scheme is separated into two divisions, Division A and Division P. Division A is the division for the receipt of contributions from Scheduled Employers and Division P represents the Public Offer division. The Retirement Scheme is provided under Division B. The Retirement Scheme is a hybrid scheme consisting of both Accumulation and Defined Benefit components. The Defined Benefit Scheme is provided under Division D.

The majority of members of Divisions B and D hold a Division C account. Division C comprises the Basic Benefit, which is a Defined Benefit funded by employers, and an Other Contributions account which is an Accumulation style account which can accept non-defined contributions.

Divisions B, C and D are closed to new members, except for members of eligible entities who can transfer their entitlements into the Fund.

The LGS Account-Based Pension Plan is provided under Division F. The LGS Lifetime Guaranteed Income and LGS Fixed Term Guaranteed Income accounts ("LGS Guaranteed Income accounts") are also provided under Division F.

The Fund is a reporting entity for financial reporting purposes.

The Fund is domiciled in Australia and the address of the Fund's registered office is Level 12, 28 Margaret Street, Sydney, NSW 2000.

The Fund's custodial activities are provided by JP Morgan Chase Bank N.A. ("JP Morgan").

## 2. Summary of significant accounting policies

### (a) Basis of preparation

The Financial Statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board, the Superannuation Industry (Supervision) Act 1993 and regulations and the provisions of the Trust Deed.

The Financial Statements are presented in Australian Dollars and all values are rounded to the nearest $'000 except where otherwise indicated.

The Fund is a not-for-profit entity for the purpose of preparing Financial Statements.

The statements were approved by the Board of Directors of the Trustee, LGSS Pty Limited, on 26 September 2018.

## 2. Summary of significant accounting policies (continued)

### (b) New accounting standards and interpretations

***Accounting Standards and Interpretations issued but not yet effective***

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Fund for the annual reporting period ended 30 June 2018. The impact of these standards and interpretations has been assessed and to extent applicable to the Fund is outlined in the below table. Standards and interpretations that are not expected to have a material impact on the Fund have not been included.

| Accounting Standard and Nature | Application Date of Standard | Application Date for Fund |
|---|---|---|
| **AASB 9/IFRS 9 Financial Instruments**<br>AASB 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. Also, the IASB has addressed the key concern that arose as a result of the financial crisis that contributed to the delayed recognition of credit losses, by issuing the new impairment requirements that are based on a more forward-looking expected credit loss model.<br><br>The Fund expects that this standard will have minimal impact on the Financial Statements of the Fund. | 01-Jan-18 | 01-Jul-18 |
| **AASB 15/IFRS 15 Revenue Recognition**<br>AASB 15 replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations. AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).<br><br>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:<br>a) Step 1: Identify the contract(s) with a customer,<br>b) Step 2: Identify the performance obligations in the contract,<br>c) Step 3: Determine the transaction price,<br>d) Step 4: Allocate the transaction price to the performance obligations in the contract,<br>e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.<br><br>The Fund is assessing all revenue streams to ensure that revenue is recognised in accordance with the requirements of AASB 15. | 01-Jan-18 | 01-Jul-19 |

## 2. Summary of significant accounting policies (continued)

### (b) New accounting standards and interpretations (continued)

***Accounting Standards and Interpretations issued but not yet effective (continued)***

| Accounting Standard and Nature | Application Date of Standard | Application Date for Fund |
|---|---|---|
| **AASB 15/IFRS 15 Revenue Recognition**<br>AASB 15 provides two methods for applying the standard upon transition:<br>a) Retrospective under AASB 108<br>b) Retrospective with cumulative effect of initially applying the standard recognised at date of initial application in accordance with requirements as set out in paragraphs C7-C8 of the standard.<br><br>This is expected to have a minimal impact on the Financial Statements of the Fund. | 01-Jan-18 | 01-Jul-19 |

### (c) Consolidation

The Fund is an investment entity and, as such, does not consolidate the entities it controls. Instead the interest in its subsidiary, Local Government Property Fund, is classified as fair value through profit and loss and measured at fair value. The Fund has a controlling interest in Local Government Financial Services Pty Limited and the LG Diversified Trust. Consolidated accounts have not been prepared because the net asset values of these investments are not material to the Fund.

### (d) Financial assets and liabilities

*(i) Classification*

The Fund classifies its financial assets and financial liabilities into the categories below in accordance with AASB 139.

*Financial assets and liabilities held for trading*
These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in prices. All derivatives are classified as held for trading. Derivative financial instruments entered into by the Fund do not meet the hedge accounting criteria as defined by AASB 139. Consequently hedge accounting is not applied by the Fund.

*Financial instruments designated at fair value through profit or loss upon initial recognition*
These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with the risk management and investment strategies of the Fund.

*Receivables*
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund includes short-term receivables in this category.

*Other financial liabilities*
This category includes all financial liabilities, other than those classified at fair value through profit or loss. Other financial liabilities are measured at their nominal amounts. Amounts are generally settled within 30 days of being recognised as other financial liabilities. Given the short-term nature of other financial liabilities, the nominal amount approximates fair value.

*(ii) Recognition*

The Fund recognises a financial asset or financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the marketplace are recognised on the trade date, ie., the date that the Fund commits to purchase or sell the asset.

## 2. Summary of significant accounting policies (continued)

### (d) Financial assets and liabilities (continued)

*(iii) Derecognition*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

a) The rights to receive cash flows from the asset have expired; or
b) The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
c) Either (i) the Fund has transferred substantially all the risks and rewards of the asset, or (ii) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

*(iv) Initial recognition*

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. All transaction costs for such instruments are recognised directly in the Income Statement.

Receivables and financial liabilities (other than those classified at fair value through profit or loss) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

For financial assets and liabilities where the fair value at initial recognition does not equal the transaction price, the Fund recognises the difference in the Income Statement, unless specified otherwise.

*(v) Subsequent measurement*

After initial measurement, the Fund measures investments and derivatives at fair value through profit or loss. Subsequent changes in the fair value of those investments are recorded as 'changes in assets measured at fair value' through the Income Statement. Interest earned is recorded in 'Interest revenue' according to the terms of the contract.

### (e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy. Refer to Note 7.

### (f) Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

## 2. Summary of significant accounting policies (continued)

### (g) Receivables and payables

Receivables are carried at nominal amounts due which approximate fair value. Receivables are normally settled within 30 days. An allowance for uncollectible amounts is only made where there is objective evidence that the debt will not be collected. Objective evidence may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Payables are carried at nominal amounts which approximate fair value. They represent liabilities for goods and services provided to the Fund prior to the end of the financial year that are unpaid. Payables are normally settled on 30 day terms.

### (h) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised:

*Changes in fair value*
Changes in the fair value of investments and derivatives are calculated as the difference between the fair value at sale, or at balance date, and the fair value at the previous valuation point. All changes are recognised in the Income Statement.

*Interest*
Interest revenue on cash and other financial assets carried at fair value is recorded according to the terms of the contract and is recognised in the Income Statement.

*Dividends and distributions*
Dividend and distribution revenue is recognised when the Fund's right to receive payment is established. Revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately as part of Income tax expense in the Income Statement.

*Group Life Insurance Proceeds*
Proceeds from Insurance claims are recognised where the insurer has agreed to pay the claim lodged and has transferred the claim amount to the Fund.

### (i) Income tax

The Fund is a complying superannuation fund for the purposes of the provisions of the Income Tax Assessment Act 1997. Accordingly, the concessional tax rate of 15% has been applied to the Fund's taxable income.

Income tax in the Income Statement for the year comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- Where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2. Summary of significant accounting policies (continued)

### (i) Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### (j) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable; or
- When receivables and payables are stated with the amount of GST included.

The net amounts of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows.

### (k) Superannuation contribution surcharge

The Superannuation Laws Amendment (Abolition of Surcharge) Act 2005 abolishes both the superannuation contributions surcharge and the termination payments surcharge in respect of superannuation contributions and certain termination payments made or received on or after 1 July 2005. Assessments for surcharge in respect of contributions and payments for the year ended 30 June 2005 and prior years will continue to be issued and remain payable.

## 2. Summary of significant accounting policies (continued)

### (k) Superannuation contribution surcharge (continued)

Superannuation Contribution Surcharge is levied on surchargeable contributions for a relevant year on the basis of the individual member's adjusted taxable income for that year. The liability for the Superannuation Contribution Surcharge is recognised when the assessment is received, as the Trustee considers this is when it can be reliably measured.

The superannuation surcharge liability recognised by the Fund has been charged to the relevant members' accounts.

### (l) Foreign currency

The functional and presentation currency of the Fund is Australian Dollars, which is the currency of the primary economic environment in which it operates. The Fund's performance is evaluated and its liquidity managed in Australian Dollars. Therefore, the Australian Dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Transactions in foreign currencies are initially recorded at the functional currency spot rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rates of exchange at the reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in a previous financial report, are recognised in the Income Statement in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### (m) Member liabilities

Member liabilities are measured at the amount of accrued benefits.

Defined benefit member liabilities are measured as the amount of investments that would be required as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date, when they are expected to fall due.

Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date.

### (n) Reserves

The Fund maintains an Operational Risk Financial Requirement Reserve, in accordance with the requirements established by the Australian Prudential Regulatory Authority under Prudential Standard SPS 114 Operational Risk Financial Requirement, and also holds Administration and Insurance Reserves. More detail on Reserves is provided in Note 6.

### (o) Significant accounting judgements and estimates and assumptions

The preparation of the Fund's Financial Statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in the Financial Statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future.

The significant accounting policies have been consistently applied in the current financial year and the comparative period, unless otherwise stated. Where necessary, comparative information has been re-presented to be consistent with current period disclosures.

## 2. Summary of significant accounting policies (continued)

### (o) Significant accounting judgements and estimates and assumptions (continued)

*Fair Value of Investments*
When the fair values of the investments recorded in the Statement of Financial Position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model (DCF model). The inputs in these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to establish fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Changes in assumptions about these factors could affect the reported fair value of these investments.

*Assessment as investment entity*
Entities that meet the definition of an investment entity within AASB 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate these subsidiaries. The criteria which define an investment entity are, as follows:

- An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Fund's Product Disclosure Statement details its objective of providing services to members which includes investing in cash and short term deposits, other interest bearing securities, Australian Equities, Australian Unit Trusts and Australian Property Trusts for the purpose of returns in the form of investment income and capital appreciation.

The Fund reports to its members via an annual report, and to its management, via internal management reports, on a fair value basis. All investments are reported at fair value to the extent allowed by AASB 1056 in the Fund's annual report. The Fund has a clearly documented exit strategy for all of its investments.

The Trustee has also concluded that the Fund meets the additional characteristics of an investment entity, in that it has more than one investment; the investments are predominantly in the form of equities and similar securities; it has more than one investor and its investors are not related parties.

The Trustee has therefore concluded that the Fund meets the definition of an investment entity. These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics change.

*Valuation of defined benefits member liabilities*
The amount of member liabilities in relation to defined benefits has been determined using actuarial valuation techniques and assumptions. An actuarial valuation involves making various assumptions about the future. Actual developments in the future may differ from these assumptions. The assumptions relate to member turnover, future investment returns, pension indexation rates, mortality rates and future salary increases. Due to the complexities involved in the valuation and its long term nature, defined benefit member liabilities are highly sensitive to changes in these assumptions. Assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the actuary considers an investment portfolio that reflects the opportunities reasonably available to the Fund in the investment markets, and also reflects the Fund's actual investments and investment strategy in respect of defined benefit member liabilities.

The mortality assumption is based on publicly available mortality tables. Future salary increases are based on the Wage Price Index produced by the Australian Bureau of Statistics and in consultation with the employer-sponsors.

## 3. Defined contribution member liabilities

Defined contribution member account balances are determined by unit prices that are determined based on the underlying investment movements.

Defined contribution members bear the investment risk relating to the underlying assets and unit prices used to measure the member liabilities. Unit prices are updated weekly.

## 4. Defined benefit member liabilities

The Fund engages qualified actuaries on an annual basis to measure the defined benefit members' liabilities.

The actuarial valuation of member liabilities reflects the actuarial assessment of the benefits accrued up to the reporting date and payable to members on retirement, resignation, death and disability. This annual assessment may result in an employer being required to make additional contributions to the Fund.

The key assumptions used to determine the values of accrued benefits for the Fund were:

- The future rate of investment earnings (net of investment taxes and fees): 6.0% (2017: 6.5%)
- The future rate of salary growth: 3.5% (2017: 3.5%)
- The CPI increase assumption: 2.5% (2017: 2.5%)

The defined benefit members' liabilities have changed in the current financial year primarily as a result of the accrual of additional service, a decrease in payment of benefits from the Fund, an increase from the change in discount rate and a net increase from membership experience being different to the prior year assumptions.

The Trustee has a number of strategies in place to manage the risks associated with the defined benefit plan. The Trustee has appointed external consulting actuaries to advise on the risks, including establishing suitable funding objectives. These funding objectives and the defined benefit plan's circumstances are taken into account by the actuaries when recommending the required employer contribution levels.

The Trustee also uses sensitivity analysis to monitor the potential impact of changes to key variables about which assumptions need to be made. The Trustee has identified three assumptions for which changes are reasonably possible that would have a material impact on the amount of the defined benefit member liabilities as follows:

i. The assumed discount rate has been determined by reference to investment returns expected on an investment portfolio that reflects the opportunities reasonably available to the Fund in the investment markets, and also reflects the Fund's actual investments and investment strategy in respect of defined benefit member liabilities.
ii. The assumed annual salary adjustment has been determined by reference to the Wage Price Index produced by the Australian Bureau of Statistics and in consultation with the employer-sponsors.
iii. The assumed CPI adjustment has been determined by reference to the All Groups Consumer Price Index published by the Australian Bureau of Statistics.

The other variables about which assumptions have been made in measuring defined benefit member liabilities and for which changes are not considered reasonably possible, or for which reasonably possible changes would not be expected to have a material effect, include: pension indexation rates, mortality rates and resignations.

## 4. Defined benefit member liabilities (continued)

The following are sensitivity calculations on a univariate basis for the investment return, rate of salary adjustment and CPI increase assumptions for the defined benefit plan.

| *Assumption* | | Assumed at reporting date % | Reasonable possible change % | Amount of Increase/ (Decrease) in member benefit liabilities $'000 |
|---|---|---|---|---|
| Investment return | 2018: | 6.0% | +1.0% | (164,510) |
| | | | -1.0% | 140,636 |
| | 2017: | 6.5% | +1.0% | (134,690) |
| | | | -1.0% | 157,643 |
| Salary adjustment rate | 2018: | 3.5% | +1.0% | 81,910 |
| | | | -1.0% | (75,832) |
| | 2017: | 3.5% | +1.0% | 100,328 |
| | | | -1.0% | (91,907) |
| CPI increase | 2018: | 2.5% | +1.0% | 78,739 |
| | | | -1.0% | (72,795) |
| | 2017: | 2.5% | +1.0% | 69,552 |
| | | | -1.0% | (59,000) |

Defined benefit member liabilities vest 100% to members.

At 30 June 2018 $837,961 (2017: $2,230,095) has not been allocated to members at balance date. The amount not yet allocated to members' accounts consists of contributions received by the Fund that have not been able to be allocated to members as at balance date and insurance claims payable which have not yet been paid from members accounts.

## 5. Defined benefit plan that is overfunded

| | **2018 $'000** | **2017 $'000** |
|---|---|---|
| Defined benefit plan | 86,697 | 50,250 |

The employer-sponsors contributed at the rate recommended by the actuary.

The 2018 surplus above is in respect of Plan Asset (Pooled Employers' Reserve).The employers are contributing at the rate recommended by actuaries following the completion of the 30 June 2015 triennial valuation. This value is based upon an accrued benefit valuation performed by the Fund's actuary in accordance with the requirements of AASB 1056.

## 6. Reserves

| | 2018 | 2017 |
|---|---|---|
| Other reserves | $'000 | $'000 |
| Administration reserve | 126 | 287 |
| General reserve | 6,700 | - |
| Insurance reserve | 1,391 | 1,505 |
| | 8,217 | 1,792 |
| Operational Risk Financial Requirement reserve | 33,010 | 27,241 |
| | 41,227 | 29,033 |

The purpose of the Operational Risk Financial Requirement reserve (ORFR) is to provide protection to the Fund in the event that a loss is incurred from an operational risk event occurring. The use of the ORFR reserve is governed by the requirements of SPS 114, which is applicable to all APRA-regulated funds. The current ORFR reserve represents approximately 0.29% (2017: 0.26%) of the net assets available for member benefits. The Trustee intends to maintain this reserve between 0.20% and 0.30% of net assets available for member benefits.

The purpose of the Administration Reserve is for money to be transferred to/from investments to ensure that members who invested in the Single Sector Choice Product are not adversely affected by valuation timing associated with weekly cashflow process.

The purpose of the Insurance Reserve is to pay insurance claims which cannot be recovered from an external insurer.

Murrumbidgee Irrigation Limited ("Murrumbidgee") deposited $6.7 million into the General Reserve. Murrumbidgee are investigating a potential transfer of current Pension account balances from the Pooled Employer Reserve into an externally managed annuity product. These funds have been excluded from investments and segregated from other member account balances.

Transfers in and out of the reserves are made only at the authorisation of the Trustee and in accordance with the Fund’s Reserve Policy.

## 7. Fair value of financial instruments

### (a) Classification of financial instruments under the fair value hierarchy

AASB 13 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).

## 7. Fair value of financial instruments (continued)

### (a) Classification of financial instruments under the fair value hierarchy (continued)

The level in which instruments are classified in the hierarchy is based on the lowest level input that is significant to the fair value measurement in its entirety. Assessment of the significance of an input requires judgement after considering factors specific to the instrument.

| 30 June 2018 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Other Interest Bearing Securities** | | | | |
| Corporate Bonds | 7,992 | 983,428 | - | 991,420 |
| Government Bonds | - | 692,792 | - | 692,792 |
| Asset-backed securities | - | 244,549 | - | 244,549 |
| DIY Investment Option | 407 | - | - | 407 |
| | 8,399 | 1,920,769 | - | 1,929,168 |
| **Australian Equities** | | | | |
| Listed Equities | 1,697,603 | - | - | 1,697,603 |
| Unlisted Equities | - | 2,496,142 | - | 2,496,142 |
| DIY Investment Option | 4,151 | - | - | 4,151 |
| | 1,701,754 | 2,496,142 | - | 4,197,896 |
| **International Equities** | | | | |
| Listed Equities | 1,697,772 | - | - | 1,697,772 |
| Unlisted Equities | - | 1,222,478 | - | 1,222,478 |
| | 1,697,772 | 1,222,478 | - | 2,920,250 |
| **Australian Unit Trusts** | | | | |
| Listed Trusts | 58,532 | - | - | 58,532 |
| Listed Property Trusts | 72,757 | - | - | 72,757 |
| Unlisted Property Trusts | - | 36,903 | - | 36,903 |
| | 131,289 | 36,903 | - | 168,192 |
| **International Unit Trusts** | | | | |
| Listed Trusts | 158,274 | - | - | 158,274 |
| Listed Property Trusts | 145,019 | - | - | 145,019 |
| | 303,293 | - | - | 303,293 |
| **Derivative Assets** | | | | |
| Options | - | 315 | - | 315 |
| Futures | 6,943 | 36 | - | 6,979 |
| Swaps | - | 673 | - | 673 |
| Forward foreign exchange contracts | - | 15,124 | - | 15,124 |
| | 6,943 | 16,148 | - | 23,091 |
| **Derivative Liabilities** | | | | |
| Options | - | (311) | - | (311) |
| Futures | (9,416) | (78) | - | (9,494) |
| Swaps | - | (2,557) | - | (2,557) |
| Forward foreign exchange contracts | - | (72,842) | - | (72,842) |
| | (9,416) | (75,788) | - | (85,204) |
| **Total investments** | 3,840,034 | 5,616,652 | - | 9,456,686 |

## 7. Fair value of financial instruments (continued)

### (a) Classification of financial instruments under the fair value hierarchy (continued)

| 30 June 2017 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Other Interest Bearing Securities** | | | | |
| Corporate Bonds | - | 941,447 | - | 941,447 |
| Government Bonds | - | 615,791 | - | 615,791 |
| Asset-backed securities | - | 190,728 | - | 190,728 |
| DIY Investment Option | 437 | - | - | 437 |
| | 437 | 1,747,966 | - | 1,748,403 |
| **Australian Equities** | | | | |
| Listed Equities | 1,642,011 | - | - | 1,642,011 |
| Unlisted Equities | - | 1,478,050 | - | 1,478,050 |
| DIY Investment Option | 3,107 | - | - | 3,107 |
| | 1,645,118 | 1,478,050 | - | 3,123,168 |
| **International Equities** | | | | |
| Listed Equities | 1,433,124 | - | - | 1,433,124 |
| Unlisted Equities | - | 843,209 | - | 843,209 |
| | 1,433,124 | 843,209 | - | 2,276,333 |
| **Australian Unit Trusts** | | | | |
| Listed Trusts | 45,721 | - | - | 45,721 |
| Listed Property Trusts | 89,330 | - | - | 89,330 |
| Unlisted Property Trusts | - | 1,042,420 | - | 1,042,420 |
| | 135,051 | 1,042,420 | - | 1,177,471 |
| **International Unit Trusts** | | | | |
| Listed Trusts | 149,639 | - | - | 149,639 |
| Listed Property Trusts | 125,497 | - | - | 125,497 |
| Unlisted Property Trusts | - | 54,961 | - | 54,961 |
| | 275,136 | 54,961 | - | 330,097 |
| **Derivative Assets** | | | | |
| Options | - | 3,890 | - | 3,890 |
| Futures | 3,950 | - | - | 3,950 |
| Swaps | - | 340 | - | 340 |
| Forward foreign exchange contracts | - | 70,220 | - | 70,220 |
| | 3,950 | 74,450 | - | 78,400 |
| **Derivative Liabilities** | | | | |
| Options | - | (192) | - | (192) |
| Futures | (5,049) | - | - | (5,049) |
| Swaps | - | (4,068) | - | (4,068) |
| Forward foreign exchange contracts | - | (7,559) | - | (7,559) |
| | (5,049) | (11,819) | - | (16,868) |
| **Total investments** | 3,487,767 | 5,229,237 | - | 8,717,004 |

### (b) Transfers Between Hierarchy Levels

There have been no significant transfers between Level 1 and Level 2, nor between Level 2 and Level 3 of the fair value hierarchy during the financial year.

## 7. Fair value of financial instruments (continued)

**Valuation Technique**

*Interest bearing securities*
The Fund invests in both floating rate instruments such as an "At call" bank account and fixed interest instruments such as bonds. In the absence of a quoted price in an active market, they are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable users and yield curves. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. Investments are classified as Level 1 when prices are quoted in an active market. To the extent that the significant inputs are observable, the Fund categorises these investments into Level 2. Level 2 assets are assets that do not have regular market pricing, but whose fair value can be readily determined based on other data values.

The fair value of investments in asset-backed securities, for which there is currently no active market, is calculated using a valuation model, which is accepted in the industry. The Fund uses the discounted cash flow method which incorporates both observable and non-observable data. Observable inputs include assumptions regarding current rates of interest and real estate prices. Unobservable inputs included assumptions regarding expected future default rates and market liquidity discounts. The Fund classifies asset-backed securities as Level 2.

*Unit trusts*
The Fund invests in unlisted trusts, which are not quoted in the active market and which may be subject to restrictions on redemptions such as lock up periods, redemption dates and side pockets. The Fund's investment managers consider the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investing, to ensure they are reasonable and appropriate and therefore the Net Asset Value ("NAV") of these funds may be used as an input into measuring their fair value. In measuring the fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the Fund and fund managers. In measuring fair value, consideration is also paid to any transactions in the shares of the Fund. Depending on the nature and level of adjustments needed to the NAV and the level of trading in the fund, the Fund classifies unlisted trusts and unlisted property trusts as Level 2. Listed trusts and Listed property trusts are classified as Level 1.

*Equities*
Where fair values of publicly traded equity securities are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets with any adjustments, the instruments are included within Level 1 of the hierarchy. The Fund values these investments at bid price for long positions and ask price for short positions. The Fund also invests in unlisted equity companies which are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Fund uses a market based valuation technique for these positions. The Fund's investment manager determines comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the investee company to measure the fair value. As these investments are not quoted in an active market, the Fund classifies the fair value of these investments as Level 2.

*Derivative assets and liabilities*
The Fund uses widely recognised valuation models for determining the fair values of over-the-counter interest rate swaps, currency swaps, options and futures as well as forward exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including credit and debit valuation adjustments for counterparty and own credit risk, foreign exchange spot and forward rates and interest rate curves. For these financial instruments, significant inputs to models are market observable and are included within Level 2. Futures that are classified as Level 1 are exchange traded derivatives.

## 8. Receivables

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Recoverable within 12 months** | | |
| Sundry debtors | 179 | 212 |
| | 179 | 212 |

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Information regarding credit risk exposure is set out in Note 17.

| | | |
|---|---|---|
| **Recoverable after 12 months** | | |
| Related party receivable - LGSS Pty Limited | 3,556 | 3,070 |
| | 3,556 | 3,070 |

The above is inclusive of adjustments for Reduced Input Tax Credits "RITC", in accordance with the Tax Management Framework applicable to the Fund.

## 9. Payables

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Due within 12 months** | | |
| Related party payable - LGSS Pty Limited | 3,380 | 3,271 |
| Other payables | 1,296 | 1,400 |
| Murrumbidgee Irrigation Limited contribution | 6,700 | - |
| | 11,376 | 4,671 |

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value. Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in Note 17.

The Related party payable-LGSS Pty Limited is inclusive of adjustments for RITC, in accordance with the Tax Management Framework applicable to the Fund.

Murrumbidgee Irrigation Limited deposited $6.7 million into the General Reserve. Murrumbidgee are investigating a potential transfer of current Pension account balances from the Pooled Employer Reserve into an externally managed annuity product. These funds have been excluded from investments and segregated from other member account balances.

## 10. Income tax

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| (a) Major components of income tax expense for the years ended 30 June 2018 and 2017: | | |
| *Current tax charge* | 35,093 | 2,769 |
| Adjustments in respect of current income tax of previous years | (3,806) | (589) |
| *Deferred tax* | | |
| Relating to origination and reversal of temporary differences | 8,303 | 52,525 |
| Total tax expense as reported in the Income Statement | 39,590 | 54,705 |
| (b) Reconciliation between income tax expense and the accounting profit before income tax | | |
| Profit before income tax | 88,231 | 183,448 |
| Income tax expense at 15% | 13,235 | 27,517 |
| Derecognition of temporary differences | 1,515 | 879 |
| Net benefit allocated to member accounts | 115,960 | 113,838 |
| Anti-detriment deduction | (655) | (1,192) |
| Capital gains/(losses) not assessable/(deductible) | (33,218) | (32,442) |
| Exempt pension income | (23,622) | (9,919) |
| Net imputation and foreign tax credits | (29,901) | (43,381) |
| Non Deductible expenses | 115 | 46 |
| Insurance premiums | (33) | (52) |
| Overprovision in the previous year | (3,806) | (589) |
| Income tax expense reported in Income Statement | 39,590 | 54,705 |

## 10. Income tax (continued)

(c) Deferred Tax

| 2018 | Opening Balance $'000 | Recognised in the Income Statement $'000 | Closing Balance $'000 |
|---|---|---|---|
| **Deferred tax asset** | | | |
| Accrued expenses | 204 | 2,160 | 2,364 |
| | 204 | 2,160 | 2,364 |
| **Deferred tax liabilities** | | | |
| Unrealised gains on investments | (41,600) | (10,463) | (52,063) |
| | (41,600) | (10,463) | (52,063) |
| **Net deferred tax asset / (liability)** | (41,396) | (8,303) | (49,699) |

| 2017 | Opening Balance $'000 | Recognised in the Income Statement $'000 | Closing Balance $'000 |
|---|---|---|---|
| **Deferred tax asset** | | | |
| Accrued expenses | 220 | (16) | 204 |
| Unrealised losses on investments | 15,609 | (15,609) | - |
| | 15,829 | (15,625) | 204 |
| **Deferred tax liabilities** | | | |
| Unrealised gains on investments | (4,700) | (36,900) | (41,600) |
| | (4,700) | (36,900) | (41,600) |
| **Net deferred tax asset / (liability)** | 11,129 | (52,525) | (41,396) |

The Fund offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets.

The Fund has previously received distributions in respect of its historical investment in Local Investment Fund ("LIF") of which certain amounts were labelled as Capital Gains Tax concessions ("CGT concessions"). The CGT concession amounts distributed may be of value to members.

The Trustee has previously sought clarification from the Australian Taxation Office (“ATO”) on this issue and continues to liaise with the ATO in relation to this matter.

As a result of the current uncertainty as to the application of these provisions of the taxation legislation, certain CGT concession amounts have been treated as ‘tax deferred’ for the purposes of preparing the Fund’s Financial Statements. The consequence of this is the capital losses arising on disposal of the investment in LIF have been reduced by such amounts, which has caused the associated Deferred Tax Asset reported in the Statement of Financial Position to be less than if no adjustment was made in respect of the receipt of the CGT concession amounts.

## 11. Changes in fair value of investments

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Investments held at balance date** | | |
| Other Interest Bearing Securities | 16,318 | 6,744 |
| Australian Equities | 174,143 | 156,065 |
| International Equities | 185,315 | 142,023 |
| Australian Unit Trusts | 65,057 | 60,299 |
| International Unit Trusts | 61,851 | 18,014 |
| Derivative Assets and Derivative Liabilities | (122,903) | 59,841 |
| **Total unrealised gains** | 379,781 | 442,986 |
| **Investments realised during the year** | | |
| Other Interest Bearing Securities | (148) | (861) |
| Australian Equities | 15,895 | 18,688 |
| International Equities | 32,468 | 8,247 |
| Australian Unit Trusts | 1,134 | (1,189,028) |
| International Unit Trusts | 179 | 447 |
| Derivative Assets and Derivative Liabilities | 43,580 | 3,263 |
| **Total realised gains / (losses)** | 93,108 | (1,159,244) |
| Change in fair value of investments | 472,889 | (716,258) |

The amounts recorded as 'realised gains/(losses)' above is the difference between fair value at sale and the carrying amount at the beginning of the reporting period or when acquired, if acquired during the year.

## 12. Funding arrangements

For years ended 30 June 2018 and 30 June 2017, member and employer contributions for each of the funds are determined on the basis described below.

### (a) Accumulation Scheme

**Compulsory Employer Contributions**
The percentage of salary or wages of employees prescribed as the rate of compulsory employer (Superannuation Guarantee) contributions between 1 July 2017 to 30 June 2018 was 9.50% (1 July 2016 to 30 June 2017: 9.50%).

**Optional Employer Contributions**
Employers may make additional contributions to the Fund for employees in respect of whom compulsory employer contributions are being made.

**Optional Member Contributions**
Employees as defined in the Act, may make voluntary contributions to the Fund in the form of periodical payments or single payments.

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

**Optional Spouse Contributions**
Employees may make voluntary contributions on behalf of their spouse, as defined in the Act, to the Fund 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.

## 12. Funding arrangements (continued)

### (b) Retirement Scheme

**Member Contributions**
Each member elects to contribute between 1% and 9% of salary (2016/17: between 1% and 9%).

**Employer Contributions**
Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2017/18 employers contributed at the standard contribution rate of 1.9 times employee contributions (2016/17:1.9 times employee contributions).

**Basic Benefit**
The Basic Benefit is made up of two components. Firstly, a Defined Basic Benefit which is a non-contributory fully employer funded benefit. In 2017/18 employers contributed at the standard contribution rate of 2.5% of the members' salary (2016/17: 2.5% of the members' salary). The second component is an Other Contributions account, which is the Accumulation component of a member's Basic Benefit and exists to accept member and employer contributions and transfers from other funds.

### (c) Defined Benefit 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 (2016/17: exceed 6%).

**Employer Contributions**
Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2017/18 employers contributed at the "nominal" contribution rate 1.64 times employee contributions (2016/17:1.64 times employee contributions). Employers may opt to make additional contributions which are determined on an as-needs basis or for a specific purpose.

**Basic Benefit**
The Basic Benefit is made up of two components. Firstly, a Defined Basic Benefit which is a non-contributory fully employer funded benefit. In 2017/18 employers contributed at the standard contribution rate of 2.5% of the member's salary (2016/17: 2.5% of the member's salary). The second component is an Other Contributions account, which is the Accumulation component of a member's Basic Benefit and exists to accept member and employer contributions and transfers from other funds.

### (d) Account-Based Pension Plan

**Member Contributions**
An Account-Based Pension Plan is funded with a superannuation lump sum payment from either:
- Superannuation or rollover benefits from another LGS product, or another superannuation fund, as an unrestricted non-preserved benefit,
- A superannuation lump sum if a member elects for a 'Transition To Retirement pension', or
- Any other superannuation or Retirement Savings Account source.

### (e) LGS Guaranteed Income

LGS Guaranteed Income accounts are established using funds from unrestricted non-preserved superannuation balances held by relevant members in other LGS accounts.

## 13. Operating expenses

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Trustee expenses | 26,079 | 27,008 |
| Financial planning fees[1] | 1,167 | 1,250 |
| Other expenses | 137 | 228 |
| | 27,383 | 28,486 |

1. Financial planning fees are deducted from individual member account balances where applicable.

## 14. Auditors' remuneration

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Amounts received or due and receivable by Ernst &Young: | | |
| Audit and review of financial reports and compliance | 263 | 271 |
| Tax services | - | 68 |
| Other services | 287 | 141 |
| | 550 | 480 |

Audit fees are paid by LGSS Pty Limited on behalf of the Fund. The amounts above are GST inclusive. Ernst & Young is no longer the registered tax agent for the Fund.

Other amounts received or due and receivable by Ernst and Young for the financial year ended 30 June 2018 primarily relate to the provision of advice to the Trustee in relation to financial planning services.

Other amounts received or due and receivable by Ernst and Young for the financial year ended 30 June 2017 relate to the provision of advice in relation to the closure of Local Investment Fund.

## 15. Cash flow statement reconciliation

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Cash and cash equivalents | 109,186 | 92,420 |
| **Reconciliation of net cash from operating activities to profit after income tax expense:** | | |
| Profit after income tax expense | 48,641 | 128,743 |
| Adjustments for: | | |
| (Increase) / decrease in assets measured in fair value | (472,889) | 716,258 |
| (Increase) in receivables | (453) | (23) |
| Increase in payables | 5 | 307 |
| Increase / (decrease) in income tax payable | 30,646 | (29,564) |
| Increase in net deferred tax liability | 8,303 | 52,525 |
| Net insurance inflow / (outflow) from members accounts | 2,489 | (1,714) |
| Distribution income | (271,888) | (1,608,867) |
| Dividend income | (106,998) | (54,065) |
| Other investment income | (6,675) | (2,104) |
| Other Investment expenses | 35,899 | 12,379 |
| Allocation to members' accounts | 773,066 | 758,915 |
| **Net cash outflows from operating activities** | 40,146 | (27,210) |

## 16. Segment Information

The Fund operates solely in one reportable business segment, being the provision of superannuation benefits to members. The Fund also operates from one reportable geographic segment, being Australia, from where its activities are managed. Revenue is derived from interest, distributions, gains on the sale of investments and unrealised changes in the value of investments. While the Fund solely operates in Australia, it has investment exposures in different countries and across different industries.

## 17. Financial risk management objectives and policies

### (a) Risk Management Structure

The Management policies used by the Fund to manage financial risks are discussed below.

The investments of the Fund, (other than cash held for meeting daily administrative and benefit expenses, reserves unlisted securities and LGPF), are invested on behalf of the Trustee by investment managers. All assets are directly owned by the Fund, being the beneficial owner.

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 the Fund has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Trustee's investment strategy.

JP 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.

The Fund is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including currency risk, 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 Fund's financial performance and financial position.

It is 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 Fund.

The Trustee has developed, implemented and maintained a Risk Management Framework ("RMF"). The RMF is inclusive of the Trustee's Risk Appetite Statement, Risk Tolerance processes and the Risk Management Strategy.

The RMF details some of the Trustee's policies and procedures, processes and controls that comprise its risk management and control systems. This addresses 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 RMF.

### (b) Credit Risk

The Fund'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 Fund.

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 within the Fund's mandated portfolios (cash, bonds, equities etc.) best represent the maximum credit risk exposure at the balance date.

The Fund is exposed to credit risk primarily through its investments. The Trustee manages exposure to any individual counterparty or industry by diversifying it's investments, in line with the Investment Policy Statement. The credit risk is managed by diversifying across investment managers and 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 with credit ratings of '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. There is greater risk for the less liquid assets than those rated BBB+. As such, these are managed by external professional investment managers, who accept the exposure when they determine the premium being paid is more than sufficient to cover the default risk on the debt.

## 17. Financial risk management objectives and policies (continued)

### (b) Credit Risk (continued)

The risk is further mitigated by the diversification of the exposure across a range of investment managers.

### (c) Liquidity Risk

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

The Fund's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity available to meet its expected liabilities. The Fund allows members to withdraw benefits and it is therefore exposed to the liquidity risk of meeting members' withdrawals at any time. The Fund is exposed to liquidity risk primarily through its underlying investments. The investments held by the Fund are considered to be readily realisable. The Fund's and LGPF'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 Fund and LGPF may not be able to liquidate all of these investments at their net market value in order to meet its liquidity requirements.

The Fund's liquidity risk is managed in accordance with the Fund's investment strategy. The Fund has a high level of inward cash flows (through new contributions) which provides capacity to manage liquidity risk. The Fund 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 Fund must have at least 70% exposure to liquid assets at all times. The Fund's overall strategy to liquidity risk management has not changed from the prior year.

The following tables summarise the maturity profile of the Fund's financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The tables include both interest and principal cash flows.

| | Less Than 3 months | 3 months to 1 year | 1-5 years | 5+ years | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **30 June 2018** | | | | | |
| Vested Benefits | 11,201,858 | - | - | - | 11,201,858 |
| Payables | 11,376 | - | - | - | 11,376 |
| Current Tax Liability | - | 45,485 | - | - | 45,485 |
| Derivatives | 77,116 | 5,587 | 2,501 | - | 85,204 |
| | 11,290,350 | 51,072 | 2,501 | - | 11,343,923 |
| **30 June 2017** | | | | | |
| Vested Benefits | 10,350,598 | - | - | - | 10,350,598 |
| Payables | 4,671 | - | - | - | 4,671 |
| Current Tax Liability | - | 14,839 | - | - | 14,839 |
| Derivatives | 11,294 | 1,506 | 4,068 | - | 16,868 |
| | 10,366,563 | 16,345 | 4,068 | - | 10,386,976 |

### (d) Market Risk

The Fund'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 Fund's policies and procedures put in place to mitigate the Fund's exposure to market risk are detailed in the Trustee's investment policies and the RMF.

Whilst market risk is unavoidable the Fund 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.

## 17. Financial risk management objectives and policies (continued)

### (d) Market Risk (continued)

The Fund manages this risk via outsourcing most of it's investment management function; the investment managers manage the financial risks relating to the operations of the Fund in accordance with an investment mandate. The Fund ensures the financial risk management is in accordance with the Fund's Trust Deed, Product Disclosure Statement and investment policies.

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 Fund's exposure to market risks or the manner in which it manages and measures these risks.

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 Fund is exposed to the interest rate markets. The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of its members. The Fund'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 Fund having exposure to interest rate movements. The Fund 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 Fund'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 available for member benefits from possible changes in market risk that were reasonably possible based on the risk the Fund was exposed to at reporting date via its investments.

| | **Change in Variable** | **Effect on Change in Net Assets Available for Member Benefits** | |
|---|---|---|---|
| | +/- | **2018** | **2017** |
| | | **$'000** | **$'000** |
| Interest rate risk | 2% | (49,986) | (46,734) |
| Interest rate risk | -2% | 49,986 | 46,734 |

The Fund's activities also expose it to the financial risk of changes in interest rates. Floating rate instruments expose the Fund to cash flow risk, whereas fixed interest rate risk instruments expose the Fund to fair value risk. The Trustee monitors its exposure to interest rate risk on a regular basis.

LIF Pty Limited, as Trustee for Local Government Property Fund, has entered into an interest rate swap contract in order to mitigate the risk of fluctuating interest rates on the interest payments of the debt held. Under these contracts, the parties agree to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. The average interest rate is based on the outstanding balances at the start of the financial year. There are differing maturity dates between the loan and the related swap contracts. The investment manager will commence a review of the relevant debt facility within 6 months prior to maturity of both contracts.

## 17. Financial risk management objectives and policies (continued)

### (d) Market Risk (continued)

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding in the Fund as at balance sheet date (both held within LGPF):

| Outstanding floating for fixed contracts | Average contracted interest rate | | Notional principal amount | | Fair value amount | |
|---|---|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Loan | 2.22% | 2.51% | 65,000 | 65,000 | 65,000 | 65,000 |
| Interest rate swap: 2-5 years | 2.49% | 4.05% | 65,000 | 65,000 | (129) | (241) |

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

Foreign Currency Risk Management
The Fund is exposed to foreign currency risk as a result of its 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 a percentage of its exposure to foreign currency for all international equities, the percentage was 30% (2017: 40%) at balance date. For other international assets the percentage was 100% (2017: 100%). This is conducted according to the Fund's hedging policy.

The Trustee of the Fund uses two external currency overlay managers to manage it's exposure to foreign currency risk. The Fund's overall strategy for foreign currency risk management has not changed from the previous year.

Foreign currency sensitivity
The following table details the Fund's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies. The sensitivity rate of 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 result indicates an increase in net assets available for member benefits and the 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 available for member benefits, and the balances below would be negative.

| | Change in Variable +/- | Effect on Change in Net Assets Available for Member Benefits | | | |
|---|---|---|---|---|---|
| | | USD Impact | | JPY Impact | |
| | | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Forex Risk | 10% | 47,937 | 48,301 | 4,172 | 2,595 |
| Forex Risk | -10% | (47,937) | (48,301) | (4,172) | (2,595) |

| | Change in Variable +/- | Effect on Change in Net Assets Available for Member Benefits | | | |
|---|---|---|---|---|---|
| | | EUR Impact | | GBP Impact | |
| | | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Forex Risk | 10% | 7,213 | 6,954 | 2,809 | 1,827 |
| Forex Risk | -10% | (7,213) | (6,954) | (2,809) | (1,827) |

## 17. Financial risk management objectives and policies (continued)

### (d) Market Risk (continued)

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

The Fund is exposed to market price risk through its investments. This risk is managed by ensuring that all activities are transacted in accordance with investment 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 following table illustrates the effect on changes in net assets available for member benefits from possible changes in market prices that were reasonably possible based on the risk the Fund was exposed to at reporting date. For a negative movement in the variable there would be an equal and opposite impact on net assets available for member benefits, and the balances below would be negative:

| | Change in Variable | Effect on Change in Net Assets Available for Member Benefits | |
|---|---|---|---|
| | +/- | **2018 $'000** | **2017 $'000** |
| Equity Price Risk | 10% | 758,554 | 797,669 |
| Equity Price Risk | -10% | (758,554) | (797,669) |

## 18. Related party disclosures

**a) Identification of Related Parties and Directors**

The Trustee of the Fund 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:

| | |
|---|---|
| Mr. K Asfour | (appointed 16 August 2018) |
| Ms. M Blicavs | (ceased 9 March 2018) |
| Mr. G Brock | |
| Mr. L Brown | (appointed 5 September 2017. Ceased 22 January 2018) |
| Mr. S Byrne | |
| Mr. D Figliomeni | (appointed 5 December 2017) |
| Ms. K McKeown | (appointed 10 April 2018) |
| Mr. G McLean | (appointed 6 June 2018) |
| Mr. B Miller | (appointed as Chair 11 September 2017) |
| Mr. J Montague | (ceased 12 April 2018) |
| Ms. K O'Regan | (ceased as Chair 11 September 2017. Formerly Chair from 1 July to 11 September 2017) |
| Mr. C Peate | |

The above Directors are also Directors of Local Government Financial Services Pty Limited, which is 100% owned by Local Government Super.

## 18. Related party disclosures (continued)

**b) Other Key Management Personnel**

The following are considered to be key management personnel:

| | |
|---|---|
| Mr. A Gledhill | Head of Risk and Quality Assurance from 11 October 2017. Formerly Acting Chief Governance Officer from 30 January 2017 to 5 September 2017 and Head of Quality Assurance from 6 September 2017 to 10 October 2017.) |
| Mr. A Griffin | Chief Operating Officer (Ceased 8 June 2018) |
| Ms. D Heffernan | Deputy Chief Executive Officer (Deputy Chief Executive Officer from 11 October 2017. Formerly Acting Chief Executive Officer from 7 October 2016 to 5 September 2017 and Chief Governance Officer from 6 September 2017 to 10 October 2017. |
| Ms. M Hopwood | Chief Marketing Officer |
| Mr. D Smith | Chief Executive Officer (appointed 6 September 2017) |
| Mr. C Turnbull | Chief Investment Officer |

**c) Compensation of Key Management Personnel of Trustee**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Short-term benefits | 2,548 | 2,753 |
| Post-employment benefits | 195 | 195 |
| Termination Benefits | 153 | 484 |
| | 2,896 | 3,432 |

The total compensation due and receivable by Directors of LGSS Pty Limited and the key management personnel during the financial year is payable, directly or indirectly by LGSS Pty Limited.

**d) Transactions Entered into During the Year with Directors and their Related Entities**

Transactions with Director related entities were conducted on normal terms and conditions. Directors' fees are included in short-term employee benefits as set out in Note 18(c) and are for the reimbursement of administration costs incurred by the Directors whilst attending to Trustee business.

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

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

Mr G McLean and Mr J Montague are the only directors of the Trustee that received benefit payments from Local Government Super during the year in accordance with the Trust Deed.

**f) Other Related Party Transactions**

During the financial year, the Fund paid $33,016,815 (2017: $33,696,650) to LGSS Pty Limited for management and trustee services. The Fund paid $2,648,713 (2017: $2,622,605) to LGSS Pty Limited for investment related administration fees. The Fund paid $1,166,670 (2017: $1,249,800) to LGSS Pty Limited for financial planning fees which were deducted from member account balances. The amounts paid are inclusive of adjustments for RITC, in accordance with the Tax Management Framework applicable to the Fund.

During the year, the Fund received a $4,500,000 refund from LGSS Pty Limited and there is a receivable of $3,555,816 and a payable of $3,380,309 outstanding as at 30 June 2018.

During the year, the Fund received distributions of $257,913 from LG Diversified Trust (2017: $334,845), and $14,732,423 from Local Government Property Fund (2017: $29,752,075 ).

On 30 November 2016, before the closure of Local Investment Fund, LIF distributed to the Fund $1,521,163,328.

On 1 July 2005 Hawkesbridge Limited was appointed as Private Equity Manager for the Fund. The Fund disposed of its shareholding of 16.59% in Hawkesbridge Limited on 27 July 2016 (30 June 2016: 16.60%).

## 18. Related party disclosures (continued)

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

Mr C Turnbull, Chief Investment Officer of the Fund was a director of Hawkesbridge Limited until 23 August 2016.

The Fund holds 100% of the share capital of Local Government Financial Services Pty Limited (“LGFS”). Included in investments is the Fund’s investment in LGFS totalling $2.

## 19. Commitments and contingent liabilities

The Fund has no commitments or contingent liabilities as at 30 June 2018 (2017: nil).

## 20. Subsequent events

No significant events have occurred since balance date which would require disclosure in the Financial Statements of the Fund as at 30 June 2018.

## 21. Subsidiaries

| Name of Entity | Country Of Incorporation | 2018 Ownership Interest % | 2017 Ownership Interest % |
|---|---|---|---|
| Local Government Financial Services Pty Limited | Australia | 100% | 100% |
| LG Diversified Trust | Australia | 100% | 100% |
| Local Government Property Fund | Australia | 100% | 100% |

Although the Fund has a controlling interest in LGFS and LG Diversified Trust, consolidated accounts have not been prepared because the net asset values of these investments are not material to the Fund.

The Fund has adopted AASB 2013-5 “Amendments to Australian Accounting Standards – Investment Entities”. As a result, the Fund does not consolidate its subsidiary, Local Government Property Fund; however, it is required to provide certain disclosures, as outlined above.

**Restrictions**
The Fund receives income in the form of distributions from its investment in the unconsolidated subsidiary, LGPF, and there are no significant restrictions on the transfer of funds from this entity to the Fund.

**Support**
The Fund did not provide other financial support to LGPF in the current year (2017: nil).

The Fund has no contractual commitment or current intentions to provide any other financials or other support to its unconsolidated subsidiary (2017: nil).

## Trustee Statement

In the opinion of the Trustee of Local Government Super:

(i) The accompanying Financial Statements are drawn up so as to present fairly the financial position of the Fund as at 30 June 2018 and the results of its operations and cash flows for the year then ended; and

(ii) The operation of the Local Government Super has been carried out in accordance with its Trust Deed, as amended and in compliance with the requirements of the Superannuation Industry (Supervision) Act 1993, and its accompanying Regulations during the year ended 30 June 2018; and

(iii) The Financial Statements have been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements and the provisions of the Trust Deed, as amended.

Signed in accordance with a resolution of the directors of the Trustee.

Signed in Sydney on this 26 day of September 2018

Director

Director

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## Part 1 – Independent Auditor's report on financial statements

# Local Government Super ABN 28 901 371 321

### Report by the RSE Auditor to the trustee and members

### Opinion

I have audited the financial statements of Local Government Super for the 30 June 2018 comprising the statement of financial position, income statement, statement of changes in member benefits, statement of cash flows and statement of changes in reserves.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of Local Government Super as at 30 June 2018 and the results of its operations, cash flows, changes in equity/reserves and changes in members' benefits for the year ended 30 June 2018.

### Basis for Opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities* section of my report. I am independent of the entity in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial statements in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

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

### *Responsibilities of the Trustee for the Financial Statements*

The RSE'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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the ability of the RSE to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the RSE or to cease operations, or has no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Australian Auditing Standards, I exercised professional judgement and maintained professional scepticism throughout the audit. I also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit 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 RSE's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee.
- Concluded on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the RSE's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my auditor opinion. My auditor conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the RSE to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicated with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

Ernst & Young

Ernst & Young

David Jewell

David Jewell
Partner
Sydney
26 September 2018