



# Annual Financial Report 30 June 2017

Local Authorities Superannuation Fund  
(operating as Vision Super)

ABN: 24 496 637 884

RSE: R1000603

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# **Local Authorities Superannuation Fund** **Statement of Financial Position** **as at 30 June 2017**

	<i>Note</i>	2017 \$000	2016 \$000
<b>Assets</b>			
Cash and cash equivalents		22,660	26,258
Contributions receivable	6	2,580	3,641
Receivables		449	459
Units in Vision Pooled Superannuation Trust	3, 4	8,660,320	7,760,700
Deferred tax assets	19	9	6
<b>Total assets</b>		<b>8,686,018</b>	<b>7,791,064</b>
<b>Equity</b>			
Operational risk financial requirement reserves		950	950
Administration reserve		12,635	8,750
Insurance reserves		21,623	20,782
Other reserves		955	1,499
Defined benefits that are over/(under) funded	5, 9	248,113	211,920
<b>Total equity</b>		<b>284,276</b>	<b>243,901</b>
<b>Liabilities</b>			
Benefits payable		35,564	30,702
Other payables		2,930	40
Income tax payable	18	49,726	47,026
Deferred tax liabilities	19	363	489
<b>Total liabilities excluding member benefits</b>		<b>88,583</b>	<b>78,257</b>
<b>Member benefit liabilities</b>			
Defined contribution member liabilities	5, 7	6,090,792	5,270,363
Amounts not yet allocated	5, 7	8,849	-
Defined benefit member liabilities	5, 8	2,213,518	2,198,543
<b>Total member benefit liabilities</b>		<b>8,313,159</b>	<b>7,468,906</b>
<b>Total equity and liabilities</b>		<b>8,686,018</b>	<b>7,791,064</b>

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

**Local Authorities Superannuation Fund**  
**Income Statement**  
**for the year ended 30 June 2017**

	<i>Note</i>	2017 \$000	2016 \$000
<b>Superannuation activities</b>			
Net changes in value of assets measured at fair value	13	826,175	197,929
Other income		275	2,302
<b>Total net income</b>		<u>826,450</u>	<u>200,231</u>
<b>Expenses</b>			
General administration expenses	15	(20,749)	(24,215)
<b>Total expenses</b>		<u>(20,749)</u>	<u>(24,215)</u>
<b>Result from superannuation activities before income tax expense</b>		<u>805,701</u>	<u>176,016</u>
Income tax (expense)/benefit	17	92	7,111
<b>Results from superannuation activities after income tax expense</b>		<u>805,793</u>	<u>183,127</u>
Net benefits allocated to defined contribution members		(577,082)	(114,453)
Net change in defined benefit member liabilities	14	(188,227)	(157,235)
<b>Operating result after income tax</b>		<u>40,484</u>	<u>(88,561)</u>

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



## Local Authorities Superannuation Fund Statement of Changes in Member Benefits for the year ended 30 June 2017

	Note	DC Members \$000	DB Members \$000	Total \$000
Opening balance as at 1 July 2015		4,926,004	2,211,332	7,137,336
Contributions				
Employer		316,596	41,683	358,279
Member		135,639	4,887	140,526
Transfers from other superannuation plans		111,391	-	111,391
Income tax on contributions		(47,489)	(6,252)	(53,741)
<b>Net after tax contributions</b>		<b>516,137</b>	<b>40,318</b>	<b>556,455</b>
Net benefits allocated comprising:				
Net investment income		131,250		131,250
Net administration fees		(16,797)		(16,797)
		114,453		114,453
Benefits paid to members/beneficiaries		(261,535)	(92,601)	(354,136)
Transfers to other superannuation plans		(102,156)	(29,047)	(131,203)
Internal transfers from membership categories		88,488	(88,488)	-
Insurance premiums charged (including amounts transferred to the insurance reserves)	23	(19,496)	(238)	(19,734)
Death and disability benefits credited to members		8,468	32	8,500
Superannuation contributions surcharge		-	-	-
Net change in defined benefit member liabilities	14		157,235	157,235
<b>Closing balance as at 30 June 2016</b>	<b>7, 8</b>	<b>5,270,363</b>	<b>2,198,543</b>	<b>7,468,906</b>
<b>Opening balance as at 1 July 2016</b>		<b>5,270,363</b>	<b>2,198,543</b>	<b>7,468,906</b>
Contributions				
Employer		330,284	39,861	370,145
Member		179,325	4,665	183,990
Transfers from other superannuation plans		124,158	653	124,811
Income tax on contributions		(43,472)	(5,806)	(49,278)
<b>Net after tax contributions</b>		<b>590,295</b>	<b>39,373</b>	<b>629,668</b>
Net benefits allocated comprising:				
Net investment income		593,783		593,783
Net administration fees		(16,701)		(16,701)
		577,082		577,082
Benefits paid to members/beneficiaries		(248,911)	(117,415)	(366,326)
Transfers to other superannuation plans		(155,542)	(15,821)	(171,363)
Transfer to the ATO		(136)	(7)	(143)
Internal transfers from membership categories		78,529	(78,529)	-
Insurance premiums charged (including amounts transferred to the insurance reserves)	23	(20,537)	(221)	(20,758)
Other fees charged to members/DB sub-plans		(185)	(632)	(817)
Death and disability benefits credited to members		8,574	-	8,574
Transfers from reserves to members		109	-	109
Superannuation contributions surcharge		-	-	-
Net change in defined benefit member liabilities	14		188,227	188,227
<b>Closing balance as at 30 June 2017</b>	<b>7, 8</b>	<b>6,099,641</b>	<b>2,213,518</b>	<b>8,313,159</b>

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

**Local Authorities Superannuation Fund**  
**Statement of Changes in Reserves/Equity**  
**For the year ended 30 June 2017**

	Operational risk reserve	Insurance reserves	Administration reserves	Other reserves	Total reserves	DB that are over/(under) funded	Total Equity
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
						Note 9	
Opening balance as at 1 July 2015	-	18,425	-	732	19,157	313,094	332,251
Net transfers from/(to) DC member accounts	-	211	-	-	211	-	211
Net transfers from/(to) DB plans	-	-	-	-	-	-	-
Operating result	950	2,146	8,750	767	12,613	(101,174)	(88,561)
Closing balance as at 30 June 2016	950	20,782	8,750	1,499	31,981	211,920	243,901
Opening balance as at 1 July 2016	950	20,782	8,750	1,499	31,981	211,920	243,901
Net transfers from/(to) DC member accounts	-	-	(109)	-	(109)	-	(109)
Net transfers from/(to) DB plans	-	-	-	-	-	-	-
Operating result	-	841	3,994	(544)	4,291	36,193	40,484
Closing balance as at 30 June 2017	950	21,623	12,635	955	36,163	248,113	284,276

**Local Authorities Superannuation Fund**  
**Statement of Cash Flows**  
**For the year ended 30 June 2017**

	<i>Note</i>	2017 \$000	2016 \$000
<b>Cash flows from operating activities</b>			
Interest income received		275	215
Other income received		204	-
Administration expenses paid		(16,893)	(25,176)
Death and disability proceeds received from insurer		8,574	10,588
Insurance premiums paid		(20,135)	(19,564)
Other expenses paid		(956)	(1,487)
Income taxes paid		(1,201)	174
<b>Net cash inflow (outflow) from operating activities</b>	20	(30,132)	(35,250)
<b>Cash flows from investing activities</b>			
Sales of financial instruments		248,308	186,795
Purchases of financial instruments		(321,752)	(203,063)
<b>Net cash inflow (outflow) from investing activities</b>		(73,444)	(16,268)
<b>Cash flows from financing activities</b>			
Employer contributions received		371,206	358,202
Member contributions received		183,989	140,526
Transfers from/(to) other superannuation entities		124,811	111,391
Benefit payments to members of beneficiaries		(532,969)	(497,025)
Tax paid on contributions		(47,059)	(45,629)
<b>Net cash inflow (outflow) from financing activities and cash equivalents</b>		99,978	67,465
<b>Net increase (decrease) in cash and cash equivalents</b>		(3,598)	15,947
<b>Cash and cash equivalents at the beginning of the financial year</b>		26,258	10,311
<b>Cash and cash equivalents at end of year</b>		22,660	26,258

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



## Notes to the financial statements for the year ended 30 June 2017

### 1. General information about the Fund

#### (a) Operation of the Fund

Local Authorities Superannuation Fund (the Fund) was originally established under an Act of the Parliament of Victoria in 1947 and was established to provide superannuation benefits for members. The Fund's governing rules were transferred to the Local Authorities Superannuation Fund Trust Deed dated 26 June 1998.

The majority of the Fund's members and participating employees are from the local government, water and community services sectors. As the Fund has public offer status, the Fund accepts contributions from a range of employers.

The Fund is a hybrid fund which consists of both an account-based (defined contribution) section and a defined benefit section. The Fund also provides pensions to members within both the accumulation and defined benefit sections of the Fund. The defined benefits section of the Fund was closed to new entrants on 31 December 1993 and all new entrants join the account-based section of the Fund.

Employer and employee contributions for account-based members are received on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings as required under the Superannuation Guarantee (SG) legislation (for the year ended 30 June 2017, this was 9.5%).

Employer contributions for defined benefit members are made at rates appropriate to ensure that benefits are fully funded. Contributions rate necessary to meet the Fund's defined benefit obligations are determined by the Trustee based on advice from the Fund Actuary.

Benefits of members in the defined benefit section are calculated using formulas as defined in the Trust Deed. Benefits of account-based members are equal to the members' account balance which is increased or decreased each year with any relevant contributions, their proportionate share of net investment income, any relevant fees and charges and income tax expense (including contributions tax).

The Trustee of the Fund is Vision Super Pty Ltd (VSPL). VSPL is the holder of an extended public offer class Registrable Superannuation Entity Licence (licence no. L0000239). In accordance with amendments to the Superannuation Industry (Supervision) Act 1993, the Fund was registered with the Australian Prudential Regulation Authority on 12 December 2005 (registration no. R1000603).

The Fund is domiciled in Australia and the address of the Fund's registered office is Level 15, 360 Collins Street in Melbourne.

#### (b) Reporting entity

The Fund meets the definition of an investment entity in AASB 2013-5 *Amendments to Australian Accounting Standards - Investment Entities* as outlined in Note 2(f) and therefore does not need to present consolidated financial statements under AASB 10 *Consolidated Financial Statements*.

The reporting entity for the current and prior period for the purposes of these financial statements is the Fund only.

The financial statements were approved by the Board of the trustee on 27 September 2017.

## Notes to the financial statements for the year ended 30 June 2017

### 2. Summary of significant accounting policies

Unless covered in other notes to the financial statements, the principal policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated below.

#### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board, the Superannuation Industry (Supervision) Act 1993 and its regulations and the provisions of the Trust Deed.

The financial statements have been presented in Australian Dollars as this is the currency of the primary economic environment in which the Fund operates. The Fund's performance is evaluated and its liquidity is 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.

All values are rounded to the nearest thousand dollars (\$000) except where otherwise stated.

The Fund is a not-for-profit entity for the purposes of preparing these financial statements.

#### (b) Statement of compliance

The financial statements comply with AASB 1056 - Superannuation Entities. Since AASB 1056 is the principal standard that applies to the financial statements of superannuation entities, other standards (including Australian International Financial Reporting Standards (AIFRS)) are also applied where necessary except to the extent that they differ from AASB 1056.

International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the AASB. Certain requirements of AASB 1056 differ from the equivalent requirements that would otherwise be applied under IFRS.

#### (c) Adoption of AASB 1056

The Fund's reported financial position and results of operations were affected by the adoption of AASB 1056 - Superannuation entities on 1 July 2016. The adoption of AASB 1056 has resulted in the following changes:

- The presentation format of the financial statement changed from two primary financial statements to five as following:
  - Statement of financial position
  - Income statement
  - Statement of changes in member benefits
  - Statement of changes in equity
  - Statement of cash flows
- The measurement of financial assets and liabilities changes from 'net market value' to 'fair value'. This change in measurement did not materially impact the carrying value of the financial assets and liabilities reports by the Fund. The 'fair value' measurement rules do not apply to member benefits, tax assets and liabilities, and employer-sponsor receivables
- Member benefits are being as liabilities rather than equity and
- Contributions, rollovers and other inward transfers and benefits paid to members are not treated as income or expenses of the Fund and are presented in the Statement of Changes in Member Benefits



## Notes to the financial statements for the year ended 30 June 2017

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

#### (c) Adoption of AASB 1056 (continued)

As part of the transition to AASB 1056, the Trustee also had to determine whether Fund is exposed to material insurance risk in relation to members' insurance benefits. No material risk was identified so insurance premiums are no longer recognised as the Fund acts as an agent. Refer to Note 23 for further information.

As required by AASB 1056 and AASB 108 - Accounting Policies, Changes in Accounting Estimates and Errors, the Fund has applied the AASB 1056 retrospectively from the start of the comparative period beginning on 1 July 2015.

As a result, the Fund has restated amounts previously reported under AAS 25 - Financial Reporting by Superannuation Plans (AAS 25) for the year ended 30 June 2016. The amounts reported under AAS 25 for the year ended 30 June 2016 are reconciled to the amounts reported under 1056 as follows:

#### (i) Statement of financial position

Rather than showing the net assets supporting the sections of the Fund as equity on the face of the Statement of financial position, the adoption of AASB 1056 requires member liabilities to be recognised and measured as the amount of accrued benefits on the face of the Statement of financial position. This has resulted in the following changes:

Description	As previously reported as at 30 June 2016 \$000	Transition adjustment \$000	Restated balance as at 30 June 2016 \$000
<b>Member benefits</b>			
Member benefits recognised as liabilities rather than equity			
Defined contributions member liabilities	-	5,270,363	5,270,363
Defined benefit member liabilities	-	2,198,543	2,198,543
<b>Equity</b>			
Member benefits recognised as liabilities rather than equity			
Member benefits (accrued benefits)	7,680,826	(7,680,826)	-
Defined benefits that are over/(under) funded	-	211,920	211,920

#### (ii) Income statement

The adoption of AASB 1056 requires contributions, rollovers and other inward transfers and benefits paid to members to be recognised separately in the Statement of changes in member benefits. This includes \$53,731,000 of income tax relating to contributions which are now presented separately in the Statement of changes in member benefits. The net changes in member benefits are recognised in the Income statement.

Even though defined benefit contributions do not impact the value of the member benefits, AASB 1056 requires defined benefit contributions to be included in the Statement of changes in member benefits. As a result, the net changes in defined benefit members in both the Income statement and the Statement of changes in member benefits is made up of items that affected the value of the accrued benefits (such as benefit payments and actuarial factors (eg. employee service period, changes to salaries, etc) and those that affect the value of the defined benefit surplus/deficit (such as fund earnings, contributions and expenses).



## Notes to the financial statements for the year ended 30 June 2017

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

#### (c) Adoption of AASB 1056 (continued)

##### (ii) *Income statement (continued)*

the defined benefit sections).

Insurance premiums paid by the Fund are no longer recognised in the Income statement.

The above has resulted in the following changes in the Income statement:

Description	Total for the year ended 30 June 2016 \$000	Transition adjustment \$000	Restated balance as at 30 June 2016 \$000
<b>Result from superannuation activities before income tax expense previously reported</b>	<b>289,983</b>		<b>289,983</b>
Contributions, rollovers and other inward transfer and benefits paid to members are transferred to the Statement of changes in member benefits			
Employer contributions		(358,279)	(358,279)
Member contributions		(140,526)	(140,526)
Transfers from other superannuation funds		(111,391)	(111,391)
Insurance proceeds received and allocated to members		(8,500)	(8,500)
Benefits paid to members/beneficiaries		485,339	485,339
Insurance premiums		19,390	19,390
<b>Result from superannuation activities before income tax expense</b>	<b>289,983</b>	<b>(113,967)</b>	<b>176,016</b>
Income tax (expense)/benefit			
Income tax on contributions transferred to the Statement of Changes in Member Benefits	(46,630)	53,741	7,111
<b>Results from superannuation activities after income tax expense</b>	<b>243,353</b>	<b>(60,226)</b>	<b>183,127</b>
Benefits allocated to members accounts		(114,453)	(114,453)
Net change in defined benefit member benefits (including movement in the defined benefit surplus/deficit)		(157,235)	(157,235)
<b>Operating result after income tax</b>	<b>243,353</b>	<b>(331,914)</b>	<b>(88,561)</b>

## Notes to the financial statements for the year ended 30 June 2017

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

#### (c) Adoption of AASB 1056 (continued)

##### (iii) *Statement of cash flows*

The adoption of AASB 1056 has required the Fund to prepare a Statement of Cash Flows for the first time. In accordance with AASB 1056, contributions received and benefits paid are treated as financing activities. Income tax on contributions is presented separately in the cash flows from financing activities.

#### (d) Other new accounting standards and interpretations

There are no other new accounting standards that are effective and applied for the first time in the current financial year.

There are no other standards which are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods or on foreseeable future transactions.

#### (e) Reclassification of financial information

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

#### (f) Consolidation

The Fund is an investment entity and, as such, does not consolidate the entities it controls. Instead, interests in subsidiaries are classified as fair value through profit or loss and are measured at fair value.

An entity is defined as an investment entity in AASB 2013-5 - Amendment to Accounting Standards - Investment Entities if it:

- 1) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services
- 2) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and
- 3) Measures and evaluates the performance of substantially all of its investments on a fair value basis.

As the definition of investment management services is very broad, the Fund satisfies this definition. The Fund invests to obtain returns from capital appreciation and investment income. Under AASB 1056, the Fund is required to use fair value to value its investments. On this basis, the Fund meets the valuation criteria of the definition of investment entity. Therefore, the Fund satisfies the definition of an investment entity is AASB 2013-5.

#### (g) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and short-term deposits with an original maturity of three months or less that are readily convertible to cash and 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 cash equivalents as defined above.



## Notes to the financial statements for the year ended 30 June 2017

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

#### (h) Employer-sponsor receivables

An asset related to an employer-sponsor receivable is recognised to the extent there is a difference between a defined benefit member liability and the fair value of the assets available to meet that liability and the Fund has a contractual right to funding that meets the definition and recognition criteria for an asset under AASB 1056.

Refer to Note 6 for further details regarding contributions receivable.

#### (i) 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 measurable 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 when the Fund becomes obliged to make future payments in respect of the purchase of these goods or services. Payables are normally settled on 30 day terms.

#### (j) Financial assets and financial liabilities

Financial assets and financial liabilities are included in the Statement of Financial Position at fair value as at the reporting date and movements in the fair value of assets and liabilities are recognised in the Income Statement in the periods in which they occur.

##### (i) Recognition

The Fund recognises financial assets and financial liabilities on the date the Fund becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within a time frame generally established by regulation or convention in the marketplace are recognised on the trade date (ie. on the date that the Fund commits to purchase or sell the asset). From this date, any gains or losses from changes in fair value are recorded.

While the Fund uses fair value to record the value of its investments, the fair value is not materially different to the net market value of those assets.

##### (ii) De-recognition

The Fund derecognises a financial asset where:

- (i) The contractual rights to the cash flows from the financial asset expire
- (ii) It transfers the financial asset and the transfer qualifies for de-recognition in accordance with AASB 139,
- (iii) Either the Fund has transferred substantially all the risks and rewards of the asset or the Fund has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

## Notes to the financial statements for the year ended 30 June 2017

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

#### (j) Financial assets and financial liabilities (continued)

##### (ii) De-recognition (continued)

A financial liability is derecognised when the obligation specified in the liability's contract is discharged, cancelled or expired.

##### (iii) Measurement

Financial assets and financial liabilities are included in the Statement of Financial Position at fair value as at balance date and movements in the fair value of assets and liabilities are recognised in the Income Statement in the periods in which they occur.

##### *Initial recognition*

Financial assets and financial liabilities at fair value through profit and loss are recorded initially at fair value (transaction price) in the Statement of Financial Position. All transaction costs on financial assets and financial liabilities at fair value through profit or loss are recognised immediately in the Income Statement.

Loans and 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.

##### *Subsequent measurement*

Subsequent to initial recognition, all financial assets and financial liabilities classified at fair value through profit or loss are measured at fair value at year end with any changes in their fair value being recognised in the Income Statement as "Changes in fair value of financial assets and liabilities through profit or loss".

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability at the same time.

#### (k) 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.



## Notes to the financial statements for the year ended 30 June 2017

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

#### (k) Fair value measurement (continued)

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in the 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 4.

Fair value of investments have been determined as follows:

##### Units in pooled superannuation trust

Units in pooled superannuation trusts are valued at the redemption price at balance date quoted by the Trustee of the pooled superannuation trust. This redemption price is based on the net market value of the underlying investments of the pooled superannuation trust.

#### (l) Reserves

The Trustee maintains a number of reserves to provide the Trustee with access to funds to fund the expenses of the Fund and to protect the members' interests and mitigate the impact of an adverse event. These reserves are operated in accordance with the Fund's reserving policy and are held at the fund level.

The main reserves maintained by the Fund are:

##### (i) Operational risk financial requirement reserve

This reserve is maintained in accordance with the requirements of Prudential Standard SPS 114 - Operational Risk Financial Requirement. This reserve is to cover costs associated with an operational risk such as risks of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk but excludes strategic and reputational risk.

##### (ii) General reserve

This reserve includes amounts where it has been determined that it is not appropriate to allocate that amount to unitholders due to a number of factors including equity, fairness and uncertainty.

##### (iii) Insurance reserves

These reserves are generally used to pay insurance premiums to the insurer and to fund insurance claims reduction strategies implemented by the Fund and the development and implementation of improved insurance offerings.

##### (iv) Administration fee reserve

This reserve is used to pay the administration costs of the Fund.

## Notes to the financial statements for the year ended 30 June 2017

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

#### (m) Benefits paid/payable

Benefits paid/payable are valued at the amounts due to members at reporting date. Benefits paid/payable comprise pensions accrued at balance date and lump sum benefits of members who are due a benefit but had not been paid at balance date. Benefits rolled over within the Fund are not included as benefits payable. Benefits payable are generally settled within the legislated timeframes.

#### (n) Member benefit liabilities

Member benefit liabilities are measured at the amount of accrued benefits as at the reporting date.

Defined benefit member liabilities are 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 as at the date when they are expected to fall due.

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

#### (o) Foreign currency

The functional and presentation currency of the Fund is Australian Dollars. There are no foreign currency transactions or items.

#### (p) 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 fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty.

The following specific recognition criteria must also be met before revenue is recognised.

##### (i) Changes in fair values

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 and recognised in the Statement of Financial Position. All changes are recognised in the Income Statement.

##### (ii) Contributions revenue and transfers in

Contributions revenue and transfers in are recognised when control of the asset has been attained and are recorded, gross of any tax, in the period to which they relate.

Contribution revenue includes the funding call for the unfunded liability of the defined benefits plan and its interest component. The participating employers in the defined benefits plan are compelled by Participation Agreements with the Fund's Trustee to make contributions and fund any deficit.



## Notes to the financial statements for the year ended 30 June 2017

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

#### (p) Revenue recognition (continued)

##### (iii) Interest

Interest income on cash and cash equivalents is recognised in the Income Statement as it accrues on the amount of cash at bank.

##### (iv) Group life insurance proceeds

Insurance claim amounts are recognised when the insurer has accepted the claim lodged and control of the asset has been attained.

#### (q) Contributions received and transfers from other funds

Contributions received and transfers from other funds are recognised in the Statement of changes in member benefits when the control of the contribution or transfer has transferred to the Fund. They are recognised gross of any taxes.

#### (r) Expense recognition

Unless otherwise indicated, all expenses (including management fees and custodian fees) are recognised in the Income Statement on an accruals basis.

#### (s) Income tax

The Fund is a complying superannuation fund for the purposes of the Income Tax Assessment Act 1997. Accordingly, the concessional tax rate of 15% has been applied to the “standard component” of the Fund’s taxable income. A rate of 45% is applied on any “non-arm’s length component” that the Fund has. The non-arm’s length component of taxable income refers to “non-arm’s length income” reduced by allowable deductions. Non-arm’s length income is made up of private company dividends, non-arm’s length income and certain trust distributions. For the year ended 30 June 2017, there is no non-arm’s length income.

Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in members’ funds in which case it is recognised in the Statement of Changes in Member Benefits.

Income tax that is recognised 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 substantially enacted by the reporting 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 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 probably that the temporary difference will not reverse in the foreseeable future.

## Notes to the financial statements for the year ended 30 June 2017

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

#### (s) 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 deductible temporary differences, and the carrying 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 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 sufficient 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 the 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.

As it is expected that the Fund will be treated as a complying superannuation fund and its subsidiary Vision Pooled Superannuation Trust's (VPST's) taxable income is "standard income", income tax has been provided in the current year at the rate of 15%. If the Fund is subsequently deemed to be a non-complying fund for the current year or VPST has "special income", income tax will be payable at a rate of 45% on the Fund's taxable income.

The expense (and any corresponding liability) is brought to account in the period in which the assessments are received by the Trustee and are payable by the Fund.

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

Revenue, expenses and assets are recognised net of the amount of GST recoverable from the Australian Taxation Office (ATO) except:

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

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position.



## Notes to the financial statements for the year ended 30 June 2017

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

#### (t) Goods and services tax (GST) (continued)

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 ATO are classified as operating cash flows.

#### (u) No-TFN contribution tax

Where a member does not provide their tax file number to a fund, the fund may be required to pay no-TFN contributions tax at a rate of 34% which is in addition to the concessional tax rate of 15% which applies to the Fund's taxable income.

The no-TFN contributions tax liability recognised by the Fund will be charged to the relevant members' accounts. Where a tax offset is obtained by the Fund in relation to members' no-TFN contributions tax, the tax offset will be included in the relevant members' accounts.

#### (v) Superannuation contribution surcharge

The Superannuation Laws Amendment (Abolition of Surcharge) Act 2005 abolished both the superannuation contributions surcharge and the termination payment surcharge in respect of superannuation contributions and certain termination payment made or received on or after 1 July 2005. Assessment 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.

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 contributions surcharge is recognised when the assessment is received as the Trustee considers this is when it can be reliably measured.

Any superannuation surcharge liability is recognised by the Fund in the Statement of change in member benefits and is charged to the relevant members' accounts.

#### (w) Valuation dates

The investments held have been valued at 30 June 2017 based on valuations obtained from the Custodian taking into account information received post balance date.

For accumulation members, the vested benefits value is based on members' accounts value which is determined by using the daily unit price applicable as at 30 June 2017.

For defined benefits members, the vested benefits value is determined in accordance with Trust Deed and takes into accounts the members' salary and years of service subject to the minimum requisite benefit threshold.

## Notes to the financial statements for the year ended 30 June 2017

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

#### (x) Significant accounting judgements, 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 could 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.

Significant accounting judgements, estimates and assumptions are reviewed on an ongoing basis. If there are revisions to accounting estimates, they are recognised in the period which the estimate is revised and in any future period affects.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies and have the most significant effect on the amounts recognised in the financial statements are listed below:

<i>Assessment as investment entity</i>	The significant accounting judgements are discussed in Note 2(f).
<i>Deferred tax asset recognition</i>	The significant accounting judgements are discussed in Note 2(t).
<i>Valuation of defined benefit member liabilities -</i>	The key assumptions are discussed in Notes 2(y) and 8.
<i>Valuation of Investments</i>	The key assumptions are set out in Notes 2(k) and 4.

#### (y) 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 assumptions about the future. Actual developments in the future may differ from the assumptions. The assumptions include 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. The key assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the Fund Actuary considered 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 define benefit 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.



## Notes to the financial statements for the year ended 30 June 2017

### 3. Investment in subsidiary

The Fund is not required to consolidate its subsidiary in accordance to AASB 2013-5 *Amendments to Australian Standards - Investment Entities*. The Fund invests in the following unconsolidated subsidiaries:

Name of unconsolidated subsidiary	Principal place of business	2017		2016	
		Ownership interest %	\$000	Ownership interest %	\$000
Vision Pooled Superannuation Trust (VPST)	Australia	100%	8,660,320	100%	7,760,700

The underlining financial assets/liabilities held by VPST are as follows:

	2017 \$000	2016 \$000
<b>Financial assets at fair value through profit or loss</b>		
Asset backed securities	-	-
Cash and deposits	820,823	960,196
Covered bonds	1,609	1,161
Discount securities	269,172	79,302
Fixed interest bonds	593,525	737,172
Floating rate notes	33,900	38,443
Listed equities	3,823,824	3,251,207
Listed investment companies	10,518	20,331
Listed property trusts	276,166	219,933
Listed unit trusts	47,032	301,561
Loans	2,250	-
Mortgage backed securities	2,301	2,966
Outstanding settlements	41,157	100,221
Preference shares redeemable	3,482	1,437
Unlisted equities	162,893	171,476
Unlisted managed investment scheme	2,669,456	1,998,168
Unlisted partnership	3,816	5,292
Forward foreign exchange contracts	20,896	8,370
Warrants	2,796	2,134
Options	4,692	8,968
Futures	21	536
<b>Total financial assets designated at fair value through profit or loss</b>	<b>8,790,329</b>	<b>7,908,874</b>
<b>Financial liabilities at fair value through profit or loss</b>		
<i>Financial liabilities designated at fair value through profit or loss</i>		
Cash and Deposits	(3,356)	(7,757)
Outstanding settlements	(24,283)	(78,883)
Forward foreign exchange contracts	(4,810)	(11,792)
Futures	(88)	-
Options	(509)	-
<b>Total financial assets designated at fair value through profit or loss</b>	<b>(33,046)</b>	<b>(98,432)</b>
<b>Net financial assets held by VPST at fair value through profit or loss</b>	<b>8,757,283</b>	<b>7,810,442</b>
<b>Non-financial liabilities of VPST/other amounts not allocated to unitholders</b>	<b>(96,963)</b>	<b>(49,742)</b>
<b>Units held by LASF in VPST</b>	<b>8,660,320</b>	<b>7,760,700</b>

## Notes to the financial statements for the year ended 30 June 2017

### 4. Fair value of financial instruments

AASB 13 requires disclosure of fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

#### (a) Classification of investments at the Fund level

Units in Vision Pooled Superannuation Trust (VPST) are valued at the redemption price at reporting date quoted by the investment managers which are based on the net market value of the underlying investments. The significant inputs to calculate the price are market observable. Therefore, the Fund categorises these investments as Level 2 financial instruments.

	2017			Total
	Value at quoted market price (level 1) \$000	Valuation technique - market observable inputs (level 2) \$000	Valuation technique - non-market observable inputs (level 3) \$000	
Units in VPST	-	8,660,320	-	8,660,320
Total investment	-	8,660,320	-	8,660,320

	2016			Total
	Value at quoted market price (level 1) \$000	Valuation technique - market observable inputs (level 2) \$000	Valuation technique - non-market observable inputs (level 3) \$000	
Units in VPST	-	7,760,700	-	7,760,700
Total investment	-	7,760,700	-	7,760,700

Disclosure of the method and assumptions applied in determining the fair value for each class of financial assets and financial liabilities are included in Note 2(k). The fair value for each class of financial assets and financial liabilities equates to net market value.

#### (b) Transfers between hierarchy levels

There have been no significant transfers between Levels 1, 2 or 3 of the fair value hierarchy during the year.



## Notes to the financial statements for the year ended 30 June 2017

### 5. Assets attributable to each section of the Fund

The assets of the Fund are primarily used to support the account-based and defined benefit member liabilities and are attributable to each section as follows:

2017	Account-based plans \$000	Defined benefit plans \$000	Total \$000
Defined contribution member liabilities	6,090,792		6,090,792
Defined benefit member liabilities		2,213,518	2,213,518
Defined benefits that are (over) or under funded		248,113	248,113
Amounts not yet allocated	8,849		8,849
<b>Assets attributable to each section</b>	<b>6,099,641</b>	<b>2,461,631</b>	<b>8,561,272</b>

2016	Account-based plans \$000	Defined benefit plans \$000	Total \$000
Defined contribution member liabilities	5,270,363	-	5,270,363
Defined benefit member liabilities	-	2,198,543	2,198,543
Defined benefits that are (over) or under funded	-	211,920	211,920
<b>Assets attributable to each section</b>	<b>5,270,363</b>	<b>2,410,463</b>	<b>7,680,826</b>

### 6. Contributions receivable

The Fund has a contractual agreement with the employer sponsors to meet that shortfall for the defined benefit member's liabilities.

Contributions for defined benefits members' ongoing service are payable on the 21 day of the first month in each quarter.

Contributions for outstanding 2010 defined benefits unfunded liability accounts are payable by the year 2021.

The 2011 funding call resulted from Trustee's actuarial investigation as at 31 December 2011 were payable on 1 July 2013. Employers are offered a fifteen-year payment plan at the interest rate of 7.5% per annum.

The receivables are due from unrated entities.

	2017 \$000	2016 \$000
Ongoing service	157	47
Past service - 2010	350	486
Past service - 2011	2,073	3,108
<b>Contributions receivable</b>	<b>2,580</b>	<b>3,641</b>

All amounts are expected to be recovered from the relevant employer-sponsors with the required time periods.

## Notes to the financial statements for the year ended 30 June 2017

### 7. Defined contribution member liabilities

The defined contribution member account balances are measured using unit prices determined by the Trustee based on the underlying investment option values applicable for the members.

Defined contribution members bear the investment risk relating to the underlying assets and unit prices or crediting rates used to measure the member liabilities. Unit prices are updated each business day. Unit prices for each business day are based on the most recently available information for that day, including market close prices for the domestic market and all applicable international markets.

As at 30 June 2017, \$8,849,000 (2016: nil) had not been allocated to members. Defined contributions member liabilities are vest 100% in those members and are recognised as liabilities in accordance with AASB 1056.

The amount of the defined contributions member liabilities varies on a daily basis based on a number of factors including the investment markets. Refer to Note 24 for the Fund's management of the investment risks.

### 8. Defined benefit member liabilities (accrued benefits)

The Fund has three (3) defined benefit sub-plans and engages a qualified actuary on a regular basis to measure the defined benefit member liabilities in each sub-plan. The Fund has no information that would lead to adjustments to the assumptions outlined below.

The actuarial valuation of member liabilities reflects the actuarial assessment of the benefits accrued up to the balance date and payable to members on retirement, resignation, death and disability (ie. the accrued benefits).

The valuation of the accrued benefits was undertaken by the Fund Actuary as part of a comprehensive actuarial valuation as at 30 June 2017. The previous comprehensive actuarial review was conducted as at 30 June 2014. This triennial actuarial assessment may result in an employer being required to make additional contributions to the sub-plan. The three defined benefit sub-plans are quarantined from the other assets of the Fund. In an event that the assets of a particular sub-plan are not adequate to provide for members' liabilities and if the employer contributions are insufficient, the defined benefit member liabilities are limited to the assets of the particular sub-plan.

Matthew Burgess of Willis Towers Watson has been engaged as the Fund Actuary to conduct the actuarial investigation as at 30 June 2017. A copy of the Actuarial Report as at 30 June 2017 for each defined benefit plan will be available on the Fund's website when this report is finalised.

The following is a breakdown of the accrued defined benefits of the Fund:

	As at 30 June 2017 (estimate) \$m	As at 30 June 2014 (final) \$m
Accrued Benefits for		
- LASF Defined Benefit (LASF DB)	\$2,133.3	\$2,061.9
- City of Melbourne (CoM)	\$51.7	\$48.7
- Parks Victoria	\$28.5	\$27.9
	<u>\$2,213.5</u>	



## Notes to the financial statements for the year ended 30 June 2017

### 8. Defined benefit member liabilities (accrued benefits) (continued)

#### (a) Significant estimates

The Fund has identified three assumptions for which changes are reasonably possible and which would have a material impact on the amount of the liabilities.

The key financial assumptions used to determine the values of accrued for each of the sub-plans are as follows:

	LASF DB	2017 CoM	Parks Victoria
Net investment return	6.5%	5.5%	6.0%
Salary inflation	3.5%	3.5%	3.5%
Price inflation	2.5%	2.5%	2.5%
	LASF	2014 CoM	Parks Victoria
Net investment return	7.50%	7.50%	7.50%
Salary inflation	4.25%	4.25%	4.25%
Price inflation	2.75%	2.75%	2.75%

The defined benefit members' liabilities have changed in the current financial year primarily as a result of salary increases, additional service accrual and increased entitlements as a result of reaching the Fund's retirement age.

The Trustee manages the risks associated with the defined benefit sub-plans in a number of ways.

The Fund Actuary advises on these risks, including establishing suitable funding objectives. The Fund Actuary conducts regular actuarial investigations (at least every three years, or more frequently as required) of the defined benefit sub-plans at the Trustee's request. Taking into account the Trustee's funding objectives and the Fund's circumstances, the Fund Actuary recommends the required employer contribution levels.

In addition, management monitors the vested benefit positions of each defined benefit sub-plan regularly and reports quarterly to the Board on the vested benefit index (VBI) status of the each sub-plans. If the VBI for a sub-plan is below the relevant VBI shortfall limit, management will then engage the Fund Actuary to conduct a review to assist in developing a restoration plan to restore the relevant sub-plan to a VBI position above 100%.

The Trustee also uses sensitivity analysis to monitor the potential impact of changes to key variable about which assumptions need to be made. The Fund has identified three key assumptions (being the discount rate, the rate of salary adjustment and the inflation rate) for which changes are reasonably possible that would have a material impact in the amount of the defined benefit member liabilities.

- (i) The assumed discount has been determined based on the 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. The assumed discount rate is different for each defined benefit sub-plan.
- (ii) The assumed annual salary adjustment has been determined in consultation with the employer-sponsors and a review of the recent salary experiences of the members of the DB sub-plans. The rate is the same for each of the defined benefit sub-plans.
- (iii) The assumed price inflation has been determined based on long-term estimates of the consumer price index (CPI).

## Notes to the financial statements for the year ended 30 June 2017

### 8. Defined benefit member liabilities (accrued benefits) (continued)

#### (a) Significant estimates (continued)

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 which reasonably possible changes would not be expected to have a material effect include pension indexation rates, mortality rates and resignations.

The following are sensitivity calculations on a univariate basis for the investment return and rate of salary adjustment assumptions for each defined benefit plan:

Assumptions	Assumed at balance date	Reasonable possible changes	Amount of (increase)/decrease in defined benefit member liabilities \$'000
<b>LASF DB</b>			
Investment return	6.5% (2016: 7.0%)	+1.0% +1.0% (2016: +1.0% / -1.0%)	(125,301) 145,302 (2016: ((117,116)/134,644))
Salary adjustment rate	3.5% (2016: 4.25%)	+1.0% -1.0% (2016: +1.0% / -1.0%)	59,530 (55,239) (2016: (64,590/(59,725)))
Price inflation	2.5% (2016: 2.5%)	+1.0% -1.0% (2016: +1.0% / -1.0%)	86,215 (74,110) (2016: (70,756/(61,170)))
<b>CoM</b>			
Investment return	5.5% (2016: 6.0%)	+1.0% +1.0% (2016: +1.0% / -1.0%)	(1,905) 2,088 (2016: ((2,184)/2,402))
Salary adjustment rate	3.5% (2016: 4.25%)	+1.0% -1.0% (2016: +1.0% / -1.0%)	2,104 (1,953) (2016: (2,411/(2,230)))
Price inflation	2.5% (2016: 2.5%)	n/a	n/a
<b>Parks Victoria</b>			
Investment return	6.0% (2016: 6.5%)	+1.0% +1.0% (2016: +1.0% / -1.0%)	(1,226) 1,352 (2016: ((1,304)/1,437))
Salary adjustment rate	3.5% (2016: 4.25%)	+1.0% -1.0% (2016: +1.0% / -1.0%)	1,270 (1,188) (2016: (1,376/(1,282)))
Price inflation	2.5% (2016: 2.5%)	n/a	n/a

At balance date, 100% of the defined benefit member liabilities have vested (2016: 100%).



## Notes to the financial statements for the year ended 30 June 2017

### 9. Defined benefit plans that are over or (under) funded

For the three defined benefit sub-plans, there were no unexpected events that changed the defined benefit member liabilities materially. The Trustee has no information that would lead it to adjust the assumptions around pension index rates, resignations and mortality which are all unchanged from the previous reporting period.

Based on the requirements of AASB 1056, the three defined benefit sub-plans are over/(under) funded as follows:

	Ref	2017 \$000	2016 \$000
LASF DB	A	228,837	195,960
CoM	B	13,433	11,455
Parks Victoria	C	5,843	4,505
		<u>248,113</u>	<u>211,920</u>

#### *Ref A*

LASF DB continues to remain in surplus. It is intended that the employer-sponsors will continue to make contributions based on the current funding arrangements which is consistent with the rates recommended by the Fund Actuary.

#### *Ref B*

CoM continues to remain in surplus. It is intended that the employer-sponsors will continue to make contributions based on the current funding arrangements which is consistent with the rates recommended by the Fund Actuary.

#### *Ref C*

Parks Victoria continues to remain in surplus. It is intended that the employer-sponsor will continue to make contributions based on the current funding arrangements which is consistent with the rates recommended by the Fund Actuary.

### 10. Funding arrangements

The employers have contributed to the Fund during the financial year at a rate of at least 9.5% (2016: (9.5% of the gross salaries of those employees who were defined contribution members of the Fund.

The employers for the defined benefit members have contributed to the fund during the financial year based on the rate determined by the Trustee based on Fund Actuary advice.

As outlined above, the defined benefit funding requirements for the Fund are impacted by various financial and demographic factors including investment earnings, salary inflation, benefit claims experience and pensioner mortality rates. The funding arrangements are primarily dependent upon investment performance relative to salary growth and pension growth. The Fund has a current Funding and Solvency Certificate. The current actuarial investigation as at 30 June 2017 is due to be completed by 31 December 2017. The next full actuarial review for the Fund is as at 30 June 2020. An annual review will be conducted each intervening year from 20 June 2018 onwards to satisfy the AASB 1056 reporting requirements.

It is anticipated that, following the completion of the 30 June 2017 actuarial review of the Fund, the Fund Actuary will not recommend any additional contributions be made by the participating employers as no funding deficiency has been identified to date.

## Notes to the financial statements for the year ended 30 June 2017

### 10. Funding arrangements (continued)

Following the completion of the 30 June 2014 actuarial review of the Fund, the Fund Actuary did not recommend any additional contributions be made by the participating employers as there was no funding deficiency identified.

On completion of the 31 December 2011 actuarial review of the Fund, the Fund's Actuary recommended that participating employers pay an additional contribution due to the funding deficiency identified as at 31 December 2011. The Trustee accepted the actuarial recommendations and informed the employers of the Defined Benefit plans of their share of the unfunded liability as at 31 December 2011.

For the LASF Defined Benefit Plan, the invoices issued were due and payable on 1 July 2013 with an option of a fifteen-year payment plan. The total invoiced amount was \$539 million, which comprised the unfunded accrued liability as at 31 December 2011 of \$406 million, estimated fund earnings accrued to 1 July 2013 on that unfunded accrued liability of \$53 million and contributions tax of \$80 million.

Of this amount, an amount of \$2.1 million remains as contributions receivable as at 30 June 2017 (2016: \$3.6 million). During the 2017 year, the employers of the Defined Benefit plan have paid \$1,191,140 (2016: \$144,344) of the total amount invoiced. The total payments received to 30 June 2017 represent 99.5% (2016: 99.3%) of total unfunded liability invoiced amount. Where an employer paid some/all of their invoiced amount prior to the due date of 1 July 2013, the amount of the invoice was discounted at the rate of 7.5% per annum (calculated daily) based on the expected long-term investment return on the assets of the LASF Defined Benefits Plan. The contributions receivable of \$2.1 million at 30 June 2017 (2016: \$3.6 million) represents the outstanding unfunded liability and annual interest charges which have been invoiced but not yet paid. These employers have entered into payment plans to pay these outstanding amounts.

Further details regarding the funding arrangements of the defined benefit plans are in Note 12.

Employees are also able to make voluntary contributions.

### 11. Guaranteed benefits

No guarantees have been made in respect of any part of the liabilities for accrued benefits.

### 12. Vested benefits

Vested benefits are benefits which are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members are entitled to receive had they terminated their Fund membership as at the balance date.

	2017 \$000	2016 \$000
Defined benefit plans	2,378,569	2,359,410
Accumulation plans	6,090,792	5,270,363
Total vested benefits	8,469,361	7,629,773
As compared to net assets available to pay benefits	8,597,435	7,712,807

Key results as at 30 June 2017, as estimated by the actuary, on the defined benefit sub-plans are as follows. The Discounted Accrued Benefits Index (DABI) and Minimum Requisites Benefits Index (MRBI) (Solvency basis) are calculated as part of each actuarial review.



## Notes to the financial statements for the year ended 30 June 2017

### 12. Vested benefits (continued)

Sub-plan	Results	30 June 2017 (est)	30 June 2016
LASF DB	VBI	103.1%	102.0%
	DABI	tba*	109.4%
	MRBI	tba*	139.7%
CoM	VBI	123.5%	119.6%
	DABI	tba*	n/a
	MRBI	tba*	n/a
Parks Victoria	VBI	106.7%	104.4%
	DABI	tba*	n/a
	MRBI	tba*	n/a

\* The Fund Actuary is expected to complete the LASF DB 30 June 2017 annual review in December 2017.

\*\* The next triennial actuarial review for these plans is scheduled to be at 30 June 2020.

The main financial assumptions used to calculate the VBI for the defined benefit categories of the Fund are as follows:

	LASF DB		CoM		Parks Victoria	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Net investment return	6.5%	7.0%	5.5%	6.00%	6.0%	6.50%
Salary inflation	3.5%	4.25%	3.5%	4.25%	3.5%	4.25%
Price inflation	2.5%	2.5%	2.50%	2.50%	2.50%	2.50%

#### (a) LASF DB

An actuarial investigation of LASF DB is being carried out as at 30 June 2017. The last investigation was carried out as at 30 June 2014. This investigation concluded that the LASF DB was in a satisfactory financial position as at 30 June 2014 as defined in Superannuation Prudential Standard 160 (SPS160). A total service liability actuarial surplus of \$236.0 million was identified by the 2014 investigation. A total service liability estimated actuarial surplus of \$193.4 million has been identified by the 2017 investigation to date.

It is anticipated that the investigation will conclude that it is still appropriate for the sub-plan's to self-insure its death and disability benefits. The self-insurance reserve is \$6 million (2016: \$6 million). Refer to Note 23.

The Trustee agreed the following funding plan that was recommended by the Fund's Actuary as part of the 30 June 2014 investigation. Under the plan, the Employers pay:

- Contributions equal to 9.5% of members' salaries, increasing with increases in the Superannuation Guarantee
- Additional contributions to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the Vested Benefits Index multiplied by the benefit), plus contributions tax
- Outstanding contributions in respect of calls made at the previous actuarial investigations, and
- Additional top up contributions that may be recommended in the future, if the defined benefit plan becomes in an unsatisfactory financial position.

## Notes to the financial statements for the year ended 30 June 2017

### 12. Vested benefits (continued)

#### (a) LASF DB (continued)

It is expected that the recommendations from the 30 June 2017 investigation will not vary materially the above plan.

The next full triennial actuarial investigation of the LASF DB's accrued benefits liability will be at 30 June 2020.

The funding plan as described above is most likely to remain in place for the LASF DB until the next full actuarial investigation is completed. An annual review of the accrued benefits will occur for AASB 1056 purposes.

#### (b) CoM

An actuarial investigation of CoM is being carried out as at 30 June 2017. The last investigation was carried out as at 30 June 2014. This investigation concluded that CoM was in a satisfactory financial position as at 30 June 2017 as defined in SPS160. A total service liability actuarial surplus of \$11.4 million was identified by the 2014 investigation.

The Trustee agreed the following funding plan that was recommended by the Fund's Actuary as part of the 30 June 2014 investigation. Under the plan, City of Melbourne pays:

- A contribution rate of 13% (inclusive of 1% of salary continuance cover) of salaries for Division D members
- Top-up amounts for existing members equal to the amount increased for contribution tax: *Benefits Payment less (Vested Benefit x VBI)*. Top up payments are to be calculated and invoiced quarterly in arrears. Top-up payments are required from all retrenchments (VBI capped at 100%), but for other exits only when the VBI is below 100%. Benefits payments exclude the amount of any insurance proceeds, and
- Any additional contributions that may be required in future under SPS 160.

Members contribute at rates between 0% and 9% of salaries.

It is expected that the recommendations from the 30 June 2017 investigation will not vary materially the above plan.

The next full triennial actuarial investigation of CoM's accrued benefits liability will be at 30 June 2020.

The funding plan as described above is most likely to remain in place for CoM until the next full actuarial investigation is completed. An annual review of the accrued benefits will occur for AASB 1056 purposes.

#### (c) Parks Victoria

An actuarial investigation of Parks Victoria sub-plan is being carried out as at 30 June 2017. The last investigation was carried out as at 30 June 2014. This investigation has concluded that the Parks Victoria sub-plan was in a satisfactory financial position as at 30 June 2017 as defined in SPS160. A total service liability actuarial surplus of \$4.2 million was identified by the 2014 investigation.

The Trustee agreed the following funding plan that was recommended by the Fund's Actuary as part of the 30 June 2014 investigation. Under the plan, Parks Victoria pays:

- A contribution rate of 12% of salaries of salaries for Division E members and the current accruing cost contribution rates for Division F members



## Notes to the financial statements for the year ended 30 June 2017

### 12. Vested benefits (continued)

#### (c) Parks Victoria (continued)

- Top-up amounts for existing members equal to the amount increased for contribution tax: *Benefits Payment less (Vested Benefit x VBI)*. Top up payments are to be calculated and invoiced quarterly in arrears. Top-up payments are required from all retrenchments (VBI capped at 100%), but for other exits only when the VBI is below 100%. Benefits payments exclude the amount of any insurance proceeds, and
- Any additional contributions that may be required in future under SPS 160.

Members contribute at rates between 0% and 7.5% of salaries.

It is expected that the recommendations from the 30 June 2017 investigation will not vary materially the above plan.

The next full triennial actuarial investigation of the Parks Victoria sub-plan's accrued benefits liability will be at 30 June 2020.

The funding plan as described above is most likely to remain in place for the Parks Victoria sub-plan until the next full actuarial investigation is completed. An annual review of the accrued benefits will occur for AASB 1056 purposes.

#### (d) Vision MySuper

The Fund's MySuper category receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings in accordance with the Superannuation Guarantee legislation for each year (for the year ended 30 June 2017 - 9.5% (2016: 9.5%). This rate increases to 10% for the 2021/22 year and will progressively increase to 12% by 1 July 2025 subject to legislative changes. No further liability accrues to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

#### (e) Prudential Standard SPS 160 - Defined benefit matters

Prudential Standard 160 - *Defined Benefit Matters* (SPS 160) applies to the Fund with effect from 1 July 2013. The Trustee has adopted SPS 160 and will put in place a restoration plan to restore the VBI to 100% if:

- (i) The VBI falls below the relevant shortfall at any time when an actuarial investigation is not completed and there is not a valuation date within 6 months, or
- (ii) The VBI falls below 100% at the date an actuarial investigation is completed.

From 31 March 2016, the shortfall limit for LASF DB and Parks Victoria is 97% and 98% for CoM.

### 13. Net changes in value of assets measured at fair value

	2017 \$000	2016 \$000
Investments held at balance date		
Realised gains/(losses)	40,845	76,895
Unrealised gains/(losses)	785,330	121,034
<b>Total net changes in value of assets measured at fair value</b>	<b>826,175</b>	<b>197,929</b>

## Notes to the financial statements for the year ended 30 June 2017

### 14. Net change in defined benefit member liabilities

AASB 1056 defines the net change in defined benefit member liabilities for a period as being the difference between the opening and closing balances of the defined benefit member liabilities for the period, after adjusting for inwards and outwards movements, including:

- (a) Contributions
- (b) Tax on contributions
- (c) Benefits to members, and
- (d) Transfers between reserves and accrued benefits.

As a result, the net change in defined benefit member liabilities of \$188,227,000 (2016: \$157,235,000) included in the Income Statement and the Statement of Changes in Member Benefits is a mixture of items that relate to the change in the surplus/deficit of the defined benefit section (eg. contributions) and other factors including actuarial assumptions that relate to the calculation of the actual defined benefit member liabilities (ie. the accrued benefits).

For the year ended 30 June 2017, there was an overall change in the defined benefit member liabilities of \$14.975m. The main reasons for this increase were:

1. The defined benefits are closer to being paid so that there is one year less of discounting applied in calculating the defined benefit member liability, and
2. The assumptions used in the defined benefit liability calculations have changed. Changes in financial assumptions (refer to Note 12) and changes in the demographic assumptions (most significantly a reduction in the assumed pensioner mortality) have both increased the defined benefit member liability.

### 15. General administration expenses

	2017 \$000	2016 \$000
Annual lodgement fee - APRA	796	881
Banking Charges	16	19
External audit fees	53	52
Trustee services fees	19,079	22,802
Other administration fees	805	461
	<u>20,749</u>	<u>24,215</u>

The Fund did not pay any commissions or sponsorship/advertising.

### 16. Auditor's remuneration

	2017 \$000	2016 \$000
Amounts received or due and receivable by Ernst & Young for		
Audit of the financial statements and compliance of the entity	53	52
Other services in relation to the entity	-	-
	<u>53</u>	<u>52</u>



## Notes to the financial statements for the year ended 30 June 2017

### 17. Income tax expense

#### (a) Major components of income tax expense/(benefit) for the years ended 30 June 2017 and 2016

	2017 \$000	2016 \$000
Current tax expense/(benefit)		
Current income tax	(122)	(7,114)
Adjustment of current income tax of previous years	33	-
	<u>89</u>	<u>(7,114)</u>
Deferred tax expense/(benefit)		
Relating to origination and reversal of temporary difference	(3)	3
	<u>(3)</u>	<u>3</u>
	<u>(92)</u>	<u>(7,111)</u>

#### (b) Reconciliation between tax expense/(benefit) and the accounting profit before tax

	2017 \$000	2016 \$000
Result from superannuation activities before income tax expense	805,701	175,987
Income tax at 15% (2016 - 15%)	120,855	26,398
Adjustment to the income tax expense:		
Non-deductible expenses	2,965	7
Other non-assessable income	(123,945)	(33,569)
Adjustments for current tax of prior periods	33	55
	<u>(92)</u>	<u>(7,111)</u>
Income tax expense/(benefit) reported in the Income Statement		

In addition to the above, \$49,278,000 (2016: \$53,741,000) is recognised in the statement of changes in member benefits relating to tax on contributions deducted from member accounts.

### Tax assets and liabilities

The current tax liabilities for the Fund of \$49,726,000 (2016: \$47,026,000) represents the amount of income taxes payable in respect of current and prior financial years.

## Notes to the financial statements for the year ended 30 June 2017

### 18. Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities comprise of temporary differences and are attributable to the following:

	2017 \$000	2016 \$000
Deferred tax assets		
Accrued audit expense	9	6
	<u>9</u>	<u>6</u>
Deferred tax liabilities		
Contributions receivable	(363)	(489)
	<u>(363)</u>	<u>(489)</u>
Net deferred tax assets/(liabilities)	<u>(354)</u>	<u>(483)</u>

Movement in temporary differences during the year:

#### 2017

	Opening balance \$000	Recognised in income \$000	Recognised in member benefits \$000	Closing balance \$000
Gross deferred tax liabilities:				
Contributions receivable	489		(126)	363
	<u>489</u>		<u>(126)</u>	<u>363</u>
Gross deferred tax assets:				
Accrued audit expense	(6)	(3)	-	(9)
	<u>(6)</u>	<u>(3)</u>	<u>-</u>	<u>(9)</u>
	<u>483</u>	<u>(3)</u>	<u>(126)</u>	<u>354</u>

#### 2016

	Opening balance \$000	Recognised in income \$000	Recognised in member benefits \$000	Closing balance \$000
Gross deferred tax liabilities:				
Contribution receivable	942	-	(453)	489
	<u>942</u>	<u>-</u>	<u>(453)</u>	<u>489</u>
Gross deferred tax assets:				
Accrued audit expense	(9)	3	-	(6)
	<u>(9)</u>	<u>3</u>	<u>-</u>	<u>(6)</u>
	<u>933</u>	<u>3</u>	<u>(453)</u>	<u>483</u>



## Notes to the financial statements for the year ended 30 June 2017

### 19. Cash flow statement reconciliation

For the purposes of the Statement of Cash Flows, cash includes cash at bank, net of outstanding bank overdrafts.

Cash as 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:

	2017 \$000	2016 \$000
Cash and cash equivalents	22,660	26,258
<b>(a) Reconciliation of profit/(loss) after income tax to net cash inflow/(outflow) from operating activities</b>		
Operating result after tax	40,484	(88,561)
Adjustments for:		
Net changes of fair value of financial instruments	(826,175)	(197,929)
Net benefits allocated to defined contribution members	577,082	114,453
Net change in defined benefit member benefits	188,227	157,235
Change in operating assets and liabilities		
(Increase)/decrease in receivables	10	(52)
Increase/(decrease) in payables	2,890	(2,395)
Death and disability proceeds received from insurer and allocated to members	8,574	2,088
Insurance premiums paid	(20,135)	(19,564)
Income tax (paid)/refund	(1,202)	174
Other amounts	113	(699)
Net cash inflow/(outflow) from operating activities	(30,132)	(35,250)

### (b) Non-cash financing and investing activities

There were no non-cash financing activities during the year.

### 20. Segment information

The Fund operates in one reportable business segment - being the provision of benefits to members.

The Fund also operates from one reportable geographic segment, being Australia, from where its activities are managed.

Whilst the Fund operates from Australia only, the Fund has investment exposures in different countries and across different industries via its investment in VPST.

Revenue is derived from gains on redemption of investments and unrealised changes in values of investments.

## Notes to the financial statements for the year ended 30 June 2017

### 21. Related parties

#### (a) Trustee and key management personnel

The trustee of the Fund is Vision Super Pty Ltd. The trustee company comprised of nine Directors during the financial year. The persons who were Directors of the trustee during the year were:

##### Member Directors:

Brian Parkinson  
Wendy Phillips  
Russell Atwood (resigned 30 June 2017)  
Richard Duffy

##### Employer Directors:

Geoff Lake  
Graham Sherry  
Rob Spence  
Peter Wilson

##### Independent Director:

Joanne Dawson

Casey Nunn was appointed as a member director on 1 July 2017.

During the financial year, Brian Parkinson was Chairman of the Board and Geoff Lake was Deputy Chairman.

Each Director attended the following meetings and Board Committees during the year as a member of the Board or relevant Committee:

Name	Board Meetings	
	Held	Attended
Brian Parkinson	7	7
Geoff Lake	7	7
Wendy Phillips	7	7
Graham Sherry	7	5
Russell Atwood	7	5
Rob Spence	7	7
Richard Duffy	7	7
Peter Wilson	7	7
Joanne Dawson	7	7

Board Committees are open to all Directors and were attended by a quorum of Directors on all occasions.

In addition to the Company's Directors, the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Head of Fund Administration, General Manager Strategy and Growth and Head of Human Resources are considered to be Key Management Personnel (KMP) for the purpose of these financial statements.



## Notes to the financial statements for the year ended 30 June 2017

### 22. Related parties (continued)

#### (b) Key management personnel and executives' compensation

The KMPs' compensation is presented in the table below for year 2017. This compensation was paid by the Trustee. Total compensation received, or due and receivable, by key management personnel amounted to \$2,589,728 (2016: \$2,927,419). The detail is as follows:

	2017 \$	2016 \$
Short-term employee benefits	2,358,557	2,681,541
Other long-term benefits	-	-
Post-employment benefits	231,171	245,878
	<u>2,589,728</u>	<u>2,927,419</u>

The table below lists the number of Key Management Personnel and executive positions named above whose income falls within the following bands for the financial year ending 30 June:

Amounts falling between...	2017	2016
Up to \$39,999	1	-
\$40,000 - \$49,999	-	-
\$50,000 - \$99,999	7	8
\$100,000 - \$149,999	1	1
\$150,000 - \$199,999	-	2
\$200,000 - \$249,999	2	2
\$250,000 - \$299,999	1	1
\$300,000 - \$349,999	1	1
\$350,000 - \$399,999	1	1
\$400,000 - \$449,999	-	-
\$450,000 - \$499,999	-	-
\$500,000 - \$549,999	1	1

During the year, fees were paid to the nominating body for one director in lieu of directors' fees (net of superannuation) being paid to that director. Superannuation contributions continued to be paid for that director.

During the year, there were no changes to the Directors on VSPL's Board. The total remuneration paid during the year was:

	2017 \$	2016 \$
Chairman	128,018	121,658
Deputy Chairman	89,614	85,160
Other Directors	391,667	425,796
	<u>609,299</u>	<u>632,614</u>

There is no additional remuneration for Directors' attendance at Committee meetings.

## Notes to the financial statements for the year ended 30 June 2017

### 22. Related parties (continued)

#### (b) Key management personnel and executives' compensation (continued)

Any Director of the Trustee or other key management personnel who is a member of the Fund contributes to the Fund on the same terms and conditions as other members. No retirement benefits were paid to Directors or key management personnel during the year.

The Trustee has not made, guaranteed or secured any loan to any Director or member of staff or to any other related party.

	2017	2016
	\$	\$
Roll ins from KMP to LASF/VSF	-	-
Benefits paid to KMP	-	50,000
Vested Benefits of KMP	7,722,895	7,615,760

#### (c) Related party transactions

##### (i) Regional Infrastructure Fund

LASF is the sole shareholder in Regional Infrastructure Fund Pty Ltd (RIF).

RIF was established primarily to invest in regional infrastructure projects. The RIF Directors during the reporting year were Graham Sherry, Geoff Lake and Richard Duffy.

The objective for RIF is to invest in infrastructure projects and it currently wholly owns Regional Wind Farms Pty Ltd.

##### (ii) Regional Wind Farms Pty Ltd

Regional Wind Farms Pty Ltd was established by RIF to invest in wind farms. Project development, construction and operations are contracted out to third party providers. The Regional Winds Farms Pty Ltd was sold during the year. The Directors of Regional Wind Farms Pty Ltd during the financial year until the date of sale were Graeme Sherry and Stephen Rowe.

##### (iii) Vision Super Pty Ltd

As described in Note 1, Vision Super Pty Ltd is the trustee of the Fund.

	2017	2016
	\$000	\$000
Trustee services fees for the year	19,079	22,802
Trustee services fees payable at the end of the year	-	-

##### (iv) Vision Pooled Superannuation Trust (VPST)

As described in Note 3, the Fund's unit holding in VPST was \$8,660,320,723, as at 30 June 2017 (2016: \$7,760,699,995) which was 100% (2016: 100%) of total units issued by VPST.

##### (v) Pooled Super Pty Ltd (PSPL)

PSPL was the trustee of VPST which the Fund was a significant unit holder. The directors of the Fund's trustee, VSPL, are paid separately for their directorship in PSPL by VSPL.



## Notes to the financial statements for the year ended 30 June 2017

### 22. Related parties (continued)

#### (c) Related party transactions (continued)

##### (vi) Directors

Geoff Lake was also a Director of Hawkesbridge Capital Pty Ltd during the year, a fund manager engaged by the VPST, and excluded himself from any decision making in relation to this manager. Mr Lake ceased to be a director of this company on 1 September 2016.

### 22. Insurance

The Fund provides death and disability benefits that are significantly higher than the resignation/retirement benefits.

The Fund has a group policy in place with CommInsure to provide both Death & Disability and Income Protection insurance cover for Vision MySuper/Super Saver and Personal plan members. The Fund self-insures Death & Disability insurance cover for Defined Benefits plan members and has a policy in place with CommInsure for Death & Disability insurance cover for the City of Melbourne and Parks Victoria sub-plans.

The Trustee believes this is appropriate in light of the Funds size, experience, present membership and benefit levels.

Insurance premiums paid by the Fund during the year were \$20.1m (2016: \$19.6m).

### 23. Risk management

The Fund's principle financial instruments comprised of units in a pooled superannuation trusts and cash. The main purpose of these financial instruments is to generate a return on investment. The Fund also has various other financial instruments such as sundry receivable and payables, which arise directly from its operations. These are mainly current in nature.

As indicated in Note 3, LASF invests 100% of its investments Units in VPST. Therefore, the following financial risk analysis is based on the total underlying assets of units in VPST.

Risks arising from holding financial instruments are inherent in the Fund's/VPST's activities and are managed through a process of ongoing identification, measurement and compliance monitoring. The Fund/VPST is exposed to credit risk, liquidity risk and market risk (including interest rate risk, equity price risk and foreign currency risk).

#### (a) Risk management structure

The Trustee is responsible for identifying and controlling the risks that arise from its financial instruments. The Trustee reviews and agrees policies for managing each of these risks as summarised below. The Fund also monitors the market price risk arising from all financial instruments. The risk framework is documented in the Fund's Risk Management Plan and Strategy, together with its Investment Governance Framework. These documents are reviewed regularly by management and the Trustee.

Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is monitored by the Trustee. These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Fund is willing to accept.

## Notes to the financial statements for the year ended 30 June 2017

### 24. Risk management (continued)

#### (a) Risk management structure (continued)

This information is prepared and reported to the Trustee on a regular basis.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or when a number of counterparties are engaged in similar business activities, have activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

In order to avoid excessive concentrations of risk, VPST monitors its exposure to ensure concentration of risk remain within acceptable levels in accordance with its mandate and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

#### (b) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

With respect to credit risk arising from the underlying financial assets of the Fund in VPST, other than derivatives, the Fund's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of net assets. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the balance date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values (ie. derivative assets). The risk associated with these contracts is minimised by undertaking transactions with high quality counterparties on recognised exchanges, and ensuring that transactions are undertaken with a number of counterparties.

Credit risk arising from investments is mitigated by extensive tax and legal due diligence undertaken by VPST prior to the appointment of fund managers to ensure fund managers have appropriate skills and expertise to manage the allocated investments. In addition, VPST conducts annual review of derivative risk statements and internal controls and processes for all appointed fund managers to ensure fund managers maintain those skills and expertise.

The Fund holds no collateral as security or any other credit enhancements. There are no significant financial assets that are past due or impaired. Credit risk is not considered to be significant to the Fund except in relation to investments in debt securities via VPST.

#### *Credit quality per class of debt instruments*

The credit quality of financial assets is managed by the Fund using Standard & Poor's rating categories, in accordance with the investment strategy of the Trustee. The Fund's exposure in each grade is monitored on a regular basis. This review process allows the Trustee to assess the potential loss as a result of risks and take corrective action. The table below shows the credit quality by class of asset for debt instruments.



## Notes to the financial statements for the year ended 30 June 2017

### 24. Risk management (continued)

#### (b) Credit risk (continued)

*Credit quality per class of debt instruments (continued)*

#### 2017

	AAA to AA-	A+ to A-	BBB+ to BBB-	CCC	Short term A-1+ to A2	Not rated or available	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Fixed interest bonds	341,392	38,510	26,720	-	-	186,904	593,526
Floating rate notes	8,258	4,248	5,589	-	-	15,805	33,900
Mortgage Backed Securities	99	-	1,610	-	-	591	2,300
Covered bonds	559	-	-	-	-	1,049	1,608
Discount securities	-	-	-	-	268,883	-	268,883
Cash & deposits	-	-	-	-	720,515	96,952	817,467
<b>Total</b>	<b>350,308</b>	<b>42,758</b>	<b>33,919</b>	<b>-</b>	<b>989,398</b>	<b>301,301</b>	<b>1,717,684</b>

#### 2016

	AAA to AA-	A+ to A-	BBB+ to BBB-	CCC	Short term A-1+ to A2	Not rated or available	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Fixed interest bonds	410,734	45,322	40,779	-	-	240,337	737,172
Floating rate notes	7,169	-	13,385	-	-	17,889	38,443
Mortgage Backed Securities	-	221	1,746	420	-	579	2,966
Covered bonds	583	-	-	-	-	578	1,161
Discount securities	-	-	-	-	79,302	-	79,302
Cash & deposits	-	-	-	-	-	952,439	952,439
<b>Total</b>	<b>418,486</b>	<b>45,543</b>	<b>55,910</b>	<b>420</b>	<b>79,302</b>	<b>1,211,822</b>	<b>1,811,483</b>

#### Risk concentration of credit risk exposure

Concentration of credit risk is managed by counterparty, by geographical region and by industry sector.

The VPST's underlying financial assets can be analysed by the following geographic regions:

	2017 \$000	2016 \$000
Australia	7,333,223	6,676,349
North America	897,105	764,827
Europe	298,236	181,713
Asia	114,962	72,715
Others	113,757	114,838
<b>Total</b>	<b>8,757,283</b>	<b>7,810,442</b>

## Notes to the financial statements for the year ended 30 June 2017

### 24. Risk management (continued)

#### (b) Credit risk (continued)

##### Risk concentration of credit risk exposure (continued)

Significant economic sector exposure exists for the underlying assets as follows:

	2017 \$000	2018 \$000
Financials	1,047,152	1,159,775
Materials	328,149	305,586
Industrials	407,681	325,658
Energy	142,879	138,849
Consumer discretionary	628,387	499,596
Consumer staples	283,537	275,480
Information technology	498,999	332,327
Health care	374,484	291,070
Telecommunication	87,207	108,785
Utilities	63,891	55,215
Real estate	336,227	-
Total	4,198,593	3,492,341

The above table does not include investments in unlisted trusts or pooled funds. The total investment in unlisted trusts or pooled funds is \$2.957b (2016: \$2.205b).

#### Script lending

VPST has entered into scrip lending arrangements under which legal title to certain assets of VPST have been transferred to another entity (National Australia Bank), notwithstanding the fact that the risks and benefits of ownership of the assets remain with VPST.

The assets transferred to the other entity under scrip lending arrangements include Australian and international equities and bonds that are held discretely by VPST's Custodian. The risks and rewards of ownership to which VPST remains exposed are currency risk, interest rate risk, credit risk and price risk.

The carrying amount of VPST's assets subject to scrip lending at balance date amounted to \$4,162.6 million (2016: \$3,864.3 million). The carrying amount of assets on loan at balance date was \$574.6 million (2016: \$674.9 million).

The other party is required to collect collateral in respect of borrowed securities which are lent to third party borrowers. The terms and conditions associated with the use of collateral held as security in relation to the assets lent are governed by a Securities Lending Agreement that requires the other party to hold the collateral in a segregated account as bare trustee for VPST.

The collateral held at balance date as security by National Asset Servicing (NAS) in a segregated account - National Nominees Ltd for the benefit of the Trust. It consisted of both cash and non-cash collateral with a fair value of \$596.0 million (2016: \$724.2 million) at the balance date. No collateral has been sold or re-pledged during the year.



## Notes to the financial statements for the year ended 30 June 2017

### 24. Risk management (continued)

#### (c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Fund's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Fund undertakes cashflow projection analysis daily to ensure minimal exposure to liquidity risk.

The Fund's significant financial liabilities are benefits payable to members.

In relation to vested superannuation benefits, these would be considered on demand, which payments comprise the entire defined contribution component and the vested portion of the defined benefit component.

The Fund manages its obligation to pay the defined contribution component on an expected maturity basis based on management's estimates and actuarial assumptions of when such funds will be drawn down by members. The Fund considers it is highly unlikely that all defined contribution members will request to roll over their superannuation fund account at the same time. Furthermore, in relation to the vested defined benefit component, the Fund has adequate resources readily convertible to cash to satisfactorily meet these obligations when called upon.

Other financial liabilities of the Fund comprise trade and other payables which are contractually due within 30 days and derivative liabilities comprising futures payable within 12 months.

As at 30 June 2017 -	Less than 1 month (\$000)	1 to 3 months (\$000)	3 to 12 months (\$000)	1 to 5 years (\$000)	Over 5 years (\$000)	No stated maturity (\$000)	Total (\$000)
<b>Financial liabilities</b>							
Benefits payable	35,564	-	-	-	-	-	35,564
Other payables	2,930	-	-	-	-	-	2,930
Vested benefits	8,469,361	-	-	-	-	-	8,469,361
<b>Total undiscounted financial liabilities</b>	<b>8,507,855</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,507,855</b>

As at 30 June 2016 -	Less than 1 month (\$000)	1 to 3 months (\$000)	3 to 12 months (\$000)	1 to 5 years (\$000)	Over 5 years (\$000)	No stated maturity (\$000)	Total (\$000)
<b>Financial liabilities</b>							
Benefits payable	30,702	-	-	-	-	-	30,702
Other payables	40	-	-	-	-	-	40
Vested benefits	7,629,773	-	-	-	-	-	7,629,773
<b>Total undiscounted financial liabilities</b>	<b>7,660,515</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,660,515</b>

#### (d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. Market risk is diversified through ensuring that all investment activities are undertaken in accordance with established investment policies of the Fund.

## Notes to the financial statements for the year ended 30 June 2017

### 24. Risk management (continued)

#### (d) Market risk (continued)

The Trustee employs diversification investment strategy to mitigate the market risk in each market segment. Further, the Fund also enters into forward foreign exchange contracts to hedge against adverse foreign exchange movements.

#### (i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. VPST has set investment allocation ranges to meet its

In determining the reasonably possible change for interest rate risk, the sensitivity of the “official cash rate” as set by the Reserve Bank of Australia (RBA) from time to time is used.

A 25 basis points movement in interest rates is considered reasonably possible for the 2016/2017 reporting period. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

An increase/decrease of 25 basis points in interest rates at the balance date would have increased/(decreased) the changes in net assets available to pay benefits by the amounts shown below:

#### 2017

Asset class sector	Change in basis points Increase/decrease	Sensitivity of interest income and changes in net assets Increase/decrease \$000
Discount securities	+/-25	(130)/130
Fixed interest securities	+/-25	(9,822)/9,822
Floating rate notes	+/-25	(8)/8
Covered bonds	+/-25	(21)/21
Mortgage backed securities	+/-25	(13)/13

#### 2016

Asset class sector	Change in basis points Increase/decrease	Sensitivity of interest income and changes in net assets Increase/decrease \$000
Discount securities	+/-25	(68)/68
Fixed interest securities	+/-25	(12,651)/12,655
Floating rate notes	+/-25	(29)/29
Covered bonds	+/-25	(18)/18
Mortgage backed securities	+/-25	(7)/7



## Notes to the financial statements for the year ended 30 June 2017

### 24. Risk management (continued)

#### (d) Market risk (continued)

##### (ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Trustee manages its exposure to foreign currency risk and mitigates effects of its foreign currency translation exposure placing limits on the portion of the assets which can be invested in different currencies and by appointing specialist currency managers to implement a passive hedge over foreign currency exposure. This foreign exchange policy is monitored against actual results on an ongoing basis throughout the year.

The movement of the main currency exchange rates below is considered reasonably possible for the 2016/2017 reporting period.

USD .....	5%
British Pounds .....	5%
Euro .....	5%
Japanese Yen .....	5%

The percentage strengthening/weakening of the AUD against the following basket of foreign currencies as at 30 June 2017 would have increase/(decreased) the changes of the year in net assets available to pay benefits by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Currency	2017		2016	
	Change in Currency rate %	Effect on changes in net assets \$000	Change in currency rate%	Effect on changes in net assets \$000
USD	+/-5	(41,629)/46,011	+/-5	(35,579)/39,324
Euro	+/-5	(6,240)/6,898	+/-5	(3,092)/3,417
Japanese Yen	+/-5	(2,170)/2,399	+/-5	(755)/834
British pounds	+/-5	(3,646)/4,030	+/-5	(2,645)/2,923

##### (iii) Equity price risk

Equity price risk is the risk that the fair value of investments in equities decreases or increases as a result of changes in market prices, whether those changes are caused by factors specific to the individual share price or factors affecting all equity instruments in the market. Equity price risk exposure arises from the Fund's investment portfolio.

To limit equity price risk the Trustee diversifies its investment portfolio in line with its investment strategy. The majority of equity investments are of a high quality and are publicly traded on recognised, reputable exchanges. The Trustee monitors the Fund's exposure to various asset classes on an ongoing basis throughout the year ensuring its investment strategy is adhered to.

A 5% movement in equity price is considered reasonably possible for the 2016/2017 reporting period. This analysis assumes that all other variables, in particular, interest rates and foreign exchange rates, remain constant. The analysis is performed on the same basis for 2016.

## Notes to the financial statements for the year ended 30 June 2017

### 24. Risk management (continued)

#### (d) Market risk (continued)

##### (iii) Equity price risk (continued)

The 5% increase/decrease in the equity price against the investments of the Fund at 30 June would have increased/(decreased) the changes for the year in net assets available to pay benefits by the amounts shown below:

Asset class sector	2017		2016	
	Change in equity price %	Effect on changes in net assets \$000	Change in equity price %	Effect on changes in net assets \$000
Listed equities	+/-5	191,191/(191,191)	+/-5	162,560/(162,560)
Listed investment company	+/-5	526/(526)	+/-5	1,017/(1,017)
Listed property trusts	+/-5	13,808/(13,808)	+/-5	10,997/(10,997)
Listed units trust	+/-5	2,352/(2,352)	+/-5	15,078/(15,078)
Pooled Development Fund	+/-5	-	+/-5	-
Preference shares	+/-5	174/(174)	+/-5	72/(72)
Unlisted equities	+/-5	8,147/(8,147)	+/-5	8,574/(8,574)
Unlisted MIS	+/-5	133,473/(133,473)	+/-5	99,908/(99,908)
Others	+/-5	33,098/(33,098)	+/-5	(14,586)/38,571

### 24. Contingent liabilities/assets

The Fund has no contingent liabilities/assets as at 30 June 2017.

### 25. Significant event after balance date

Between 30 June 2017 and the date of approval of this financial report, no matters or circumstances have arisen that have not otherwise been dealt with in the financial period that have significantly affected or may significantly affect the Fund.

It should be noted that it is the intention of the Fund to wind-up VPST before 30 June 2018. The net assets of VPST will be transferred to LASF at that time.



## Local Authorities Superannuation Fund

### Trustee declaration

In the opinion of the directors of the Trustee of Local Authorities Superannuation Fund (the Fund):

- (i) The accompanying financial statements and notes set out on pages 2 to 45 are drawn up in accordance with:
- The Australian Accounting Standards and other mandatory professional reporting requirements, and
  - Present fairly the Fund's financial position as at 30 June 2017 and its performance for the year ended on that date in accordance with those requirements
- (ii) During the year ended 30 June 2017, the Fund's operations have been carried out in accordance with its Trust Deed and:
- The requirements of the Superannuation Industry (Supervision) Act 1993 and its accompanying Regulations
  - The relevant requirements of the Corporations Act 2001 and its Regulations, and
  - The requirements under Section 13 of the Financial Sector (Collection of Data) Act 2001
- and
- (iii) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

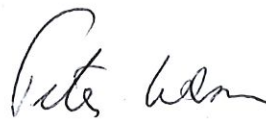
Dated at Melbourne 27 September 2017

Signed in accordance with a resolution of the Directors of the Trustee:



Name: BRIAN PARKINSON

Director



Name: PETER WILSON

Director



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

LOCAL AUTHORITIES SUPERANNUATION FUND ABN: 24 496 637 884

Report by the RSE Auditor to the trustee and members

### Opinion

I have audited the financial statements of Local Authorities Superannuation Fund for the 30 June 2017 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 Authorities Superannuation Fund as at 30 June 2017 and the results of its operations, cash flows, changes in equity/reserves and changes in members' benefits for the year ended 30 June 2017.

### 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.

### 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.

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 responsibility

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



Brett Kallio  
Partner  
Melbourne

27 September 2017



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

LOCAL AUTHORITIES SUPERANNUATION FUND ABN: 24 496 637 884

Report by the RSE Auditor to the trustee and members

### Opinion

I have audited the financial statements of Local Authorities Superannuation Fund for the 30 June 2017 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 Authorities Superannuation Fund as at 30 June 2017 and the results of its operations, cash flows, changes in equity/reserves and changes in members' benefits for the year ended 30 June 2017.

### 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.

### 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.

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.

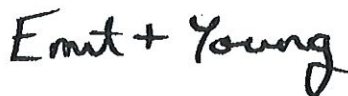


### Auditor's responsibility

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



Brett Kallio  
Partner  
Melbourne

27 September 2017

## Part 2 – Independent Auditor's report on APRA reporting forms and Reasonable Assurance report on compliance

### (A) APRA reporting forms required under reporting standards (SPS 310, Attachment B)

Independent auditor's report to the trustee of Local Authorities Superannuation Fund  
ABN: 24 496 637 884 on forms required under APRA reporting standards:

SRF 114.1	<i>Operational Risk Financial Requirement;</i>
SRF 320.0	<i>Statement of Financial Position;</i>
SRF 330.0	<i>Statement of Financial Performance;</i>
SRF 530.0	<i>Investments;</i>
SRF 531.0	<i>Investment Flows;</i>

### Opinion

In my opinion:

- a) the relevant forms are prepared in all material respects in accordance with the requirements of the APRA reporting standards, the financial position of Local Authorities Superannuation Fund as at 30 June 2017 and its performance for the year then ended, as reflected in the RSE's financial statements signed on 27 September 2017 or accounting records with regard to other information that was not directly derived from the financial statements; and
- b) the trustee of Local Authorities Superannuation Fund has complied in all material respects with the reporting requirements of the APRA reporting standards pertaining to the preparation of the APRA reporting forms.

### Basis for Opinion

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

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

### Trustee's responsibility for forms required by APRA reporting standards

The RSE's trustee is responsible for the preparation and lodgement of the forms (APRA reporting forms) required by reporting standards made under the *Financial Sector (Collection of Data) Act 2001*, as listed in Attachment B to *Prudential Standard SPS 310 Audit and Related Matters* (APRA reporting standards) and for such internal controls as the trustee determines to be necessary to enable the preparation of the APRA reporting forms free from material misstatement, whether due to fraud or



error. The APRA reporting forms have been prepared for the purposes of fulfilling the trustee's reporting requirements under the APRA reporting standards.

#### **Auditor's responsibility**

My responsibility is to express an opinion on the APRA reporting forms required by the APRA reporting standards based on my reasonable assurance engagement. I have conducted a reasonable assurance engagement on the following APRA reporting forms:

<i>SRF 114.1</i>	<i>Operational Risk Financial Requirement;</i>
<i>SRF 320.0</i>	<i>Statement of Financial Position;</i>
<i>SRF 330.0</i>	<i>Statement of Financial Performance;</i>
<i>SRF 530.0</i>	<i>Investments;</i>
<i>SRF 531.0</i>	<i>Investment Flows;</i>

of Local Authorities Superannuation Fund, which comprise part of the information required by the APRA reporting standards for the year ended 30 June 2017.

I have conducted a reasonable assurance engagement on the APRA reporting forms in order to express an opinion on them to the trustee of Local Authorities Superannuation Fund.

I have also performed a reasonable assurance engagement on the financial statements of Local Authorities Superannuation Fund for the year ended 30 June 2017. My auditor's opinion on the financial statements was signed on 27 September 2017, and was not modified.

A reasonable assurance engagement involves performing procedures to obtain sufficient appropriate evidence about the amounts and disclosures in the relevant forms. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the amounts and disclosures in the relevant forms, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the trustee's preparation and presentation of the amounts and disclosures in the relevant forms in order to design reasonable assurance 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.

A reasonable assurance engagement 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 amounts and disclosures in the relevant forms.

For the purpose of ensuring that the relevant forms are materially complete and accurate and are in accordance with the relevant prudential reporting standards, my procedures included testing that the information in the relevant forms is consistent with the financial statements for the year ended 30 June 2017. In addition, and for the same purpose, in regard to other information reported in the relevant forms, I examined on a test basis, evidence supporting the amounts and other disclosures in the relevant forms that were not directly derived from the financial statements.



**Emphasis of Matter - Basis of preparation of APRA reporting forms and restriction on use and distribution**

Without modifying my opinion, I draw to the readers' attention that the APRA reporting forms have been prepared for the purpose of fulfilling the trustee's reporting responsibilities under the APRA reporting standards. As a result, they may not be suitable for another purpose. This report is intended solely for the trustee and APRA (and ASIC where applicable), and should not be distributed to or used by parties other than the trustee and APRA (and ASIC where applicable). I disclaim any assumption of responsibility for any reliance on this report, or the APRA reporting forms to which it relates, to any party other than the trustee and APRA (and ASIC where applicable), or for any purpose other than that for which it was prepared.

A handwritten signature in black ink that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Brett Kallio'.

Brett Kallio  
Partner  
Melbourne

27 September 2017



**(B) Compliance**

**Independent Assurance Practitioner's report to the trustee of Local Authorities Superannuation Fund ABN: 24 496 637 884**

**Opinion**

I have performed a reasonable assurance engagement to provide an opinion in relation to the trustee's compliance with applicable provisions under the *Superannuation Industry (Supervision) Act 1993* (SIS Act), *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations), APRA reporting standards, *Corporations Act 2001* (Corporations Act) and *Corporations Regulations 2001* (Corporations Regulations).

In my opinion the trustee of Local Authorities Superannuation Fund has complied, in all material respects with:

- a) The requirements of the applicable SIS Act and SIS Regulations, APRA reporting standards, Corporations Act and Corporations Regulations specified above for the year ended 30 June 2017.
- b) The requirement to maintain an operational risk reserve / trustee capital at the required target amount in accordance with its ORFR strategy.

**Basis for Opinion**

I conducted the engagement in accordance with the Standard on Assurance Engagements ASAE 3100 Compliance Engagements issued by the Auditing and Assurance Standards Board.

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

**Trustee's responsibility for compliance**

The RSE's trustee is responsible for complying with the requirements of the SIS Act, SIS Regulations, APRA reporting standards, the Corporations Act and Corporations Regulations.

The trustee is responsible, under *Prudential Standard SPS 114 Operational Risk Financial Requirement* (SPS 114), for maintaining financial resources at the required target amount in accordance with its Operational Risk Financial Requirement (ORFR) strategy. The financial resources held to meet the ORFR target amount must be held either as:

- a) an operational risk reserve within an RSE;
- b) operational risk trustee capital held by the RSE licensee; or
- c) a combination of both an operational risk reserve held within an RSE and operational risk trustee capital held by the RSE licensee.

## Independence and Quality Control

I have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.

## Independent Assurance Practitioner's responsibilities

My responsibility is to express an opinion on the trustee's compliance with the requirements of the SIS Act, SIS Regulations, APRA reporting standards, Corporations Act and Corporation Regulations based on the reasonable assurance engagement. My reasonable assurance engagement has been conducted in accordance with applicable AUASB Standards on Assurance Engagements. These standards require that I comply with relevant ethical requirements and plan and perform my procedures to obtain reasonable assurance whether the trustee of Local Authorities Superannuation Fund has, in all material respects:

- a) complied with the relevant requirements of the following provisions (to the extent applicable) of the SIS Act and SIS Regulations:

Sections 29VA, 35A, 65, 66, 67, 95, 97, 98, 99F, 101, 105, 106, 109, 117, 154 and 155(2);

Regulations 3.10, 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 13.14, 13.17, 13.17A;

- b) complied with the APRA reporting standards that are subject to reasonable assurance (to the extent applicable);
- c) complied with the relevant requirements of the following provisions of the Corporations Act and Corporation Regulations (to the extent applicable):

Sections 1012B, 1012F, 1012H(2), 1012I, 1013B, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 1017BA, 1017C(2), 1017C(3), 1017C(5), 1017C(8), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3), 1017E(4), 1020E(8) and 1020E(9);

Regulations 7.9.07Q-7.9.07W, 7.9.11K, 7.9.11N, 7.9.11O, 7.9.11P, 7.9.11Q, 7.9.32(3), 7.9.48B, 7.9.48C and 7.9.48D; and

- d) complied with the requirement to prepare the respective forms required by the APRA reporting standards;

for the year ended 30 June 2017.

My procedures with respect to SIS Regulation 6.17 included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of the SIS Regulations. These procedures did not include testing of the



calculation of the preserved and restricted non-preserved amounts beyond a broad assessment of the apparent reasonableness of the calculations.

My responsibility is also to express an opinion on the trustee's compliance with their ORFR strategy with respect to maintaining an operational risk reserve / trustee capital at the required target amount for the year ended 30 June 2017.

My procedures in relation to SIS Section 155(2) included assessing the trustee's controls in place to monitor compliance with Section 155(2). These procedures did not include testing the trustee's methodology used to calculate the issue or redemption price.

#### **Inherent limitations**

Due to the inherent limitations of any evidence gathering procedures and the internal control framework, it is possible that fraud, error or non-compliance may occur and not be detected. A reasonable assurance engagement is not designed to detect all instances of non-compliance with the applicable SIS Act and SIS Regulations, APRA reporting standards, Corporations Act and Corporations Regulations specified above, as a reasonable assurance engagement is not performed continuously throughout the year and the procedures performed in respect of compliance with the applicable SIS Act and SIS Regulations, APRA reporting standards, Corporations Act and Corporations Regulations specified above are undertaken on a test basis.

#### **Emphasis of Matter - Basis of Preparation of APRA reporting forms and restriction on use and distribution**

This report has been prepared solely for the trustee in order to meet the APRA reporting requirements of the trustee. This report is intended solely for the trustee and APRA (and ASIC where applicable), and should not be distributed to or used by parties other than the trustee and APRA (and ASIC where applicable). I disclaim any assumption of responsibility for any reliance on this report to any party other than the trustee and APRA (and ASIC where applicable), or for any purpose other than that for which it was prepared.

  
Ernst & Young

  
Brett Kallio  
Partner  
Melbourne

27 September 2017

### Part 3 – Independent Auditor's report on APRA reporting forms and Limited Assurance report on compliance

#### (A) APRA reporting forms required under reporting standards (SPS 310, Attachment B)

Independent auditor's report to the trustee of Local Authorities Superannuation Fund ABN 24 496 637 884 on forms required under APRA reporting standards:

SRF 330.2	<i>Statement of Financial Performance;</i>
SRF 533.0	<i>Asset Allocation;</i>
SRF 540.0	<i>Fees;</i>
SRF 702.0	<i>Investment Performance; and</i>
SRF 703.0	<i>Fees Disclosed</i>

#### Conclusion

Based on my limited assurance engagement, which is not a reasonable assurance engagement, nothing has come to my attention that causes me to believe that the APRA reporting forms Local Authorities Superannuation Fund for the year ended 30 June 2017 are not prepared, in all material respects, in accordance with the APRA reporting standards.

#### Basis for Conclusion

I have conducted a limited assurance engagement, in accordance with ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* (ASRE 2405) issued by AUASB, in order to state whether, on the basis of the procedures described, anything has come to my attention that causes me to believe that the relevant forms are not prepared, in all material respects, in accordance with the APRA reporting standards.

ASRE 2405 requires me to comply with the relevant professional and ethical requirements of the Standards issued by the Accounting Professional and Ethical Standards Board.

#### Trustee's responsibility for forms required by APRA reporting standards

The RSE's trustee is responsible for the preparation and lodgement of the forms (APRA reporting forms) required by reporting standards, made under the *Financial Sector (Collection of Data) Act 2001*, as listed in Attachment B to *Prudential Standard SPS 310 Audit and Related Matters* (APRA reporting standards) and for such internal controls as the trustee determines to be necessary to enable the preparation of the APRA forms free from material misstatement, whether due to fraud or error. The APRA reporting forms have been prepared for the purposes of fulfilling the trustee's reporting requirements under the APRA reporting standards.



### Auditor's responsibility

My responsibility is to express a conclusion, based on my limited assurance engagement, on the APRA reporting forms:

SRF 330.2	<i>Statement of Financial Performance;</i>
SRF 533.0	<i>Asset Allocation;</i>
SRF 540.0	<i>Fees;</i>
SRF 702.0	<i>Investment Performance; and</i>
SRF 703.0	<i>Fees Disclosed</i>

of Local Authorities Superannuation Fund, which comprise part of the information required by the APRA reporting standards for the year ended 30 June 2017.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for the relevant forms, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with Australian Auditing Standards and consequently does not enable me to obtain assurance that I would become aware of all material matters that might be identified in a reasonable assurance engagement. Accordingly, I do not express a reasonable assurance opinion.

### Basis of preparation and restriction on use and distribution

Without modifying my conclusion, I draw to readers' attention that the APRA reporting forms have been prepared for the purpose of fulfilling the trustee's reporting responsibilities of the APRA reporting standards. As a result, they may not be suitable for another purpose. This report is intended solely for the trustee and APRA (and ASIC where applicable), and should not be distributed to or used by parties other than the trustee and APRA (and ASIC where applicable). I disclaim any assumption of responsibility for any reliance on this report, or the APRA reporting forms to which it relates, to any party other than the trustee and APRA (and ASIC where applicable), or for any purpose other than that for which it was prepared.

### (B) Compliance

Independent Assurance Practitioner's Limited Assurance report to the trustee of Local Authorities Superannuation Fund ABN 24 496 637 884.

### Conclusion

I have performed a limited assurance engagement under the reporting requirements specified in Australian Prudential Regulation Authority (APRA) *Prudential Standard SPS 310 Audit and Related Matters* (SPS 310), as described in the *Scope* section, paragraphs *Part A* to *Part C*, of this report.

*Part A - the trustee's systems, procedures and internal controls are designed to ensure that the trustee has complied with all applicable prudential requirements*

Based on the procedures I performed and evidence I obtained, nothing has come to my attention that causes me to believe that, in all material respects, the trustee did not have in place suitably designed systems, procedures and controls that operated effectively throughout the year of income to address compliance with all applicable Prudential Requirements.

*Part B - the trustee's systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards*

Based on the procedures I performed and evidence I obtained, nothing has come to my attention that causes me to believe that, in all material respects, the trustee did not have in place suitably designed systems, procedures and controls that operated effectively throughout the year of income and provided reliable data to APRA as required under the APRA reporting standards.

*Part C - Compliance with the RMF*

Based on the procedures I performed and evidence I obtained, nothing has come to my attention that causes me to believe that, for the period 1 July 2016 to 30 June 2017, the trustee did not comply, in all material respects, with its RMF.

**Basis for Conclusion**

I conducted the engagement in accordance with the Standard on Assurance Engagements ASAE 3100 Compliance Engagements issued by the Auditing and Assurance Standards Board.

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

**Trustee's responsibility for compliance**

The trustee of Local Authorities Superannuation Fund are responsible for:

- a) the *trustee's* systems, procedures and internal controls that are designed to ensure that the *trustee has* complied with all applicable prudential requirements, has provided reliable data to APRA as required by the APRA reporting standards , and has operated effectively throughout the year of income;
- b) the *trustee's* compliance with its risk management framework; and
- c) the *trustee's* compliance with its operational risk financial requirement (ORFR) strategy.

**Independence and Quality Control**

I have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.



### **Independent Assurance Practitioner's responsibilities**

My responsibility is to perform a limited assurance engagement as required by SPS 310, described in *Scope* paragraphs *Part A* to *Part C* of this report, and to express a limited assurance conclusion based on the procedures I have performed and the evidence I have obtained.

My limited assurance engagement has been conducted in accordance with applicable AUASB Standards on Assurance Engagements, in order to express a limited assurance conclusion as described in *Scope* paragraphs *Part A* to *Part C* of this report. I have complied with the independence and other relevant ethical requirements relating to a limited assurance engagements.

The procedures I performed were based on my professional judgment and included enquiries of the trustee personnel and observation of material control procedures performed; inspection of documents; walk-throughs of material control procedures and evaluating the effectiveness of material control procedures throughout the year.

My audit of the financial statements and my reasonable and limited assurance engagements on the APRA reporting forms required under SPS 310 are directed towards obtaining sufficient appropriate evidence to form an opinion and conclusion under the appropriate prudential requirements. These procedures were not designed to enable me to conclude on other matters required by the APRA Prudential Standards. I have therefore performed assurance procedures in order to meet my responsibilities in relation to the design and operating effectiveness of material controls and compliance with specific requirements under the prudential requirements.

### **Inherent Limitations**

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with AUASB Standards on Assurance Engagements and consequently does not enable me to obtain assurance that I would become aware of all material matters that might be identified in a reasonable assurance engagement. Accordingly, I do not express a reasonable assurance opinion.

There are inherent limitations in any internal control structure, and fraud, error or noncompliance with laws and regulations may occur and not be detected. As the systems, procedures and controls to ensure compliance with APRA Prudential Requirements are part of the business operations of the trustee it is possible that either the inherent limitations of the general internal control structure, or weaknesses in it, can impact on the effective operation of the specific control procedures of the trustee.

Furthermore, projections of any evaluation of internal control procedures or compliance measures to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate. Consequently, there are inherent limitations on the level of assurance that can be provided.

Accounting records and data relied on for prudential reporting and compliance are not continuously audited and do not necessarily reflect accounting adjustments necessary for end of reporting period financial report preparation, or events occurring after the end of the reporting period.

The conclusions in this report expressed below are to be read in the context of the foregoing comments.

**Emphasis of Matter - Basis of preparation of APRA reporting forms and restriction on use and distribution**

This report has been prepared solely for the trustee in order to meet the APRA reporting requirements of the trustee. This report is intended solely for the trustee and APRA (and ASIC where applicable), and should not be distributed to or used by parties other than the trustee and APRA (and ASIC where applicable). I disclaim any assumption of responsibility for any reliance on this report to any party other than the trustee and APRA (and ASIC where applicable), or for any purpose other than that for which it was prepared.

**Scope**

*Part A - the trustee's systems, procedures and internal controls are designed and operate effectively to ensure that the trustee has complied with all applicable prudential requirements*

The procedures I performed during the period 1 July 2016 to 30 June 2017 as listed below were considered necessary in relation to the trustee's systems, procedures and controls that address compliance with all applicable Prudential Requirements. Prudential Requirements include requirements imposed by:

- a) APRA Prudential Standards;
- b) APRA reporting standards;
- c) SIS Act and SIS Regulation;
- d) APRA conditions on the trustee's licence or authorisation;
- e) Directions issued by APRA under the SIS Act 1993; and
- f) Other requirements imposed by APRA in writing (if applicable).

Through enquiries, observation and walk-throughs of material control procedures, the evidence I obtained is sufficient and appropriate to provide a basis for my conclusion.

*Part B - the trustee's systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards*

The procedures I have performed as listed below were considered necessary in relation to the





trustee's systems, procedures and controls, for the period 1 July 2016 to 30 June 2017, to ensure that, in all material respects, reliable data is provided, as required by the APRA reporting standards.

Through enquiries, observation and walk-throughs of material control procedures, the evidence I obtained is sufficient and appropriate to provide a basis for my conclusion.

*Part C - Compliance with the Risk Management Framework (RMF)*

The procedures I have performed as listed below were considered necessary in relation to the trustee's compliance, in all material respects, with its RMF, as defined in Prudential Standard SPS 220 Risk Management (SPS 220) for the period 1 July 2016 to 30 June 2017.

Through enquiry, observation and inspection of documents, the evidence I obtained is sufficient and appropriate to provide a basis for my conclusion.

A handwritten signature in black ink that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Brett Kallio'.

Brett Kallio  
Partner  
Melbourne

27 September 2017