



**Local Authorities  
Superannuation Fund  
and its controlled  
entities**

**Annual financial report  
30 June 2009**

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# Local Authorities Superannuation Fund and its controlled entities

## Statement of net assets

As at 30 June 2009

	Note	Consolidated		Fund	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Assets</b>					
Cash at bank		12,722	6,782	10,346	5,549
Contributions receivable	11	1,947	2,734	1,947	2,734
Other receivables		1,504	1,324	1,185	1,054
Prepayments		3	26	-	-
Deferred tax assets		84,450	39,102	9	-
<b>Investments</b>					
Cash		603,696	414,845	-	-
Fixed interest		323,387	578,791	-	-
Australian equities		689,814	823,915	-	-
International equities		591,232	692,475	-	-
Property		528,787	560,243	-	-
Private equity		374,062	343,117	-	-
Infrastructure		428,474	467,724	-	-
Absolute return		90,914	213,258	-	-
Units in Vision Pooled Superannuation Trust		-	-	3,569,977	3,990,319
Derivative assets		38,649	15,778	-	-
<b>Total assets</b>		<b>3,769,641</b>	<b>4,160,114</b>	<b>3,583,464</b>	<b>3,999,656</b>
<b>Liabilities</b>					
Benefits payable		14,999	13,172	14,999	13,172
Other payables		6,210	3,264	63	404
Amounts held in trust		624	887	624	887
Current tax liabilities	13	12,079	46,594	36,949	34,107
Deferred tax liabilities	14	4,462	2,772	8	404
Derivative liabilities		2,837	4,185	-	-
Net assets attributable to minority interests	2(d)	197,609	138,558	-	-
<b>Total liabilities (excluding net assets available to pay benefits)</b>		<b>238,820</b>	<b>209,432</b>	<b>52,643</b>	<b>48,974</b>
<b>Net assets available to pay benefits</b>		<b>3,530,821</b>	<b>3,950,682</b>	<b>3,530,821</b>	<b>3,950,682</b>

The statement of net assets is to be read in conjunction with the notes to the financial statements set out on pages 3 to 23

# Local Authorities Superannuation Fund and its controlled entities

## Statement of changes in net assets

For the year ended 30 June 2009

	Note	Consolidated		Fund	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Investment revenue</b>					
Interest		27,490	22,297	-	452
Dividends and trust distributions revenue		109,990	159,568	-	-
Other investment income		769	691	-	-
Changes in net market value of investments	8	(646,958)	(321,382)	(478,865)	(127,863)
		<u>(508,709)</u>	<u>(138,826)</u>	<u>(478,865)</u>	<u>(127,411)</u>
Direct investment expense	9	(24,554)	(20,885)	-	(43)
Net investment revenue		<u>(533,263)</u>	<u>(159,711)</u>	<u>(478,865)</u>	<u>(127,454)</u>
<b>Contributions revenue</b>					
Employers		271,299	249,507	271,299	249,507
Members		43,951	62,790	43,951	62,790
Transfer from other funds		65,547	65,005	65,547	65,005
		<u>380,797</u>	<u>377,302</u>	<u>380,797</u>	<u>377,302</u>
<b>Other revenue</b>					
Insurance proceeds		195	203	195	203
Other revenue		449	200	449	200
		<u>644</u>	<u>403</u>	<u>644</u>	<u>403</u>
<b>Total revenue</b>		<u>(151,822)</u>	<u>217,994</u>	<u>(90,430)</u>	<u>250,251</u>
<b>Expenses</b>					
Benefits paid		(266,825)	(353,465)	(266,825)	(353,465)
General administration expenses	10	(14,414)	(14,921)	(14,414)	(14,921)
Group life insurance premium expense	17	(5,263)	(1,056)	(5,263)	(1,056)
Superannuation contributions surcharge	2(o)	(26)	(65)	(26)	(65)
		<u>(286,528)</u>	<u>(369,507)</u>	<u>(286,528)</u>	<u>(369,507)</u>
<b>Change in net assets before income tax</b>		<u>(438,350)</u>	<u>(151,513)</u>	<u>(383,952)</u>	<u>(119,256)</u>
Income tax expense	12	(18,490)	41	(35,908)	(32,216)
<b>Change in net assets after income tax</b>		<u>(419,860)</u>	<u>(151,472)</u>	<u>(419,860)</u>	<u>(151,472)</u>
<b>Attributable to:</b>					
The Fund		(393,932)	(146,389)		
Minority interests	2(d)	(25,928)	(5,083)		
<b>Net change for the year after income tax</b>		<u>(419,860)</u>	<u>(151,472)</u>		
<b>Net assets available to pay benefits at the beginning of the financial year</b>		<u>3,950,682</u>	<u>4,102,154</u>	<u>3,950,682</u>	<u>4,102,154</u>
<b>Net assets available to pay benefits at the end of the financial year</b>		<u>3,530,821</u>	<u>3,950,682</u>	<u>3,530,821</u>	<u>3,950,682</u>

The statement of changes in net assets is to be read in conjunction with the notes to the financial statements set out on pages 3 to 23.

# Notes to the financial statements

For the year ended 30 June 2009

## 1. Operation of the Fund

Local Authorities Superannuation Fund (the "Fund") is a superannuation fund domiciled in Australia. The address of the Fund's registered office is Level 5, 1 Spring Street in Melbourne.

The Trustee of the Fund is Vision Super Pty Ltd (VSPL). The Fund is a standard employer-sponsored fund with both a defined benefit section and accumulation section. The defined benefits section of the Fund was closed to new entrants from 31 December 1993, with all new entrants joining the accumulation section of the Fund.

The Fund's governing rules are contained within the Local Authorities Superannuation Fund Trust Deed dated 26 June 1998. The majority of members and participating employees are drawn from the local government, water and community services sectors.

The Fund provides a range of benefits and services including defined benefit and defined contribution lump sums, pensions, and post retirement products.

The consolidated financial report of the Fund as at and for the financial year ended 30 June 2009 comprises the Fund and its subsidiary, Vision Pooled Superannuation Trust (VPST) (together referred to as the "Group").

## 2. Summary of significant accounting policies

### (a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standard AAS 25 Financial Reporting by Superannuation Plans, as amended by Australian Accounting Standards Board AASB 2005-13 (December 2005), other applicable Accounting Standards, the provisions of the Trust Deed and the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations.

The financial statements have been prepared in accordance with the historical cost convention, except for the valuation of investments and derivatives, which are measured at net market value.

The financial report was authorised for issue by the Directors of the Trustee, Vision Super Pty Ltd, on 25 September 2009.

Amounts have been rounded to the nearest thousand dollars except where otherwise noted.

### (b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Since AAS 25 is the principal standard that applies to the financial statements, other standards, including AIFRS, are also applied where necessary except to the extent that they differ from AAS 25.

### (c) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting periods are:

*Valuation of Accrued Benefits* - The amount of accrued benefits has been actuarially determined. The key assumptions are discussed in Note 4.

*Valuation of Investments and Derivatives* – the key assumptions are set out in Note 2 (e).

## Notes to the financial statements

For the year ended 30 June 2009

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

#### (d) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial reports of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases.

In the financial report of the Fund, investments in subsidiaries are carried at net market value.

##### (ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial report.

##### (iii) Minority interests

For the financial year ended 30 June 2009, minority interests are both presented in Statement of net assets and Statement of changes in net assets.

#### (e) Investments

Investments of the Fund are initially recorded at cost, being the fair value of the consideration given.

After initial recognition, investments are measured at net market value and movements in the net market value of investments are recognised in the Statement of Changes in Net Assets.

The Group recognises financial assets on the date it becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. From this date any gains and losses arising from changes in net market value are recorded.

Net market values have been determined as follows:

##### (i) Market quoted investments

Market quoted investments comprises short-term deposits and listed securities. The net market value of an investment for which there is a readily available market quotation is determined as the last quoted sale price as at the close of business on reporting date, less an appropriate allowance for costs expected to be incurred in realising the investments.

##### (ii) Non-market quoted investments

Investments for which market quotations are not readily available are valued at the net fair value determined by the Trustee as follows:

Unlisted investments and pooled funds – valued at the redemption price at reporting date as advised by the investment managers and are based on the net market value of the underlying investments. Unit values denominated in foreign currency are then translated to Australian dollars at the current exchange rates.

Derivative financial instruments including futures, options, warrants, swaps, forward foreign exchange contracts and forward rate agreements are recorded at market value at balance date .

Investment managers are mandated to use derivative instruments provided they do not gear the portfolios and have cash or securities to back their use.

Investments are maintained for the long-term purpose of providing benefits to members and retirement, death or disability. Due to the long-term objective the amount recoverable through sale within 12 months cannot be determined.

## Notes to the financial statements

For the year ended 30 June 2009

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

#### (f) Cash and cash equivalents

Cash and cash equivalents in the statement of net assets comprise cash at bank and short-term deposits with an original maturity of less than one-year.

#### (g) Financial liabilities

The Group recognises financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

The Group recognises financial liabilities at net market value as at reporting date with any change in net market values of the Group's financial liabilities since the beginning of the reporting period included in the statement of changes in net assets for the reporting period.

#### (h) Benefits payable

Benefits payable comprises the entitlements of members who have claimed a benefit prior to the end of the year, and the entitlement had not been paid at reporting date. Benefits entitlements rolled over within the Fund are not included as benefits payable. Benefits payable are generally settled within 30 days.

#### (i) Other payables

Other payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Group. Payables are normally settled on 30-day terms.

#### (j) Foreign currency

Both the functional and presentation currency of the Fund and Group are Australian dollars.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of change of net assets.

#### (k) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### (i) Changes in net market values

Changes in the net market value of investments and derivatives are calculated as the difference between the net market value at sale, or at balance date, and the net market value at the previous valuation point and recognised in the statement of changes in net assets.

#### (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.

#### (iii) Interest revenue

Interest income is recognised in the statement of changes in net assets as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

#### (iv) Dividends revenue

Revenue from dividends is recognised on the date the shares are quoted ex-dividend and if not received at reporting date, is reflected in the statement of net assets as a receivable at net market value.

## Notes to the financial statements

For the year ended 30 June 2009

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

#### (k) Revenue recognition (continued)

##### (v) Distributions

Distributions from managed investment schemes are recognised as at the date the unit value is quoted ex-distribution and if not received at reporting date, are reflected in the statement of net assets as a receivable at net market value.

##### (l) Income tax

Income tax on the benefits accrued as a result of operations for the year comprises current and deferred tax. Income tax is recognised in the statement of changes in net assets except to the extent that it relates to items recognised directly in members' funds in which case it is recognised directly in members' funds.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the statement of net assets date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, nor differences relating to investments in controlled entities to the extent that it is not probable they will reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Income tax has been provided in the current year at the rate of 15% as it is the expectation of the Trustee that the Fund will be treated as a complying superannuation fund and its subsidiary VPST's taxable income is "standard income". If the Fund is subsequently deemed to be a non-complying fund for the current year or VPST has "special income", then income tax will be payable at a rate of 47% on the Group'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 properly payable by the Group.

##### (m) Derecognition of financial assets and financial liabilities

A financial asset is derecognised when:

- The right to receive cash flows from the asset have expired; or
- The Group transfers substantially all the risks and rewards of the ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

##### (n) Superannuation contributions surcharge

The Trustee recognises amounts paid or payable in respect of the surcharge tax as an expense of the Group.



## Notes to the financial statements

For the year ended 30 June 2009

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

#### (o) Superannuation contributions surcharge (continued)

No estimate has been made for the balance of any tax payable in respect of surchargeable contributions received by the Group during the current year as the Trustee is unable to determine this amount until any receipt of applicable assessments .

The superannuation surcharge was abolished with effect from 1 July 2005 by the passing of the Superannuation Laws Amendment (Abolition of Surcharge) Act 2005. The last reporting of contributions for surcharge purposes was in respect of contributions made up to and including 30 June 2005.

#### (p) Excess contributions tax

The Australian Taxation Office may issue release authorities to members of the Fund relating to the relevant member's excess contributions tax that is payable in respect of the member's concessional and/or non-concessional contributions for a particular year. Where a member receives an excess contributions tax release authority, the member:

- May give the release authority relating to the member's concessional contributions to a fund for payment; and
- Must give the release authority relating to the member's non-concessional contributions to a fund for payment.

Release authorities in relation to concessional and/or non-concessional contributions received from 1 July 2008 may be issued from the Australian Taxation Office from 1 July 2009.

The liability for the excess contribution tax will be recognised when the relevant release authorities are received from the members, as the Trustee considers this is when it can be reliably measured.

The excess contributions tax liability recognised by the Fund will be charged to the relevant member's accounts.

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 31.50% 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 member's accounts. Where a tax offset is obtained by the Fund in relation to member's no-TFN contribution tax, the tax offset will be included in the relevant member's accounts.

#### (q) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO). In circumstances where the GST is not recoverable, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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 a current asset or liability in the statement of net assets.

#### (r) Issued standards not early adopted

The following standards, amendments to standards or interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report:

## Notes to the financial statements

For the year ended 30 June 2009

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

#### (r) Issued standards not early adopted (continued)

- Revised AASB 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a businesses has been broadened, which is likely to result in more acquisitions being treated as business combinations;
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit and loss;
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit and loss;
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised AASB 3, which becomes mandatory for the Group's 30 June 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statement.

- Revised AASB 127 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in subsidiaries while maintaining control, to be recognised as an equity transaction. When the Group loses control of subsidiary, any interest retained in the former subsidiary will be measured as fair value with the gain or loss recognised in profit or loss. The amendments to AASB 127, which become mandatory for the Group's 30 June 2010 financial statements are not expected to have a significant impact on the consolidated financial statements.
- AASB 101 *Presentation of Financial Statements* (Revised, September 2007) and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* (September 2007).
- Revised AASB 101 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in a income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2010 consolidated financial statements.
- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments* (AASB4, AASB 7, AASB 1023 and AASB 1038) requires disclosures of financial instruments measured at fair value to be based on a three-level fair value hierarchy that reflects the significance of the inputs in such fair value measurements as well as requiring additional qualitative disclosures of liquidity risk. AASB 2009-2 will become mandatory for the Group's 30 June 2010 financial statements. The Fund has not yet determined the potential effect of the revised standard on the Group's disclosure.

#### (s) Reclassification of financial information

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

#### (t) Valuation dates

The investment held in VPST has been valued at 30 June 2009 from valuations obtained from the Custodian taking into account information received post balance date. The Vested Benefits value has been calculated using the daily unit price applicable as at 30 June 2009.

## Notes to the financial statements

### For the year ended 30 June 2009

#### 3. Group entities

During the year ended 30 June 2009 Local Authorities Superannuation Fund controlled VPST with an ownership interest of 94.8% (2008: 96.6%). VPST was incorporated in Australia. The Fund has no jointly controlled entities.

#### 4. Accrued benefits

The liability for accrued benefits is the Fund's present obligation to pay benefits to members and pensioners.

In respect of all defined benefit members and pensioners, the liability for accrued benefits is measured by a qualified actuary and has been calculated on the basis of the present value of expected future payments arising from membership of the Fund up to the reporting date. The present value of expected future benefit payments was determined by discounting the gross benefit payments at a current market-determined, risk-adjusted discount rate appropriate to the Fund.

The valuation of accrued benefits was undertaken by the Actuary as part of a comprehensive actuarial valuation as at 31 December 2008. Accrued benefits were previously valued as part of an actuarial review as at 31 December 2005. A summary of the Actuarial Report as at 31 December 2008, prepared by the Group's actuary from Russell Employee Benefits, is attached as an addendum.

	As at 31 December 2008 \$000	As at 31 December 2005 \$000
Accrued Benefits	3,616,422	3,118,911

The financial assumptions used to calculate the accrued benefits for the defined benefit category of the fund are as follows:

Net investment return – 8.50% p.a.

Salary inflation – 4.25% p.a.

Price inflation – 2.75% p.a.

#### 5. 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 were entitled to receive had they terminated their Fund membership as at the reporting date.

	Consolidated		Fund	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Accumulation fund	2,159,203	2,267,469	2,159,203	2,267,469
Defined benefits fund	1,477,134	1,388,264	1,477,134	1,388,264
Total vested benefits	3,636,337	3,655,733	3,636,337	3,655,733

Total Vested Benefits exceeded the Fund's Net assets as at 30 June 2009. This is due to the financial position of the defined benefit plan which is discussed further in Funding Arrangements under Note 7.

#### 6. Guaranteed benefits

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

#### 7. Funding arrangements

##### (a) LASF defined benefits

Members – the member contribution rate is 6% of salary.

Employers – the authority contribution rate for active members is 9.25% of salaries, subject to on-going actuarial review. Authorities also fund separately their share of the Fund's 1997 and 2002 unfunded liability and any retrenchment increments paid by the Fund to their employees.

## Notes to the financial statements

### For the year ended 30 June 2009

#### **7. Funding arrangements (continued)** **(a) LASF defined benefits (continued)**

The trustee maintains a 1997 and 2002 unfunded liability account for each authority with an outstanding balance. Account balances are:

- Reduced by payments (net of tax);
- Adjusted in accordance with the net earning rate of the LASF defined benefits plan;
- Increased by any retrenchment increments.

Authorities that have discharged their 1997 and 2002 unfunded liabilities continue to be contractually obligated to share in the Fund's favourable/unfavourable actuarial performance, as determined by the trustee.

The latest actuarial investigation of the LASF defined benefit plan conducted as at 31 December 2008 showed that although an actuarial shortfall was identified, the funding arrangements were adequate for the expected defined benefit plan liabilities. In order to assess the future performance of the plan, and provide early advice and information to employers, the Trustee adopted the following plan to return the plan to a satisfactory financial position within five years.

- A full actuarial investigation will be carried out on 30 June 2010 and an updated calculation of any actuarial shortfall be made at that time.
- Should an actuarial shortfall exist at that time, the Trustee will request additional contributions from employers to be included in their 2011/2012 budget considerations.
- A further actuarial assessment of any remaining actuarial shortfall will be conducted at 30 June 2011. Based on that assessment the Trustee will determine its plan for funding any remaining actuarial shortfall by 31 December 2013, and notify employers by December 2012.

Funding requirements for defined benefit fund are impacted by various financial and demographic factors including earnings, salary growth, CPI, claims experience and pensioner mortality rates. The funding arrangements are primarily dependent upon investment performance relative to salary growth and inflation. The Fund has a current Funding and Solvency Certificate. The next actuarial review for the Fund will be carried out on 30 June 2010.

#### **(b) City of Melbourne – defined benefits**

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

Employer – by agreement dated 1 December 2006 between the trustee and the City of Melbourne and on the advice of the actuary, the employer contribution rate is currently set at 4% of members' salaries. Prior to 1 December 2006, the employer contribution rate was 8% of members' salaries according to the agreement dated 1 April 2001 between the trustee and the City of Melbourne.

#### **(c) Parks Victoria – defined benefits**

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

Employer – by agreement dated 1 April 2001 between the trustee and Parks Victoria and on the advice of the actuary, the employer contribution rate is currently set at 10% of members' salaries. Additionally, subsequent to year-end, on 11 September 2009 Vision Super raised a contribution receivable from Parks Victoria for \$1,176,000 for payment to the Parks Victoria plan.

#### **(d) Vision Super Saver**

The Fund's Super Saver 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 9% required under Superannuation Guarantee Legislation. 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.

Notes to the financial statements  
For the year ended 30 June 2009

8. Changes in net market values

	Consolidated		Fund	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Investments held at balance date</b>				
Cash	279	2,703	-	-
Fixed Interest	(10,757)	(5,282)	-	-
Australian equities	(166,097)	(175,007)	-	-
International equities	(56,240)	(152,413)	-	-
Property	(114,808)	29,353	-	-
Private equity	(59,861)	(35,559)	-	-
Infrastructure	(54,177)	35,396	-	-
Absolute return	(21,570)	9,867	-	-
Units in VPST	-	-	(478,865)	(127,863)
<b>Total unrealised gains/(losses)</b>	<b>(483,231)</b>	<b>(290,942)</b>	<b>(478,865)</b>	<b>(127,863)</b>
Cash	9,828	16,311	-	-
Fixed Interest	(6,548)	29,718	-	-
Australian equities	(52,073)	(36,057)	-	-
International equities	(146,913)	(25,030)	-	-
Property	9,397	(610)	-	-
Private equity	22,543	344	-	-
Infrastructure	-	-	-	-
Absolute return	(15,438)	2,005	-	-
<b>Total realised gains/(losses)</b>	<b>(179,204)</b>	<b>(13,319)</b>	<b>-</b>	<b>--</b>
Adjustment due to consolidation	15,477	(17,121)	-	-
<b>Total changes in net market values</b>	<b>(646,958)</b>	<b>(321,382)</b>	<b>(478,865)</b>	<b>(127,863)</b>

9. Direct investment expenses

	Consolidated		Fund	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Custodian fees	1,850	1,764	-	35
Fund managers' fees	9,126	9,904	-	8
VPST's trustee services fees	10,426	6,219	-	-
Other investment expenses	3,152	2,998	-	-
	<b>24,554</b>	<b>20,885</b>	<b>-</b>	<b>43</b>

10. Administration expenses

	Consolidated		Fund	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Actuarial fees	1	13	1	13
Annual lodgement fee - APRA	234	233	234	233
Banking & Regulatory Charges	32	26	32	26
External audit fees	77	80	77	80
Labour expenses	-	8	-	8
Trustee services fees	14,014	14,399	14,014	14,399
Other administration expenses	56	162	56	162
<b>Total</b>	<b>14,414</b>	<b>14,921</b>	<b>14,414</b>	<b>14,921</b>

Notes to the financial statements  
For the year ended 30 June 2009

**11. Contributions receivable**

Contributions for outstanding 1997 defined benefit unfunded liability accounts are payable now or 2012 by agreement.

Contributions for outstanding 2002 defined benefit unfunded liability accounts are payable by the year 2013.

Contributions for defined benefits members' ongoing service are payable each quarter.

	Consolidated		Fund	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Ongoing service	66	226	66	226
Past service	1,881	2,508	1,881	2,508
Contributions receivable	1,947	2,734	1,947	2,734

**12. Income tax expense**

	Consolidated		Fund	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Current tax expense				
Current year	27,546	46,594	36,949	34,107
Adjustment for prior periods	(2,379)	2,992	(637)	(1,731)
	25,167	49,586	36,312	32,376
Deferred tax expense				
Movement in temporary differences	(43,657)	(49,627)	(404)	(160)
	(18,490)	(41)	35,908	32,216

Notes to the financial statements  
For the year ended 30 June 2009

**12. Income tax expense(continued)**

**Numerical reconciliation between tax expense and net change for the year before tax**

	Consolidated		Fund	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Benefits accrued before income tax	(910,246)	262,255	(368,888)	119,257
At the tax rate of 15%	(136,537)	(39,339)	(55,333)	(17,889)
Additional tax on no TFN contributions	19		19	-
Increase in tax expenses due to:				
Non-deductible benefits paid	40,024	52,983	40,024	52,983
Non-deductible superannuation contribution surcharge	4	10	4	10
Non-taxable income/loss from PST	80,440	11,790	69,570	19,179
Imputation Credits from franked dividends received	1,666	1,664	-	-
Foreign tax credits	264	293	-	-
Deferred franking credit	(129)	301	-	-
Adjustment to recognise losses at 11%	27,407	12,261	-	-
Other	700	430	(24)	11
Decrease in tax expenses due to:				
Non-assessable contributions	(6,593)	(9,419)	(6,593)	(9,419)
Non-assessable rollovers	(9,759)	(9,664)	(9,759)	(9,664)
Death and disability insurance	(1,350)	(1,200)	(1,350)	(1,200)
Anti-detriment deduction	-	(75)	-	(75)
Pension exemption	(713)	(2,123)	-	-
Imputation and foreign tax credits	(10,244)	(14,354)	-	-
No TFN tax credit	(12)		(12)	
Over provision in previous year	(3,677)	(3,600)	(639)	(1,721)
	<b>(18,490)</b>	<b>(41)</b>	<b>35,908</b>	<b>32,216</b>

**13. Tax assets and liabilities**

The current tax liabilities for the Fund of \$36,949,000 (2008: \$34,107,000) represents the amount of income taxes payable in respect of current and prior financial years.

**14. Deferred tax assets and liabilities**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Consolidated		Fund	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Deferred tax assets				
Unrealised taxable capital losses	80,460	33,718	-	-
Investment liability	1,978	2,707	-	-
Other	2,012	2,677	9	-
	<b>84,450</b>	<b>39,102</b>	<b>9</b>	<b>-</b>
Deferred tax liabilities				
Contributions receivable	8	404	8	404
Unrealised investment income	3,754	1,261	-	-
Unrealised capitale gains	-	-	-	-
Other	700	1,107	-	-
	<b>4,462</b>	<b>2,772</b>	<b>8</b>	<b>404</b>
Net deferred tax assets/(liabilities)	<b>79,988</b>	<b>36,330</b>	<b>1</b>	<b>(404)</b>

Notes to the financial statements  
For the year ended 30 June 2009

14. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year:

2009	Opening balance	Recognised in income	Consolidated Acquisition/d isposal	Exchange differences	Closing balance
	\$000	\$000	\$000	\$000	\$000
Gross deferred tax liabilities:					
Contribution receivable	2,694	(2,638)	-	-	56
Unrealised taxable capital gain	-	-	-	-	-
Investment income	8,404	16,626	-	-	25,030
Operating assets	-	-	-	-	-
Other	7,381	(2,719)	-	-	4,662
	18,479	11,269	-	-	29,748
Gross deferred tax assets:					
Employee entitlements	18,049	(18,049)	-	-	-
Investment liability	224,788	(211,601)	-	-	13,187
Unrealised taxable capital losses	17,841	518,557	-	-	536,398
Other	-	13,412	-	-	13,412
	260,678	302,319	-	-	562,997
	242,199	291,050	-	-	533,249

2008	Opening balance	Recognised in income	Consolidated Acquisition /disposal	Exchange differences	Closing balance
	\$000	\$000	\$000	\$000	\$000
Gross deferred tax liabilities:					
Contribution receivable	3,840	(1,147)	-	-	2,694
Unrealised taxable capital gain	78,505	(78,505)	-	-	-
Investment income	20,538	(12,134)	-	-	8,404
Operating assets	-	-	-	-	-
Other	4,829	2,553	-	-	7,382
	107,712	(89,233)	-	-	18,479
Gross deferred tax assets:					
Employee entitlements	18,974	(18,974)	-	-	-
Investment liability	86	17,963	-	-	18,049
Unrealised taxable capital losses	-	224,788	-	-	224,788
Other	-	17,841	-	-	17,841
	19,060	241,618	-	-	260,678
	88,653	(330,852)	-	-	(242,199)

2009	Opening balance	Recognised in income	Fund Acquisition /disposal	Exchange differences	Closing balance
	\$000	\$000	\$000	\$000	\$000
Gross deferred tax liabilities:					
Contribution receivable	2,694	(2,638)	-	-	56
Unrealised taxable capital gain	-	-	-	-	-
Investment income	-	-	-	-	-
Operating assets	-	-	-	-	-
Other	-	-	-	-	-
	2,694	(2,638)	-	-	56



Notes to the financial statements  
For the year ended 30 June 2009

14. Deferred tax assets and liabilities (continued)

2009	Opening balance \$000	Recognised in income \$000	Fund Acquisition /disposal \$000	Exchange differences \$000	Closing balance \$000
Gross deferred tax assets:					
Employee entitlements	-	-	-	-	-
Investment liability	-	-	-	-	-
Unrealised taxable capital losses	-	-	-	-	-
Other	-	62	-	-	62
	-	62	-	-	62
	2,694	(2,699)	-	-	(6)
2008	Opening balance \$000	Recognised in income \$000	Fund Acquisition /disposal \$000	Exchange differences \$000	Closing balance \$000
Gross deferred tax liabilities:					
Contribution receivable	3,840	(1,147)	-	-	2,694
Unrealised taxable capital gain	-	-	-	-	-
Investment income	-	-	-	-	-
Operating assets	-	-	-	-	-
Other	-	-	-	-	-
	3,840	(1,147)	-	-	2,694
Gross deferred tax assets:					
Employee entitlements	-	-	-	-	-
Investment liability	-	-	-	-	-
Unrealised taxable capital losses	-	-	-	-	-
Other	79	(79)	-	-	-
	79	(79)	-	-	-
	3,762	(1,068)	-	-	2,694

15. Related parties

(a) Trustee and key management personnel

The trustee of the Fund is Vision Super Pty Ltd. The trustee company comprises of eight Directors and seven Alternates. The names of persons who were Directors and Alternates of the trustee company of the Group for the financial year are:

**Member Directors:**

Darrell Cochrane  
Wendy Phillips  
Anthony Tuohey  
William Watton

**Alternates:**

Brian Parkinson  
Dean Barnett  
Robyn Glascott  
Russell Atwood

**Employer directors:**

Michael Tilley  
Angela Emslie  
Rob Spence  
Dick Gross

**Alternates:**

Steve Bird  
Leigh Harder  
Alison Lyon  
Alison Lyon

## Notes to the financial statements

For the year ended 30 June 2009

### 15. Related parties (continued)

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

Apart from Directors of the trustee company, the Chief Executive Officer is also considered to be key management personnel for the purpose of these financial statements. William Watton retired on 30 June 2009 and Russell Atwood was appointed as his replacement from 1 July 2009. Dick Gross retired on 30 June 2009 and Geoff Lake was appointed as his replacement from 1 July 2009.

#### (b) Compensation of Directors and key management personnel

Total compensation received, or due and receivable, by Directors and key management personnel amounted to \$754,844 (2008: \$614,175). The details are as follows:

	Consolidated		Fund	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Short-term employee benefits	692	568	692	568
Other long-term employee benefits	-	-	-	-
Post-employment benefits	63	46	63	46
	<u>755</u>	<u>614</u>	<u>755</u>	<u>614</u>

	Consolidated		Fund	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Vested benefits of key management personnel in Local Authorities Superannuation Fund as at 30 June	7,682	7,762	7,682	7,762

Any Director of the trustee company 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.

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

#### (c) Related party transactions

##### (i) Members Equity

The Group is a minority investor in Industry Super Holding Pty Ltd, the owner of Members Equity. Members Equity is the provider of Super Members Home Loans

##### (ii) Regional Infrastructure Fund

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

RIF was established primarily to invest in regional infrastructure projects. RIF has four Directors, all of whom are current or former Directors of Vision Super Pty Ltd, namely, Tony Tuohey, Michael Tilley, James Coghlan and Darrell Cochrane.

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

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

Regional Wind Farms Pty Ltd is wholly owned company and was established by RIF to invest in wind farms. Project development, construction and operations are contracted out to third party providers. Director Tony Tuohey is also a Director of Regional Wind Farms Pty Ltd. Other Directors are appointed by Industry Funds Management (IFM).

Notes to the financial statements  
For the year ended 30 June 2009

**15. Related parties (continued)**

**(c) Related party transactions (continued)**

**(iv) Vision Super Pty Ltd**

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

	Consolidated		Fund	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Trustee services fees payable/paid to VSPL	14,014	14,399	14,014	14,399

**(v) Directors**

Ms Emslie's partner, Garry Weaven, is Chair of IFM, which manages infrastructure and private equity investments for the Group and provides management services to RIF. Mr Weaven is also a Director of Members Equity.

Director Tony Tuohey has a commercial relationship with Bridgewater Associates a fund manager engaged by the Group, and absented himself from any determination relating to this manager.

**16. Auditor's remuneration**

	Consolidated		Fund	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Amounts received or due and receivable by Ernst & Young for:				
An audit of the financial statements of the Group	170	105	77	80
Other services in relation to the Group	-	8	-	-
Total	170	113	77	80

**17. Insurance**

The Group provides death and disability and income protection insurance cover for members. These benefits are generally greater than the members' vested benefit and the trustee self-insures the part of the benefit in excess of the vested benefit.

**18. Risk management**

**(a) Financial risk management objectives, policies and processes**

The Group's principle financial instruments, other than derivatives, comprise units in pooled superannuation trusts, unlisted investments, equity securities, insurance policies, fixed interest securities, cash and short-term deposits. The main purpose of these financial instruments is to generate a return on investment.

The Group 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 part of its risk management strategy, the Group also enters into derivative transactions. The main purpose is to manage financial risks associated with the Group's investment transactions, and as a means of effecting a change in the asset mix. Investments in derivatives are not used to gear the Group's investment portfolio, and are limited to the asset allocation limits for the underlying investment assets.

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

## Notes to the financial statements

### For the year ended 30 June 2009

#### **18. Risk management (continued)**

##### **(a) Financial risk management objectives, policies and processes (continued)**

The Trustee is responsible for identifying and controlling the risks that arise from these financial instruments. The Trustee reviews and agrees policies for managing each of these risks as summarised below. The Group also monitors the market price risk arising from all financial instruments.

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 Group, as well as the level of risk that the Group is willing to accept.

This information is prepared and reported to the Trustee on a monthly 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, the Group monitors its exposure to ensure concentration of risk remain within acceptable levels in accordance with the Group mandate and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

The Group's accounting policies in relation to derivatives are set out in note 2 (f).

##### **(b) Credit risk**

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

With respect to credit risk arising from the financial assets of the Group, other than derivatives, the Group'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 reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values. 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 the Group prior to the appointment of fund managers to ensure fund managers have appropriate skills and expertise to manage the Group's allocated investments. In addition, the Group 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 Group 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 Group except in relation to investments in debt securities.

Notes to the financial statements  
For the year ended 30 June 2009

18. Risk management (continued)

(b) Credit risk (continued)

**Credit quality per class of debt instruments**

The credit quality of financial assets is managed by the Group using Standard & Poor's rating categories, in accordance with the investment strategy of the Trustee. The Group's exposure in each grade is monitored on a monthly 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.

**2009 – Consolidated and Fund**

	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
Perpetual Securities	-	-	259	-	-	-	259
Convertible Notes	-	-	-	-	-	207	207
Fixed interest bonds	44,492	18,238	14,362	1,746	-	498	79,336
Indexed bonds	36,690	254	511	-	-	-	37,455
Floating rate notes	3,975	8,041	7,131	133	-	346	19,626
Zero coupon bonds	-	-	-	-	-	-	-
Mortgage backed securities	53,052	1,752	1,636	-	-	-	56,440
Discount securities	-	-	-	-	20,748	-	20,748
Pooled funds*	-	-	-	-	-	181,369	181,369
<b>Total</b>	<b>138,209</b>	<b>28,285</b>	<b>23,899</b>	<b>1,879</b>	<b>20,748</b>	<b>182,420</b>	<b>395,440</b>

**2008 – Consolidated and Fund**

	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
Perpetual Securities	842	-	373	-	-	-	1,215
Convertible Notes	-	-	-	-	-	221	221
Fixed interest bonds	85,847	21,378	20,240	363	-	2,043	129,871
Indexed bonds	85,961	-	-	-	-	-	85,961
Floating rate notes	10,266	13,559	8,799	-	-	1,344	33,968
Zero coupon bonds	-	-	-	-	-	578	578
Mortgage backed securities	17,585	1,825	2,689	-	-	-	22,099
Discount securities	-	-	4,920	-	274,291	-	279,211
Pooled funds*	-	-	-	-	-	253,751	253,751
<b>Total</b>	<b>200,501</b>	<b>36,762</b>	<b>37,021</b>	<b>363</b>	<b>274,291</b>	<b>257,937</b>	<b>806,875</b>

\*Instruments are either not rated or ratings are not available at NAS.

**Risk concentration of credit risk exposure**

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

Notes to the financial statements  
For the year ended 30 June 2009

18. Risk management (continued)

(b) Credit risk (continued)

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

	Consolidated		Fund	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Australia	3,518,477	3,674,909	3,333,934	3,551,586
North America	75,066	127,498	71,129	123,220
Europe	61,335	235,639	58,118	227,731
Asia	21,339	45,711	20,220	44,177
Others	(2,657)	22,206	(2,518)	21,461
<b>Total</b>	<b>3,673,560</b>	<b>4,105,963</b>	<b>3,480,883</b>	<b>3,968,174</b>

Significant industry sector exposure exists as follows:

	Consolidated		Fund	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Financials	267,780	304,035	253,735	293,832
Materials	146,796	219,504	139,096	212,138
Consumer staples	84,273	92,254	79,853	89,158
Energy	80,948	120,365	76,702	116,326
Industrials	77,975	117,826	73,885	113,872
Consumer discretionary	71,606	84,486	67,850	81,651
Health care	67,684	80,538	64,134	77,835
Information technology	62,841	77,544	59,545	74,942
Telecommunication	45,251	54,693	42,877	52,858
Utilities	21,315	25,325	20,197	24,475

The above table does not include investments in unlisted trusts or pooled funds.

(c) Liquidity risk

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

	Average effective interest rate (%)	Floating interest rate (\$000)	3 months or less (\$000)	3 to 12 months (\$000)	1 to 5 years (\$000)	Over 5 years (\$000)	Non-interest bearing (\$000)	Total (\$000)
2009								
Swaps		1,876	-	-	-	-	-	1,876
Futures		16	-	-	-	-	1	17
Options		-	-	-	-	-	27	27
Cash & deposits	2.85	-	42	-	-	-	-	42
Outstanding settles		-	-	-	-	-	12,862	12,862
FFX contracts		-	-	-	-	-	989,637	989,637
Total liabilities		1,892	42	-	-	-	1,002,527	1,004,461

Notes to the financial statements  
For the year ended 30 June 2009

18. Risk management (continued)

(c) Liquidity risk (continued)

2008	Average effective interest rate (%)	Floating interest rate (\$000)	3 months or less (\$000)	3 to 12 months (\$000)	1 to 5 years (\$000)	Over 5 years (\$000)	Non-interest bearing (\$000)	Total (\$000)
Swaps		3,580	-	-	-	-	-	3,580
Futures		135	-	-	-	-	454	589
Options		16	-	-	-	-	-	16
Cash & deposits	7.81	-	-	-	-	-	47	47
Outstanding settles		-	-	-	-	-	38,098	38,098
FFX contracts		-	-	-	-	-	1,068,369	1,068,369
Total liabilities		3,731	-	-	-	-	1,106,968	1,110,699

The Group undertakes cashflow projection analysis daily to ensure minimal exposure to liquidity risk. For unlisted investments, the Group also undertakes commitment cashflow projections as a part of monthly rebalancing review and understanding of liquid and illiquid components

The Group'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 Group 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 Group 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 Group has adequate resources readily convertible to cash to satisfactorily meet these obligations when called upon.

Other financial liabilities of the Group comprise trade and other payables which are contractually due within 30 days and derivative liabilities comprising foreign exchange contracts payable within 12 months.

(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 Group.

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 is the risk that the fair value of future cash flows of a financial instrument will fluctuate because changes in market interest rates.

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.

Following the accounting policies at NAS and forecasted interest rate movement by NAB for the twelve months from May 2009, the Group anticipates 50 basis points movement in interest rates is considered reasonably possible for the 2009/10 reporting period. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

Notes to the financial statements  
For the year ended 30 June 2009

18. Risk management (continued)

(d) Market risk (continued)

(i) Interest rate risk (continued)

An increase/decrease of 50 basis points in interest rates at the reporting date would have increased/(decreased) the Changes in net assets available to pay benefits by the amounts shown below:

2009 – Consolidated and Fund

Asset class sector	Change in basis points Increase/decrease	Sensitivity of interest income and changes in net assets	
		\$000 Increase/decrease	
Cash and cash equivalents	+/-50	(16)/16	
Fixed interest securities	+/-50	(4,721)/4,731	
Derivatives	+/-50	1,237/(1,069)	

2008 – Consolidated and Fund

Currency	Change in basis points Increase/decrease	Sensitivity of interest income and changes in net assets	
		\$000 Increase/decrease	
Cash and cash equivalents	+/-50	(186)/186	
Fixed interest securities	+/-50	(10,416)/10,426	
Derivatives	+/-50	380/(5339)	

(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 passive hedge over foreign currency exposure. This foreign exchange policy is monitored against actual on an ongoing basis throughout the year.

Following the accounting policies at NAS and forecasted currency rates movement by NAB for the twelve months from May 2009, the Group expects the following movement in currency exchange rates in the table is considered reasonably possible for the 2009/10 reporting period.

USD	5%
British pounds	5%
Euro	5%
Japanese Yen	15%

The percent strengthening/weakening of the AUD against the following basket of foreign currencies as 30 June would have increased/(decreased) the Changes for 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. The analysis is performed on the same basis for 2008.

Currency	2009		2008	
	Change in	Effect on changes in	Change in	Effect on changes in
	Currency	net assets	currency	net assets
	rate %	\$000	Rate%	\$000
USD	+/-5	16,067/(17,759)	+/-10	(19,305)/23,595
British pounds	+/-5	1,501/(1,659)	+/-5	(487)/538
Euro	+/-5	5,246/(5,798)	+/-5	(1,474)/1,629
Japanese Yen	+/-15	3,593/(4,861)	+/-5	(1,912)/2,113



## Notes to the financial statements

### For the year ended 30 June 2009

#### 18. Risk management (continued)

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

##### (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 Group'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 Group's exposure to various asset classes on an ongoing basis throughout the year ensuring its investment strategy is adhered to.

Following the accounting policies at NAS and forecasted ASX 200 movement by NAB for the twelve months from May 2009, the Group anticipates 10% movement in equity price is considered reasonably possible for the 2009/10 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 2008.

The "10%" increase/decrease in the equity price against the investments of the Group at 30 June would have increased/(decreased) the Changes for the year in net assets available to pay benefits by the amounts shown below:

<b>Consolidated and Fund</b>				
<b>Asset class sector</b>	<b>2009</b>		<b>2008</b>	
	<b>Change in equity price</b>	<b>Effect on changes in net assets</b>	<b>Change in equity price</b>	<b>Effect on changes in net assets</b>
	<b>%</b>	<b>\$000</b>	<b>%</b>	<b>\$000</b>
Life insurance policies	+/-10	11,437/(11,437)	+/-10	12,863/(12,863)
Listed equities	+/-10	88,155/(88,155)	+/-10	111,109/(111,109)
Listed property trusts	+/-10	2,449/(2,449)	+/-10	2,998/(2,998)
Listed units trust	+/-10	942/(942)	+/-10	984/(984)
Pooled development fund	+/-10	-	+/-10	22/(22)
Preference shares	+/-10	264/(264)	+/-10	716/(716)
Unlisted equities	+/-10	10,470/(10,470)	+/-10	9,019/(9,019)
Unlisted MIS	+/-10	162,258/(162,258)	+/-10	192,507/(192,507)
Unlisted unit trusts	+/-10	7,824/(7,824)	+/-10	6,913/(6,913)
Others	+/-10	2,038/(2,022)	+/-10	6,558/(2,731)

#### 19. Investment commitments

The Group has a private market commitment of \$1,540 million (2008: 1,469 million) as at the reporting date consists of the drawn commitment of \$1,103 million (2008: 844 million) and undrawn commitment of \$437 million (2008: 625 million).

#### 20. Contingent liabilities/assets

The Group has no contingent liabilities/assets as at 30 June 2009.

#### 21. Subsequent Events

There are no subsequent events.


## LOCAL AUTHORITIES SUPERANNUATION FUND

Statement by Trustee

### In the opinion of the Trustee:

- (a) The accompanying financial statements of the Local Authorities Superannuation Fund and its controlled entities are drawn up so as to present fairly the net assets of the Group as at 30 June 2009 and the changes in net assets for the year then ended;
- (b) The financial statements have been prepared in accordance with the Australian Accounting Standards, other mandatory professional reporting requirements and the provisions of the Trust Deed dated 26 June 1998; and
- (c) The operation of the Local Authorities Superannuation Fund has been carried out in accordance with its Trust Deed dated 26 June 1998 and in compliance with the provisions of the Superannuation Industry (Supervision) Act 1993 and Regulations, and the Corporations Act 2001 and Regulations and Guidelines during the year ended 30 June 2009.

Signed in accordance with a resolution of the Directors of the trustee company,  
Vision Super Pty Ltd.



Darrell Cochrane  
Director



Rob Spence  
Director

Melbourne, 25 September 2009

**INDEPENDENT REPORT BY THE APPROVED AUDITOR TO THE TRUSTEE AND MEMBERS OF  
LOCAL AUTHORITIES SUPERANNUATION FUND****(A) Financial statements**

I have audited the financial statements of Local Authorities Superannuation Fund (ABN 24 496 637 884) for the year ended 30 June 2009 comprising the statement of net assets, statement of changes in net assets, summary of significant accounting policies, other explanatory notes and the Trustee statement.

**Trustee's Responsibility for the Financial Statements**

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the requirements of the SIS Act and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee's responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

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

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

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

## Auditor's Opinion

In my opinion the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the net assets of Local Authorities Superannuation Fund as at 30 June 2009 and the changes in net assets for the year ended 30 June 2009.

## (B) Compliance

### Trustee's Responsibility for Compliance

The superannuation entity's trustee is responsible for complying with the requirements of the SIS Act, SIS Regulations, the Reporting Standards made under s. 13 of the *Financial Sector (Collection of Data) Act 2001* (FSCODA Reporting Standards), the *Corporations Act 2001* (Corporations Act) and *Corporation Regulations 2001* (Corporation Regulations).

### Auditor's Responsibility

My responsibility is to express an opinion on the trustee's compliance with the requirements of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporation Regulations based on the audit. My audit has been conducted in accordance with applicable Standards on Assurance Engagements. These Standards require that I comply with fundamental ethical requirements and plan and perform the audit to obtain reasonable assurance whether the trustee of the Local Authorities Superannuation Fund has, in all material respects for the year ended 30 June 2009:

- (a) complied with the relevant requirements of the following provisions (to the extent applicable) of the SIS Act and SIS Regulations:
  - sections 19(2), 19(3), 35A, 35C, 36, 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 117, 118, 122, 124, 125, 126k, 152, 154;
  - regulations, 2.33(2), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and
- (b) complied with the FSCODA Reporting Standards that are subject to audit (to the extent applicable); and
- (c) complied with the relevant requirements of the following provisions of the Corporations Act and Corporation Regulations:
  - sections 1012B, 1012F, 1012H(2), 1012I, 1013B, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 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); and
  - regulation 7.9.32(3); and
- (d) complied with the requirement to prepare the respective forms comprising the APRA Annual Return; and

- (e) complied with the requirements of Section 155(2) of the SIS Act in that the trustee has appropriate processes in place to identify and resolve s.155 cases, and has adhered to those processes in determining issue and redemption prices.

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 procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations.

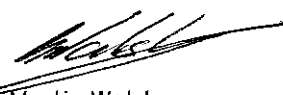
These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations apart from those specified. The superannuation entity's trustee is responsible for complying with the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations.

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

#### Auditor's Opinion

In my opinion the trustee of Local Authorities Superannuation Fund has complied, in all material respects, with the requirements of the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations for the year ended 30 June 2009.

  
ERNST & YOUNG

  
Martin Walsh  
Partner  
Melbourne

8 October 2009

# ACTUARIAL STATEMENT FOR THE PURPOSES OF AUSTRALIAN ACCOUNTING STANDARD AAS 25

REPORTING PERIOD ENDED 31 DECEMBER 2008  
LOCAL AUTHORITIES SUPERANNUATION FUND

This statement has been prepared at the request of the Trustee of the Fund and sets out the value of Accrued Benefits and other actuarial information required under AAS 25, for disclosure in the financial statements of the Fund. This statement provides the necessary information for the total Fund and the three significant defined benefit sub-plans of the Fund, namely the Defined Benefit plan, the City of Melbourne plan and the Parks Victoria plan.

## Results

For the disclosure purposes of AAS 25, the Accrued Benefits under the Fund as at 31 December 2008 are determined to be \$3,616,422,000 comprising of the following components:

ACCRUED BENEFITS AS AT 31 DECEMBER 2008	
	\$
Value of Accrued Benefits for Defined Benefit plan members, deferred beneficiaries and pensioners	1,730,606,000
Value of Accrued Benefits for City of Melbourne plan members	51,383,000
Value of Accrued Benefits for Parks Victoria plan members	26,046,000
Value of Accrued Benefits for other members and Accumulation Benefits	<u>1,808,387,000</u>
<b>Total</b>	<b>3,616,422,000</b>

Accrued Benefits have not been subjected to a minimum of the Vested Benefits, either on an individual member or plan basis. The aggregate amount of Vested Benefits at 31 December 2008 was \$3,561,588,000 which includes an amount for pension liabilities.

## Method

Accrued Benefits are based on the expected future benefit payments (measured using actuarial assumptions and valuations where appropriate) that arise from membership of the Fund up to the measurement date. The present value of expected future payments are determined as the benefits payable to defined benefit members, taking into account expected future salary increases, the probability of payment, and the discounting back to present-day dollars.

Accrued Benefits have been calculated in a manner consistent with Professional Standard 402 and Guidance Note 454 issued by the Institute of Actuaries of Australia.

## Data and Assumptions

The assumptions and data used to calculate Accrued Benefits are the same as those used in the actuarial investigation of the Fund as at 31 December 2008. The financial assumptions may be summarised as follows:

Discount Rate:	8.5% per annum (active members) 9.0% per annum (pensioners)
Future Salary Increases:	4.25% per annum
CPI Increases:	2.75% per annum

The discount rate of 8.5% per annum is considered to be a reasonable expectation of actual future Fund returns over the average expected term of the benefit liabilities, calculated to be 7.6 years, in light of the Fund's present investment strategy and taxation position. These assumptions have been adopted after seeking the views of the Fund's asset consultants, Frontier.

## Summary of Actuarial Report

For the purposes of AAS 25, the Part 1 and Part 2 reports dated 13 May 2009 on the most recent actuarial investigation of the Fund as at 31 December 2008 may be summarised as follows:

### Data

The following table summarises the membership for the three main defined benefit sub-plans as at 31 December 2008:

Plan	Number of members	Total Salaries (\$m)
Defined Benefit	6,212	376.7
City of Melbourne	229	16.8
Parks Victoria	120	8.4

## Funding Method and Recommendations

The method of funding benefits adopted is the aggregate funding method. This method aims to spread the cost of future benefits for current members evenly over their future working lifetimes.

Based on this funding method and the actuarial assumptions set out in the actuarial report, the actuary recommended that each employer should make contributions to the Fund at least equal to:

- Defined Benefit plan:
  - additional payments for retrenchments;
  - 9.25% of members' salaries; and
  - the actuarial shortfall be funded by 31 December 2013.
- City of Melbourne plan:
  - 4% of members' salaries; and
  - retrenchment benefit top-up payments;
- Parks Victoria plan:
  - 10% of members' salaries for Division E members;
  - additional lump sums to fully fund Parks Victoria sub-plan members' vested benefits by 31 December 2013;
  - For Division F members:
    - 15.5% of salary for former Revised Scheme and Port of Melbourne Authority Superannuation Scheme members; and
    - for former Transport Scheme members, current rates recommended in Part 2 of the Actuarial Investigation as at 31 December 2008 based on the members' contribution rates or such other rates as agreed between the Trustee, the Port's employers and the actuary.
- Contributions should be made in respect of other members in accordance with the Trust Deed.



## Financial Condition

The coverage of various measures of benefit liabilities by assets at 31 December 2005 was as follows:

	Assets	Liabilities	Ratio
<b>Total Fund</b>			
Vested Benefits	3,630,422,000	3,561,588,000	102%
Accrued Benefits	3,630,422,000	3,616,422,000	100%

- The asset value shown in this table was also used to determine the recommended contribution rates. As at 31 December 2008, in my opinion the assets of the Fund were sufficient to meet the value of the liabilities of the fund in respect of Accrued Benefits.
- In addition to the position reported above, the actuary projected the Fund's ongoing ability to meet both Accrued and Vested Benefits over the three years following the date of the investigation. This was undertaken on the basis that:
  - the actuarial assumptions as to investment returns, salary inflation, rate of pension increase and membership turnover would apply over the next three years;
  - no new members would be admitted as defined benefit members; and
  - the Authorities will contribute to the Fund over the next three years in accordance with the recommendations outlined in the Local Authorities Superannuation Fund actuarial report.
- Based on the assumptions in the above projection, it is anticipated that both Vested Benefits and Accrued Benefits will not remain covered by Fund assets throughout the three years following the date of the investigation. If the contributions recommended in the actuarial investigation are made both Accrued Benefits and Vested Benefits are expected to be covered by Fund assets by 31 December 2013.

*Matthew Burgess*

Matthew Burgess  
Fellow of the Institute of Actuaries of Australia  
31 August 2009

Russell Employee Benefits (ABN 70 099 865 013)

GPO Box 5141, Melbourne VIC 3000 Australia