Local Government Super
(Formerly Local Government Superannuation Scheme Pool B)

Financial Report

For The Year Ended 30 June 2016

LOCAL GOVERNMENT SUPER
(FORMERLY LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B)

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

CONTENTS **PAGE**

TRUSTEE'S STATEMENT	3
STATEMENT OF CHANGES IN NET ASSETS	4
STATEMENT OF NET ASSETS	5
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS	6
INDEPENDENT AUDIT REPORT TO THE MEMBERS	36
APPENDED: ACTUARIAL SUMMARY	38

LOCAL GOVERNMENT SUPER
(FORMERLY LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B)

TRUSTEE'S STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016

In the opinion of the directors of LGSS Pty Limited, the Trustee of Local Government Super (formerly Local Government Superannuation Scheme Pool B):

1. The accompanying financial statements of Local Government Super ("Fund") are properly drawn up so as to present fairly the Statement of Net Assets as at 30 June 2016 and the Statement of Changes in Net Assets for the year ended 30 June 2016;

2. The financial statements have been prepared in accordance with the requirements of the Trust Deed and in accordance with the Accounting Standards in Australia and the *Superannuation Industry (Supervision) Act 1993*. Accounting Standards include Australian equivalents to the International Financial Reporting Standards ("A-IFRS") to the extent they are not inconsistent with AAS 25 *Financial Reporting by Superannuation Plans*;

3. The Fund has been conducted in accordance with its constituent Trust Deed dated 30 June 1997 as amended and all legislative requirements at all times during the period; and

4. In the Trustee's opinion there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due.

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

Signed at Sydney on 28 September 2016

Director

Director

LOCAL GOVERNMENT SUPER
(FORMERLY LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B)

STATEMENT OF CHANGES IN NET ASSETS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	2016 $'000	2015 $'000
Investment Revenue			
Interest Revenue		721	1,058
Trust Distributions		861,549	99,951
Dividend Income		-	12,009
Changes in Net Market Value of Investments	10	(735,948)	183,174
Total Investment Revenue		126,322	296,192
Contributions Revenue			
Employer Contributions	11	149,848	159,648
Member Contributions	11	14,353	15,510
Transfers From Other Funds		10,217	6,396
Total Contributions Revenue		174,418	181,554
Other Revenue		6	6
Total Revenue		300,746	477,752
Benefits Paid and Expenses			
Benefits Paid		(297,468)	(325,001)
Administration Expenses	3(g)	(9,223)	(11,005)
Total Benefits Paid and Expenses		(306,691)	(336,006)
(Decrease)/Increase in Net Assets for the Year Before Income Tax		(5,945)	141,746
Income Tax Expense	7(a)	(22,731)	(37,269)
(Decrease)/Increase in Net Assets for the Year		(28,676)	104,477
Transfer in from Local Government Superannuation Scheme Pool A	18	6,090,571	-
Net Assets Available to Pay Benefits at the Beginning of the Financial Year		3,334,651	3,230,174
Net Assets Available to Pay Benefits at the End of the Financial Year		9,396,546	3,334,651

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

LOCAL GOVERNMENT SUPER
(FORMERLY LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B)

STATEMENT OF NET ASSETS
AS AT 30 JUNE 2016

	Note	2016 $'000	2015 $'000
Investments			
Unlisted Australian Securities and Unit Trusts	4	9,313,750	3,282,871
DIY Investment Option (Macquarie DIO)	4	8,720	-
Total Investments		9,322,470	3,282,871
Other Assets			
Cash and Cash Equivalents	14	101,824	36,898
Receivables	5	18,287	9,268
Deferred Tax Asset	7(c) and 7(d)	15,828	12,718
Total Other Assets		135,939	58,884
Total Assets		9,458,409	3,341,755
Less Liabilities			
Benefits Payable		6,182	212
Payables	6	4,364	91
Current Tax Liability	7(b)	44,403	5,826
Deferred Tax Liability	7(c) and 7(d)	6,914	975
Total Liabilities		61,863	7,104
Net Assets Available to Pay Benefits	9	9,396,546	3,334,651

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

1. DESCRIPTION OF THE FUND

Local Government Super consists of local government members and was established in accordance with sections 127 and 128 of the Superannuation Administration Act, 1996 ("the Act"). LGSS Pty Limited acts as Trustee and holds in trust all assets of the Fund. During the financial year, LGSS Pty Limited also provided financial planning services for the Fund.

The Fund consists of four Divisions. Division A is a defined contribution fund. Division B and Division C comprise of both a defined benefit component and a defined contribution component, whilst Division D is a defined benefit fund. Division B, Division C, and Division D are closed to new members, except for members of eligible entities who can transfer their entitlements into the Fund. The Fund is a reporting entity for financial reporting purposes.

Local Government Superannuation Scheme Pool A ("LGS Pool A") has 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. The effective date is 30 June 2016. Accordingly the financial statements are for the year ended 30 June 2016.

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

Australian Administration Services Pty Limited provides accounting and administration services for the Fund.

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

2. BASIS OF PREPARATION

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Interpretations, the Superannuation Industry (Supervision) Act 1993 and provisions of the Trust Deed. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS") to the extent they are not inconsistent with AAS 25 *Financial Reporting by Superannuation Plans* ("AAS 25").

The financial statements have been prepared on the basis required by AAS 25, which provides specific measurement requirements for assets, liabilities, vested benefits and accrued benefits. To the extent that they do not conflict with AAS 25, other Australian Accounting Standards have been applied in the preparation of the financial statements. For the purpose of the preparation of the financial report, the Fund is a not for profit entity.

The financial statements were authorised for issue by the Directors on 28 September 2016.

2. BASIS OF PREPARATION (continued)

Use of Judgments and Estimates

In the application of Accounting Standards, the Directors are required to make judgments, estimates and assumptions about net market values of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

New Accounting Standards and Interpretations

The Fund applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 July 2015. The nature of each standard and/or amendment is described below. The adoption of these standards and amendments has not had any significant financial impact on the financial statements.

AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities.*
Adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132.

AASB 2013-5 *Amendments to Australian Accounting Standards - Investment Entities*
These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in it's consolidated and separate financial statements.

These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127.

AASB 1031 *Materiality*
The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality.

2. BASIS OF PREPARATION (continued)

New Accounting Standards and Interpretations (continued)

Interpretation 21 *Levies*
Confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs.

AASB 2013-3 *Amendments to AASB 136 - Recoverable Amounts Disclosures for Non-Financial Assets*

Requirements to disclose additional information about the fair value measurements when the recoverable amount of impaired assets is based on fair value less costs of disposal.

AASB 2013-4 *Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting*
Amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative has been designated as a hedging instrument.

AASB 2013-0 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments*
Makes amendments to a number of Standards and Interpretations:
- amendments arising from the issuance of AASB CF 2013-1
- amendments to particular Australian Accounting Standards to delete references to AASB 1031
- makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 *Hedge Accounting* into AASB 9 *Financial Instruments*

AASB 2014-1 *Amendments to Australian Accounting Standards*
AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that is it calculated as the difference between the gross and net carrying amounts.

AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

AASB 13 - Clarifies that the portfolio exemption in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132.

AASB 140 - Clarifies that judgement is needed to determine whether an acquisition of investment property is solely the acquisition of investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB3 that includes an investment property. That judgement is based on guidance in AASB 3.

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Fund were in issue but not yet effective.

2. BASIS OF PREPARATION (continued)

Accounting Standards and Interpretations Issued, but Not Yet Effective

AASB 1056 *Superannuation Entities*
Currently the Fund prepares its financial statements in accordance with AAS 25 *Financial Reporting for Superannuation Funds*. In June 2014, the AASB released a new standard AASB 1056 S*uperannuation Entities* which will apply to the Fund from 1 July 2016. This standard requires full retrospective application. The expected impact of initial application and the known estimable transitional differences are summarised below:

Presentation and classification
There will be a new presentation format, including a s*tatement of changes in member benefits* to disclose member related transactions and a *statement of changes in equity* to record equity held in superannuation entities in the form of reserves.

All contributions and benefits affecting member liabilities will be moved to the statement of changes in member benefits.

The new standard specifies that members' liabilities do not meet the definition of equity, therefore, member benefits will be recognised as liabilities in the *statement of financial position* rather than in equity. This will result in a transition adjustment on 1 July 2016, which will decrease reported net assets by $9,367,536,860.

Measurement and disclosure
Assets and liabilities will be measured at fair value in accordance with AASB 13 *Fair value measurement*, excluding member liabilities, tax assets and liabilities. We have determined that the change in measurement will not result in a material impact to the financial statements.

Insurance Arrangements
The Fund has arrangements whereby it provides insurance to members. The Fund will recognise liabilities and assets arising from its insurance and reinsurance arrangements and measure these liabilities and assets using the same approach to measuring defined benefit member liabilities. Furthermore, these assets will be assessed for impairment on an annual basis.

Defined benefit funds
Defined benefit obligations will be measured on an annual basis and disclosed in the statement of financial position. Accrued benefits will be measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits at that date when they are expected to fall due. There is no expected transitional adjustment on 1 July 2016 from this change.

Additional disclosures will be required where there is a difference between the net assets attributable to defined benefit members and the defined benefit member liabilities.

2. BASIS OF PREPARATION (continued)

Accounting Standards and Interpretations Issued, but Not Yet Effective (continued)

AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 10*

The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

AASB 9/IFRS 9 *Financial Instruments*

AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.

AASB 9 includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of AASB 139.

AASB 15 *Revenue from Contracts with Customers (effective 1 July 2017)*

AASB 15 supersedes the revenue recognition guidance in AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates.

The core principle in AASB 15 is that an entity recognises revenue at an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for selling goods or services to customers.

AASB 15 has also introduced specific criteria for determining whether to capitalise certain costs, distinguishing between those costs associated with obtaining a contract and those costs associated with fulfilling a contract.

At 30 June 2016, the Fund does not anticipate there will be any material change to the timing or manner of recognition for revenue.

2. BASIS OF PREPARATION (continued)

Accounting Standards and Interpretations Issued, but Not Yet Effective (continued)

AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*
The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards. Materiality covered in AASB 101.

AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception*
This makes amendments to AASB 10, AASB 12 *Disclosure of Interests in Other Entities* and AASB 128 arising from the IASB's narrow scope amendments associated with Investment Entities.

AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit*
This Standard makes amendments to AASB 124 *Related Party Disclosures* to extend the scope of that Standard to include not-for-profit public sector entities.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2016 and the comparative information presented in these financial statements for the year ended 30 June 2015.

(a) Principles of Consolidation

The Fund is an investment entity and, as such, does not consolidate the entities it controls. Instead, interests in its subsidiaries, Local Investment Fund and Local Government Property Fund, are classified as fair value through profit or 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.

(b) Cash and Cash Equivalents

Cash and cash equivalents include deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity, ie 3 months or less, which are readily convertible to cash and are subject to insignificant risk of changes in value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments

Investments are valued at net market value which approximates fair value less estimated costs of disposal at balance date. Changes in net market values, representing gains or losses, are recognised in the Operating Statement in the year in which they occur.

(d) Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability or asset to the extent that it is unpaid or refundable.

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Fund expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Fund intends to settle its current tax assets and liabilities on a net basis.

(e) Benefits Paid and Payable

The Fund recognises a benefit to be payable to a member when a valid withdrawal notice has been received from the employer sponsor, and it has been approved by the Trustee in accordance with the Trust Deed. Accordingly benefits payable are recognised in the Statement of Net Assets and represent only those benefits where the benefit has been processed but has not yet been paid to members.

(f) Functional and Presentation Currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the functional currency). This is the Australian dollar,

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Functional and Presentation Currency (continued)

which reflects the currency of the economy in which the Fund competes for capital and is regulated. The Australian dollar is also the Fund's presentation currency.

(g) Expenses

Administrative expenses, other than the weekly administration fee and member transfers, are charged directly to net assets of the Fund. Expenses are accounted for on an accruals basis.

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

(h) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

i) Where applicable GST incurred by the Fund that is not recoverable from the Australian Taxation Office has been recognised as part of the expenses to which it applies; and

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

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

(i) Receivables

Receivables may include amounts for dividends, trust distributions, interests, and contributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables. Contributions received post 30 June 2016, but relating to the period to 30 June 2016 have been accrued as at the year-end due to the availability of reliable information this year.

(j) Revenue Recognition

Revenue is measured at the net market value of consideration received or receivable and to the extent of which it is probable that the economic benefits will flow to the Fund and the income can be reliably measured, revenue is recognised.

The following recognition criteria relates to the different income streams the Fund has recognised:

<u>Interest Revenue</u>
Interest from fixed interest securities is recognised using the effective interest rate method and in accordance with the terms and conditions which apply to the fixed interest securities. The effective

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Revenue Recognition (continued)

Interest Revenue (continued)
interest rate is the rate that exactly discounts future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. Interest on cash deposits is recognised in accordance with the terms and conditions which apply to the deposits.

Dividend Revenue
Revenue from dividends is recognised on the date the shares are quoted ex-dividend. If the dividends are not received at balance sheet date, the balance is reflected in the Statement of Net Assets as a receivable.

Trust Distributions
Trust distributions are recognised on a receivable basis on the date the unit value is quoted ex distribution. Where the distribution is not received at balance sheet date, the balance is reflected in the Statement of Net Assets as a receivable.

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

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

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

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

(k) Payables

Payables are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services. They are recognised at their nominal value which is equivalent to net market value.

(l) Rounding

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

4. INVESTMENTS

	2016 $'000	2015 $'000
Unlisted Australian Securities and Unit Trusts	9,313,750	3,282,871
DIY Investment Option (Macquarie DIO)	8,720	-
Total Investments	9,322,470	3,282,871

The DIO comprises of investments in Term Deposits, ETFs and Cash.

5. RECEIVABLES

	2016 $'000	2015 $'000
Other Receivables	3,260	2,402
Contribution Receivables	15,027	6,866
Total Receivables	18,287	9,268

There were no significant terms or conditions applicable to the above receivables.

6. PAYABLES

	2016 $'000	2015 $'000
Intergroup Payable	2,899	91
Other Payable	1,465	-
Total Payables	4,364	91

7. INCOME TAX

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

The tax effect of temporary differences, which occur where items are allowed for income tax purposes in a period different from that in which they are recognised in the accounts, is included in the provisions of deferred income tax as applicable at current taxation rates. A rate of tax of 15% has been used on the assumption that the Fund will continue to be a complying fund for the purposes of the Income Tax Assessment Act 1936, as amended.

7. INCOME TAX (continued)

(a) Income Tax Recognised in Statement of Changes in Net Assets

Tax expenses comprise:

	2016 $'000	2015 $'000
Current Tax Expense	26,008	16,211
Deferred Tax (Benefit)/Expense	(3,277)	21,058
Total Income Tax Expense	22,731	37,269

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

	2016 $'000	2015 $'000
(Decrease)/Increase in Net Assets for the Year Before Income Tax	(5,945)	141,746
Income Tax Expense Calculated at 15%	(892)	21,262
Accounting deferred investment gain	(2,365)	(5,612)
Transfers In	(1,533)	(960)
Non-assessable Contributions	(2,153)	(2,326)
Benefit Payments	44,620	48,750
Tax on Grossed up Imputations and foreign tax credits Income	2,560	2,576
Death and Invalidity Insurance Deductions	(52)	(98)
Non-Deductible Expenditure	56	36
Non-assessable pension related investment income	(2,005)	(871)
Non-assessable/Deductible Investment expenses	(72)	(11,961)
Assessable deferred investment gain	1,576	3,741
Imputation and Foreign Tax Credits	(16,879)	(17,168)
(Under) Provision in Prior Year	(130)	(100)
Income Tax Expense	22,731	37,269

The tax rate used in the above reconciliation is the superannuation tax rate of 15% payable by Australian superannuation funds on taxable profits under Australian tax law. There has been no change in the superannuation tax rate when compared with the previous financial year.

7. INCOME TAX (continued)

(a) Current Tax Balances:

	2016 $'000	2015 $'000
Current Tax Liability	44,403	5,826
	44,403	5,826

(b) Deferred Tax Balances:

	2016 $'000	2015 $'000
Deferred Tax Balance Comprises:		
Deferred Tax Asset	15,828	12,718
Deferred Tax (Liability)	(6,914)	(975)
	8,914	11,743

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

30-Jun-16	Opening Balance $'000	(Charged)/ Credited to Income $'000	Transferred from LGS Pool A $'000	Closing Balance $'000
Net Deferred Tax Asset/(Liability)				
Unrealised Taxable Capital Losses/(Gains)	11,743	3,277	(4,700)	10,320
Payables – Accrued Expenses	-	-	(1,406)	(1,406)
	11,743	3,277	(6,106)	8,914

30 June 2015	Opening Balance $'000	(Charged)/ Credited to Income $'000	Closing Balance $'000
Net Deferred Tax Asset/(Liability)			
Unrealised Taxable Capital Losses/(Gains)	32,888	(21,145)	11,743
Payables - Accrued Expenses	(87)	87	-
	32,801	(21,058)	11,743

7. INCOME TAX (continued)

LGSS Pool A and LGSS Pool B received a distribution of income, paid effective 30 June 2016, in respect of their investment in Local Investment Fund of which certain amounts distributed to them were labelled as 'CGT Concession'. The ATO has released interim guidance in relation to the treatment of certain CGT Concession amounts which conflicts with its existing views published in private binding rulings, as well as the Explanatory Memorandum to the Bill that introduced these provisions. The ATO has announced that it is currently reconsidering its view of the treatment of CGT Concession amounts received from trusts.

As a result of the current uncertainty as to the application of these provisions of the Tax Law, certain 'CGT Concession' amounts have been treated as 'tax deferred' for the purposes of preparing Local Government Super's financial statements. The consequence of this is the CGT cost base of Local Government Super's investment in Local Investment Fund has been reduced by such amounts, which has caused the unrealised capital loss position and associated Deferred Tax Asset (DTA) reported in the Statement of Net Assets to both be less than if no cost base adjustment was made. The ATO is expected to issue a draft pronouncement in the near future to provide further details of its view on this issue. If the ATO subsequently conclude that amounts treated as tax deferred should instead be treated as CGT Concession, then Local Government Super would recognise an increased DTA of approximately $142 million. Local Government Super will continue to monitor any developments in relation to this issue.

8. LIABILITY FOR ACCRUED BENEFITS - DEFINED BENEFIT

The Actuarial Value of Accrued Benefits (also called past service liabilities) is the expected value (as at the valuation date) of all future expected benefit payments, based on membership to date, discounted to the valuation date, taking into account the probability and timing of payments. The value of the accrued benefits was undertaken by the actuary as part of the comprehensive actuarial review, which was performed for the year ended 30 June 2015.

The next detailed triennial valuation of the assets and liabilities will be performed by the Fund's Actuary for the period ended 30 June 2018. The expected date of completion of the report is February 2019. Following the adoption of AASB 1056 from 1 July 2016, annual valuation of accrued and vested benefits is required at each reporting period.

	2015 $'000	2012 $'000
Accrued Benefits as at 30 June	3,390,600	3,107,137
Net Assets of the Fund as at 30 June	3,334,651	2,737,768

9. VESTED BENEFITS

Vested Benefits are benefits which are not conditional upon continued employment. For contributors these are benefits they were entitled to receive had they terminated their employment as at the reporting date.

	2016 $'000	2015 $'000
As at 30 June	3,158,162	3,140,888

The Vested Benefits above is calculated by the Actuary for the Local Government Super Defined benefit portion and excludes benefits for pension where the Actuary has estimated the liability to be $264,040,000 (2015: $264,142,000).

The Actuarial report identified in the Appendix was prepared as at 30 June 2015.

The Vested Benefits was calculated based on the APRA definition of Vested Benefits in accordance with APRA Superannuation Prudential Standard ("SPS") 160 – Defined Benefit Matters. APRA has clarified that Vested Benefits should include an allowance for any option the member could exercise where this is consistent with the actuarial funding calculation. Therefore the Vested Benefits is now based on the member's benefit entitlement assuming 70% probability of choosing the deferred benefit option (based on past experience).

Net Asset Value includes the Operational Risk Financial Requirement Reserve ("ORFR") of $26,946,917. The ORFR is a requirement in terms of the Prudential Standard SPS 114. This reserve is used to compensate members for losses resulting from operational risk events. As at 30 June 2016, the Fund has reached the target balance for this reserve, which is 0.25% of the Fund's Net Asset Value.

In the intervening period since the previous triennial review, the funding position has been closely monitored in conjunction with the Fund's Defined Benefit Policy. Contributions have continued to be paid in accordance with the recommendations from the 30 June 2015 valuation. Due to favourable investment performance since the last valuation it is anticipated that the time frame associated with the additional employer contributions, which currently equate to $49 million per annum, can be shortened. The Trustee will provide an update after the release of the results of the 30 June 2016 valuation.

9. VESTED BENEFITS (continued)

As a result of the Successor Fund Transfer, the Liability of Accrued benefits of Local Government Super includes both Defined benefits and Defined contributions and the consolidated liability is as follows:

Funds Allocated to Members' Account	9,341,085
Funds Not Yet Allocated to Members' Accounts	26,452
Vested benefits	9,367,537
Administration Reserve	351
Insurance Reserve	1,711
Operational Risk Financial Requirement Reserve (ORFR)	26,947
Total reserves	29,009
Total Liability for Accrued Benefits	9,396,546

10. CHANGES IN NET MARKET VALUE OF INVESTMENTS

30 June 2016	**Unrealised at Reporting Date**	**Realised During the Year**	
	Gain/(Loss) $'000	**Gain/(Loss) $'000**	**Total $'000**
Unlisted Australian Securities and Unit Trusts	(735,817)	(131)	(735,948)
	(735,817)	(131)	(735,948)

30 June 2015	**Unrealised at Reporting Date**	**Realised During the Year**	
	Gain/(Loss) $'000	**Gain/(Loss) $'000**	**Total $'000**
Unlisted Australian Securities and Unit Trusts	175,372	7,802	183,174
	175,372	7,802	183,174

11. FUND FUNDING ARRANGEMENTS

For years ended 30 June 2016 and 30 June 2015, member and employer contributions for each of the funds are determined on the basis described below.

(a) Division A Fund

Compulsory Employer Contributions

The percentage of salary or wages of employees prescribed as the rate of compulsory employer (Superannuation Guarantee) contributions between 1 July 2015 to 30 June 2016 was 9.50% (1 July 2014 to 30 June 2015: 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.

(b) Division B Fund

Member Contributions:	Each member elects to contribute between 1% and 9.50% of salary (2015: between 1% and 9.50%).
Employer Contributions:	Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2015/16 employers contributed at the standard contribution rate (1.9 times employee contributions). In 2014/15 employers contributed at the standard contribution rate (1.9 times employee contributions).

11. FUND FUNDING ARRANGEMENTS (continued)

(c) Division C Fund

Member Contributions: In relation to any defined benefit obligations, there are no member contributions. Members may elect to make voluntary contributions to the defined contribution component.

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustees based on actuarial advice. In 2015/16 employers contributed at the "nominal" contribution rate (2.5% of Superable Salary). In 2014/15 employers contributed at the "nominal" contribution rate (2.5% of Superable Salary).

(d) Division D Fund

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 (2015: exceed 6%).

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2015/16 employers contributed at the "nominal" contribution rate (1.64 times employee contributions). In 2014/15 employers contributed at the "nominal" contribution rate (1.64 times employee contributions).

12. INVESTMENT OPTIONS

Members can choose to invest in one of the six different investment options listed below:

- High Growth
- Growth
- Balanced Growth
- Balanced
- Conservative
- Cash

Accumulation Scheme members relating to the Successor Fund Transfer from Local Government Superannuation Scheme Pool A, can choose to invest in one or more of the following seven investment options:

- High Growth
- Balanced Growth
- Balanced
- Conservative
- Sustainable Australian Shares
- Cash
- DIY Investment Option

12. INVESTMENT OPTIONS (continued)

They can also choose to invest in the MySuper Age Based Investment Strategy. For Accumulation Scheme members who have not chosen a particular investment option, their account balance is invested in the MySuper Age Based Investment Strategy based on their age, as shown below.

	Age Band
MySuper High Growth	Up to 44 years
MySuper Balanced Growth	Age 45 – 49
MySuper Balanced	Age 50 – 54
MySuper Conservative	Age 55 and over

13. REMUNERATION OF AUDITORS

	2016	**2015**
	$	**$**
Remuneration for audit of the financial report of the Fund		
Ernst & Young:		
Audit and review of financial reports and compliance	57,442	57,442
Taxation services	23,100	37,049
	80,542	94,491

Audit fees are paid by LGSS Pty Limited on behalf of the Fund. The amounts above are GST inclusive.

14. CASH FLOW INFORMATION

Cash and Cash Equivalents represent cash at bank. The Fund does not have any credit standby arrangements or loan facilities.

	2016	**2015**
	$'000	**$'000**
Cash at Bank	101,824	36,898

15. FINANCIAL RISK MANAGEMENT

(a) Financial Instruments Management

The investments of the Fund (other than cash held for meeting daily administrative and benefit expenses, unlisted securities and LGPF), are invested through the Local Investment Fund ("LIF") on behalf of the Trustee by investment managers. The investment managers are required to invest the assets allocated for discrete management in accordance with the terms of a written investment management agreement; or through a pooled vehicle managed on the terms disclosed within the information memorandum. The Trustee of LIF has determined that the appointment of these managers is appropriate for the 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.

15. FINANCIAL RISK MANAGEMENT (continued)

(b) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

(c) Capital Risk Management

The Trustee of the Fund holds an RSE license. The ORFR Reserve is the capital requirement of the Fund and is detailed in Note 9.

(d) Categories of Financial Instruments

The assets and liabilities of the Fund are recognised at net market value as at the reporting date. The cost of realisation of investments is minimal and therefore net market value approximates fair value. Changes in net market value are recognised through the Statement of Changes in Net Assets.

(e) Financial Risk Management Objectives

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

The Trustee has developed, implemented and maintains a Risk Management Framework ("RMF") including a Risk Management Strategy ("RMS") in respect of its activities as a Trustee and for the Fund.

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

(f) 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.

15. FINANCIAL RISK MANAGEMENT (continued)

Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limit are approved;
- ensuring that transactions are undertaken with a number of counterparties; and
- ensuring that the majority of transactions are undertaken on recognised exchanges.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance date. This also relates to financial assets carried at amortised cost as they have a short term to maturity.

The Fund is exposed to credit risk primarily through its investment in LIF. LIF manages exposure to any individual counterparty or industry by investing the assets of the Fund in a number of underlying investments trusts. The credit risk is managed not only by diversifying across investment managers but also by the investment managers having diversified portfolios, thus minimising the counterparty risk.

Credit risk arising on investments is mitigated by investing primarily in rated instruments or instruments issued by rated counterparties of credit ratings of at least 'BBB+' or better as determined by Standard and Poor's, unless these securities form part of the profile of specifically permitted market benchmarks within mandated or pooled investments as in the case of Emerging Market Debt, High Yield Bonds or as part of the exposure to Structured Products, Private Equity or Semi Liquid Assets. Regarding the less liquid assets, there is more risk than those securities rated BBB+, however this is managed by external professional investment managers. Their exposure to risk is undertaken when they believe the premium being paid is more than sufficient to cover the default risk on the debt.

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

(g) Liquidity Risk

The 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 is to ensure that it will always have sufficient liquidity to meet its 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 additional liquidity risk primarily through its underlying investment in LIF and LGPF. LIF's listed securities and unit trust investments are considered to be readily realisable. LIF'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 LIF, LGPF, and consequently the Fund may not be able to liquidate all of these investments at their net market value in order to meet its liquidity requirements.

15. FINANCIAL RISK MANAGEMENT (continued)

(g) Liquidity Risk (continued)

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 in 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 undiscounted 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 $'000	3 months to 1 year $'000	1-5 years $'000	5+ years $'000	Total $'000
2016					
Vested Benefits	3,158,162	-	-	-	3,158,162
Other					
Other Payables	4,364	-	-	-	4,364
Current Tax Liability	-	44,403	-	-	44,403
Total	3,162,526	44,403	-	-	3,206,929
2015					
Vested Benefits	3,140,888	-	-	-	3,140,888
Other					
Other Payables	91	-	-	-	91
Current Tax Liability	-	5,826	-	-	5,826
Total	3,140,979	5,826	-	-	3,146,805

(h) 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 within LIF. The relationships that varying asset classes display during volatile market conditions are critical in this construction process.

15. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

LIF manages this risk via outsourcing their investment management; the investment managers manage the financial risks relating to the operations of LIF in accordance with an investment mandate set out in accordance with their constitution and product disclosure statement. The Fund ensures the operation of LIF is in accordance with the Fund's trust deed and product disclosure statement.

The carrying amounts of financial assets best represent the maximum market risk exposure at the balance sheet date.

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

Interest Rate Risk Management
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Fund, through its investment in LIF, is exposed to the interest rate markets. The Fund invests in these 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 and changes in net assets from possible changes in market risk that were reasonably possible based on the risk the Fund was exposed to at reporting date via its investment in LIF:

	Change in Variable	**Effect on Change in Net Assets**	
	+/-	**2016**	**2015**
		$'000	**$'000**
Interest rate risk	+2%	(9,732)	(3,370)
Interest rate risk	-2%	9,732	3,370

15. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

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

Under interest rate swap contracts, the Trustee agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable LGPF to mitigate the risk of changing interest rates on debt held. The average interest rate is based on the outstanding balances at the start of the financial year. The maturity of the loan and related swap contracts, that have been entered into to reduce entity's exposure to adverse changes in interest rates is not in line. As a result, the Fund is exposed to interest rate risk as the notional values of interest rate swap contracts are higher than the bank loan balance.

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

Outstanding floating for fixed contracts	**Average contracted fixed interest rate**		**Notional principal amount**		**Fair value amount**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
			$'000	**$'000**	**$'000**	**$'000**
Loan	2.92%	3.31%	65,000	65,000	65,000	65,000
Interest rate swap: 2-5 years	4.05%	4.05%	(1,169)	(2,155)	(1,169)	(2,155)

The interest rate swap contracts settle on a quarterly basis. The floating rate on the interest rate swap is the Australian 90 days BBSY. LGPF 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 LIF's investment in financial instruments denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising forward exchange rate contracts. The forward exchange rate contracts are designed to hedge an agreed percentage of its exposure to foreign currency for all international equities and 100% of all other international assets. The agreed percentage was 30% (2015: 30%) at balance sheet date.

The Trustees of LIF uses a currency external overlay manager to manage their exposures to foreign currency risk. The Fund's, and LIF's overall strategy to foreign currency risk management has not changed from the previous year.

15. FINANCIAL RISK MANAGEMENT (continued)

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 via its investments in LIF. 10% is the sensitivity rate used when reporting foreign currency risk internally to the Trustee and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in net assets available to pay benefits and 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 and on the net assets available to pay benefits, and the balances below would be negative.

	Change in Variable	**Effect on Change in Net Assets**			
	+/-	**USD Impact**		**JPY Impact**	
		2016	**2015**	**2016**	**2015**
		$'000	**$'000**	**$'000**	**$'000**
Forex Risk	+10%	(3,497)	(2,688)	(323)	(13)
Forex Risk	-10%	3,497	2,688	323	13

	Change in Variable	**Effect on Change in Net Assets**			
	+/-	**EUR Impact**		**GBP Impact**	
		2016	**2015**	**2016**	**2015**
		$'000	**$'000**	**$'000**	**$'000**
Forex Risk	+10%	(481)	(393)	(131)	(7)
Forex Risk	-10%	481	393	131	7

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

Other Market Risk

Market price risk is the risk that the value of the 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 in LIF. This risk is managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly on a total portfolio basis which includes the effect of derivatives. The Fund's overall strategy to market price risk management has not changed from the previous year.

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

15. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

	Change in Variable	Effect on Change in Net Assets	
	+/-	**2016**	**2015**
		$'000	**$'000**
Equity Price Risk	+10%	709,225	248,252
Equity Price Risk	-10%	(709,225)	(248,252)

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

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

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).

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 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Unlisted Australian Securities and Unit Trusts	-	9,313,750	-	9,313,750
DIY Investment Option (Macquarie DIO)	8,720	-	-	8,720
Total	**8,720**	**9,313,750**	**-**	**9,322,470**

30 June 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Unlisted Australian Securities and Unit Trusts	-	3,236,015	46,856	3,282,871
Total	-	**3,236,015**	**46,856**	**3,282,871**

15. FINANCIAL RISK MANAGEMENT (continued)

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

Asset Category	Level 2	Level 3	Valuation Techniques	Key unobservable input	Relationship of unobservable inputs to fair value
30 June 2016	**$'000**	**$'000**			
Unlisted Australian Securities and Unit Trusts	9,313,750	-	Net Asset Value	N/A	N/A
Total	9,313,750	-			

Asset Category	Level 2	Level 3	Valuation Techniques	Key unobservable input	Relationship of unobservable inputs to fair value
30 June 2015	**$'000**	**$'000**			
Unlisted Australian Securities and Unit Trusts	3,236,015	46,856	Net Asset Value	N/A	N/A
Total	3,236,015	46,856			

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in a transaction between market participants at the measurement date. The Fund has an established control framework with respect to the measurement of fair values. When third party valuation information, such as periodic valuations provided by the Trustees of unlisted unit trusts is used to measure fair value, the Trustee has a process in place to assess the evidence obtained to support the conclusion that such valuations meet the requirements of Australian Accounting Standards. The Trustee's policy on the valuation of private market investments held in the Fund is to adopt the latest available reported valuations provided by the operators of the investment vehicles. The valuations provided by the Trustees of unlisted unit trusts are monitored daily, monthly or as required.

There was 1 transfer between level 2 and 3 assets in the period. The Fund has recorded its investment in LIF and LGPF as level 2 assets due to them being unlisted unit trusts and them not meeting the level 1 requirement to be actively traded. The Fund can redeem or purchase units in LIF and LGPF on a weekly basis. The various private equity investments in 2015 were recorded as level 3 but now transferred to Level 2 due to the full redemption of assets where relevant observable inputs were not available. There has been a Successor Fund Transfer for 30 June 2016 but this involves no level 3 assets.

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

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

30 June 2016	**Total**
	$'000
Opening balance	46,856
Purchases/Applications	20,235
Sales/Redemptions	(24,028)
Total gains/(losses)	4,323
Transfer out to Level 2	47,386
Closing balance	-
Total gains/(losses) recognised in the Statement of changes in Net Assets for assets held at the end of the year	4,323

30 June 2015	**Total**
	$'000
Opening balance	119,735
Purchases/Applications	2,377
Sales/Redemptions	(77,910)
Total gains	2,654
Closing balance	**46,856**
Total gains recognised in the Statement of changes in Net Assets for assets held at the end of the year	2,654

16. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION

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:

Employer representatives
Mrs M Blicavs
Mr J Morris
Ms K O'Regan
Mr B Miller

Employee representatives
Mr R O'Connell (resigned 31 August 2016)
Mr C Peate
Mr J Montague
Mr S Byrne
Mr G Brock (appointed 1 September 2016)

LGSS Pty Limited was also the Trustee for Local Government Superannuation Scheme Pool A.

The above Directors are also Directors of LIF Pty Limited (ABN 92 099 664 285), a wholly owned subsidiary of the Trustee. LIF Pty Limited is the Trustee of the Local Investment Fund and of Local Government Property Fund. Furthermore, the above Directors are also Directors of Local Government Financial Services Pty Limited, which is 100% owned by Local Government Superannuation Scheme Pool B.

b) Other Key Management Personnel

The Chief Executive Officer, Mr P Lambert, the Chief Investment Officer, Mr C Turnbull, Chief Operating Officer, Mr A Griffin, Chief Marketing Officer, Ms M Hopwood, Mr A Dunkerley, Chief Advice Officer and Chief Governance Officer, Ms D Heffernan are considered to be members of the key management personnel.

c) Compensation Received

	2016 $'000	2015 $'000
Short-term employee benefits	2,316	2,084
Post-employment benefits	176	186
	2,492	2,270

The total compensation due and receivable by Directors of LGSS Pty Limited and the key management personnel (for both LGS Pool A and LGS Pool B) during the financial year is payable directly or indirectly, by LGSS Pty Limited.

The Fund also includes the remuneration during the financial year due and receivable by Directors of LGSS Pty Limited, payable directly or indirectly, by Local Government Financial Services Pty Limited.

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

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 15(c) and are for the reimbursement of administration costs incurred by the Directors whilst attending to Trustee business.

Contributions and retirement benefits of key management personnel

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

Mr B Miller, and Mr J Montague are directors of the Trustee and received benefit payments from LGS Pool A during the year in accordance with the Trust Deed.

(e) Other Related Party Transactions

During the financial year, the Fund paid $9,221,247 to LGSS Pty Limited for administration fees and employee entitlements (2015: $12,294,957). LIF Pty Limited is the Trustee of LGPF, in which the Fund has an investment of $124,593,453 (2015: $229,055,019).

During the current year a distribution of $17,548,350 (2015: distribution of $12,515,795) has been made by LGPF to the Fund.

The Fund holds 100% of the share capital of Local Government Financial Services Pty Limited ("LGFS"). Included in investments is the Funds's investment in LGFS which has been brought to account at the independent valuation amount of $2 (2015: $2).

Included within the investments of the Fund (including LGS Pool A) are amounts held with LIF of $9,043,667,689 (2015: $3,006,959,806). Distributions received from LIF to the fund were $838,836,188 (2015: $87,435,613).

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

On 1 July 2005 Hawkesbridge Limited was appointed as Private Equity Manager for the Fund. As at 30 June 2016 the Fund had invested a total of $1,057,275 (2015: $1,057,275), representing 16.6% (2015: 9.8%) of total capital in Hawkesbridge Limited. C Turnbull, Chief Investment Officer of the Fund is also one of the directors of Hawkesbridge Limited. The Fund disposed of Hawkesbridge Limited on 27 July 2016.

17. SUBSEQUENT EVENTS

On 9 December 2015, the Directors of LIF Pty Limited passed a resolution to close LIF. This is expected to happen effective 30 November 2016.

18. ASSETS AND LIABILITIES TRANSFERRED FROM LGS POOL A

As a result of the Successor Fund Transfer agreement (Note 1), all assets, liabilities, members and their accrued benefit entitlements of LGS Pool A were transferred to the Fund on 30 June 2016.

	$000
Assets	
Investments	6,055,581
Cash	63,884
Other Receivables	10,986
Deferred Tax Asset	219
	6,130,670
Liabilities	
Benefits Payable	3,346
Payables	3,359
Current Tax Liability	27,069
Deferred Tax Liability	6,325
	40,099
Net Assets transferred from LGS Pool A	6,090,571
Liability for Accrued Benefits	
Funds Allocated to Members' Account	6,062,411
Funds Not Yet Allocated to Members' Accounts	9,016
Vested benefits	6,071,427
Administration Reserve	351
Insurance Reserve	1,711
Operational Risk Financial Requirement Reserve (ORFR)	17,082
Total reserves transferred from LGS Pool A	19,144
Total Liability for Accrued Benefits transferred from Pool A	6,090,571

19. SUBSIDIARIES

Name of Entity	Country Of Incorporation	2016 Ownership Interest %	2015 Ownership Interest %
Local Government Financial Services Pty Limited	Australia	100%	100%
LG Diversified Trust	Australia	100%	100%
Local Government Property Fund	Australia	51%	51%
Local Investment Fund	Australia	100%	35%

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 subsidiaries, Local Government Property Fund and Local Investment Fund; however, it is required to provide certain disclosures, as outlined above.

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LOCAL GOVERNMENT SUPER (FORMERLY LOCAL GOVERNMENT SUPERANNATION SCHEME POOL B) ABN 28 901 371 321

Report by the RSE Auditor to the trustee and members

Financial statements

I have audited the financial statements of Local Government Super (formerly Local Government Superannuation Scheme Pool B) for the year ended 30 June 2016 comprising the statement of net assets, statement of changes in net assets, summary of significant accounting policies, other explanatory notes and the Trustee statement.

Trustee's responsibility 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.

Auditor's responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the trustee and members of Local Government Super.

My audit has been conducted in accordance with Australian Auditing Standards. These Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

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

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Auditor's opinion

In my opinion the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards, the net assets of Local Government Super as at 30 June 2016 and the changes in net assets for the year ended 30 June 2016.

Ernst & Young

Ernst & Young

David Jewell

David Jewell
Partner
Sydney
28 September 2016

APPENDIX

Summary of Actuary's Report (AAS 25)

Local Government Super Pool B

*This Summary has been prepared for the purposes of **Australian Accounting Standard 25**. This Summary also provides statements required to be made under APRA Prudential Standard SPS 160. Values cited relate to Pool B as a whole (inclusive of all accumulation members and accounts).*

The effective date of the most recent actuarial valuation of Pool B (the Plan) of the Local Government Super was 30 June 2015 covering the period from 1 July 2012 to that date. The valuation was undertaken by Richard Boyfield, a Fellow of the Institute of Actuaries of Australia, on behalf of Mercer, Darling Park Tower 3, 201 Sussex Street, Sydney, NSW, 2000, and the results are set out in a report dated 24 February 2016. A summary of this report follows:

(i) As at 30 June 2015, the net assets available to pay benefits of the Plan from its audited financial statements is $3,334,700,000, inclusive of assets held to meet the Operational Risk Financial Requirement ($9.2 million) and assets held in the Division B Additional Benefits Self-Insurance Reserve ($6.9 million).

Therefore as at 30 June 2015, the net realisable value of the assets of the Plan were $3,318,600,000, excluding the ORFR and the Self-Insurance Reserve. This asset value includes $808.4 million for accumulation style benefits and provisions for defined benefits payable at 30 June 2015. This is the value of assets used in determining the recommended contribution rate.

(ii) The Plan's liabilities include current defined benefit pension liabilities of $264,900,000.

(iii) The actuarial value of accrued benefits as at 30 June 2015 was $3,390,600,000. Hence I consider that the value of the assets at 30 June 2015 is inadequate to meet the value of the accrued benefit liabilities of the Plan as at 30 June 2015. In determining the value, I have not applied a minimum of the vested benefits.

The above figure includes accumulation liabilities and defined benefits payable totaling $808,400,000 at 30 June 2015.

(iv) The total as at 30 June 2015 of members' Vested Benefits amounted to $3,413,000,000. Hence I consider that the value of the assets at 30 June 2015 is inadequate to meet the value of the vested benefit liabilities of the Plan at that date. Hence Pool B was in an unsatisfactory financial position as at 30 June 2015.

Assuming that the Employer contributes in accordance with my recommendations, then, based on the assumptions made for this actuarial valuation, I expect that assets will become sufficient to cover the value of vested benefit liabilities over the period to 30 June 2019.

(v) In my opinion, the value of the liabilities of the Plan in respect of the minimum benefits of the members of the Plan as at 30 June 2015 was $2,648,100,000. Hence the Plan was not technically insolvent at 30 June 2015.

(vi) The ratios of the assets to the actuarial value of accrued benefits, vested benefits and the SG Minimum Benefits are:

As at 30 June 2015	Defined Benefits Only		Total Pool B	
	$M	Asset Coverage	$M	Asset Coverage
Assets	2,510.2		3,318.6	
Actuarial Value of Accrued Benefits	2,582.2	97%	3,390.6	98%
Vested Benefits	2,604.6	96%	3,413.0	97%
SG Minimum Benefits	1,839.7	136%	2648.1	125%

(vii) There are various financing methods that could be followed in setting the Employer contribution level. This actuarial valuation was carried out using a "Target Funding Method" to determine the Employer contributions required to meet the financing objectives of the Plan.

(viii) The actuary recommended that the Employer contribute to the Plan at the following rates:

Employer Standard Defined Benefit Contributions for Contributors		
Division B	**Division C**	**Division D**
1.9 times member contributions for non-180 Point Members; Nil for 180 Point Members*	2.5% of salary	1.64 times member contributions

* For 180 Point Members, Employers are required to contribute 7% of salaries to these members' accumulation accounts, which are paid in addition to members' defined benefits.

With additional contributions over varying terms depending on the funded position of the individual employer. The additional contributions will be reviewed annually.

(ix) A projection of the likely future financial position of the Plan over the 3-year period following 30 June 2015, based on what I consider to be reasonable expectations for the Plan for the purpose of this projection, is set out in the report.

(x) Based on the results of this valuation, I consider that the shortfall limit of 100% does require review.

(xi) The next valuation date should be no later than as at 30 June 2018. At that time, the level of Employer contributions will be reviewed. The Plan's financial position should be reviewed annually to ascertain if an adjustment to the Employer contribution levels is required prior to the next complete valuation.

(xii) The Plan is used for Superannuation Guarantee purposes.

a. All Funding and Solvency Certificates required under Division 9.3 of the SIS Regulations have been issued for the period from the date of the last valuation to 30 June 2015;

b. I expect to be able to certify the solvency of the Plan in any Funding and Solvency Certificates that may be required in the three year period from 30 June 2015.

(xiii) In my opinion, there is a "high degree of probability", as at 30 June 2015, that the Plan will be able to meet the pension payments as required under the Plan's governing rules.

(xiv) Taking into account the circumstances of the Plan, the details of the membership and the assets, the benefit structure of the Plan and the industry within which the Employers operate, the assumptions and valuation methodology used are appropriate in relation to the determination of the present value of accrued benefits for the purposes of the actuarial valuation and AAS25.

(xv) In preparing this summary, I have complied with the Professional Standards and Guidance Notes issued by the Actuaries Institute.

R S Boyfield

Richard Boyfield
Fellow of the Institute of Actuaries of Australia
Representative of Mercer Consulting (Australia) Pty Ltd AFS Licence #411770

24 February 2016

AAS25 Summary Note 1: Summary of Method of Attributing Benefits to Past Membership

Accumulation Benefits

The value of accumulation benefits has been taken as the sum of the balances held in accumulation accounts at the date of the valuation.

Defined Benefits

Division B

Where liabilities for expected future benefit payments under Division B in this valuation have been apportioned between past service liabilities (benefits in respect of membership prior to the valuation date) and future service liabilities (membership after the valuation date), the method of apportioning to past service is as set out below. Future service liabilities are the difference between the total liabilities and the past service liabilities.

For benefits payable at time t years after the valuation date:

on retirement, partial disability, withdrawal with deferred benefit (before discount) and on total disability:

Past service component

$$= SAL_t \times ABP_0 \times 0.025 \times \left(1 - \frac{(TaxPS+t)}{PS+t} \times 0.15\right)$$

on death:

Past service component

$$= SAL_t \times ABP_0 \times 0.025$$

on resignation with 10 or more years of membership:

Past service component

$$= (PS+t) \times MCI_t \times \frac{ABP_0}{Y_t} \times 0.025 \times \left(1 - \frac{(TaxPS+t)}{PS+t} \times 0.15\right)$$

where:

ABP_0	=	accrued benefit points at time 0 (i.e. at 30 June 2015), subject to maximum points limit.
Yt	=	as ABPt except not subject to maximum points limit
PS	=	membership period to 30 June 2015, including previous fund membership
TaxPS	=	membership period to 30 June 2015, excluding any period before 1 July 1988

SALt	=	salary at time t (Final Salary or Final Average Salary as appropriate to the particular benefit)
MCIt	=	member contributions plus interest at time t, less expenses and additional benefit levy where appropriate. Member is assumed to continue to contribute at his/her 30 June 2015 rate until achieving maximum points limit, then member contribution rate reduces as per valuation assumption.

Division C

Where liabilities for expected future benefit payments under Division C in this valuation have been apportioned between past service liabilities (benefits in respect of membership prior to the valuation date) and future service liabilities (membership after the valuation date), the method of apportioning to past service is as set out below. Future service liabilities are the difference between the total liabilities and the past service liabilities.

For benefits payable at time t years after the valuation date:

Past service component

$$= \frac{PS}{PS+t} \times \text{(benefit payable in respect of Division C membership)}$$

$$+ \frac{SGPS}{SGPS+t} \times \text{(SG top-up, if any)}$$

where:

PS = membership period to 30 June 2015

SGPS = membership period to 30 June 2015, excluding any period before 30 June 1992

Division D

Where liabilities for expected future employer-financed benefit payments under Division D in this valuation have been apportioned between past service liabilities (benefits in respect of membership prior to the valuation date) and future service liabilities (membership after the valuation date), the method of apportioning to past service is as set out below. Future service liabilities are the difference between the total liabilities and the past service liabilities.

For benefits payable at time t years after the valuation date:

on retirement, withdrawal and preservation:

Past service component

$$= \frac{PS}{PS+t} \times \text{Value of employer-financed benefit commencing payment at time t}$$

on death or disability:

Past service component

$$= \frac{PS}{TS} \times \text{Value of employer-financed benefit commencing payment at time t}$$

where:

PS = membership period to 30 June 2015, or normal retirement age if earlier
TS = membership period to normal retirement age.
PS+t = membership period to time t, or normal retirement age if earlier.

Value of employer-financed benefit = Value total benefit less amount of accumulated member contributions at time t. This method is used due to the specific benefit design for Division D where members are required to continue contributions for their units accrued until retirement age (otherwise benefits will be reduced).

Changes in Methodology of Calculating the Actuarial Value of Accrued Benefits

The method used for the determination of Accrued Benefits is the same as that used at the previous valuation.

AAS25 Summary Note 2: Summary of Assumptions

Financial Assumptions

	Assumption
Investment returns (after tax and investment fees)	6.5% p.a.
General salary increases	3.5% p.a.
Pension increase rate	2.5% p.a.

For the purposes of determining the present value of accrued benefits in accordance with Australian Accounting Standard AAS25, a market-determined, risk adjusted discount rate of 6.5% per annum was used. This rate represents the weighted average (weighted by accrued benefit liabilities) expected return on the Plan's defined benefit assets supporting active members.

The weighted average duration of the accrued benefit liabilities in respect of active membership and pension membership is 9.1 years and 10.7 years respectively.

Other Assumptions

Assumptions regarding rates at which members will leave the Plan on account of retirement, death, disablement and resignation have been based on the experience of this and other similar Plans. Further details can be found in my report of the actuarial valuation as at 30 June 2015.

Changes in Key Assumptions

The following table sets out changes in assumptions from those used in the previous valuation and the reasons for the changes:

Assumption	30 June 2015 Valuation	30 June 2012 Valuation	Reason for change
Investment return (net of tax and after investment fees)	6.5% pa	7.0% pa	Reflects investment market outlook and lower expected long term return
General salary increases	3.5% pa	4.0% pa	Reduction in salary outlook in line with lower growth rates as reflected in the lower investment return rate
Rate of CPI increase	2.5% pa	2.5% pa	No change
Administration and Trustee expenses	Asset-based expense of 0.4% pa	3.0% of benefit payments	Consistent with Trustee recovering expenses via unit pricing and in line with latest Trustee budget forecast
Division B pension take-up	50%	20%	In line with recent Plan experience