VISION SUPER
YOUR INDUSTRY SUPER FUND

Local Authorities Superannuation Fund and its controlled entities

Annual Financial Report 30 June 2013

VISION SUPER
YOUR INDUSTRY SUPER FUND

Contents

Local Authorities Superannuation Fund and its controlled entities
Statement of net assets as at 30 June 2013

	Note	Consolidated		Fund	
		2013	2012	**2013**	2012
		$000	$000	**$000**	$000
ASSETS					
Cash at bank		**52,194**	7,203	**48,754**	7,050
Contributions receivable	*11*	**166,275**	504,967	**166,275**	504,967
Other receivables		**3,534**	782	**3,143**	492
Prepayments		**1,500**	25	**1,500**	-
ATO tax refund receivable		**15,933**	22,954	**-**	-
Deferred tax assets	*14*	**28,106**	74,515	**8**	-
Investments					
Cash		**1,146,003**	955,058	**-**	-
Diversified bonds		**703,268**	515,868	**-**	-
Australian equities		**1,471,058**	1,063,564	**-**	-
International equities		**1,226,380**	851,364	**-**	-
Property		**564,640**	570,965	**-**	-
Private equity		**487,883**	499,090	**-**	-
Infrastructure		**615,283**	586,702	**-**	-
Absolute return		**74,119**	74,983	**-**	-
Units in Vision Pooled Superannuation Trust		**-**	-	**5,384,465**	4,495,241
Derivative assets		**6,518**	32,684	**-**	-
Total assets		**6,562,694**	5,760,724	**5,604,145**	5,007,750
LIABILITIES					
Benefits payable		**15,961**	18,580	**15,961**	18,580
Other payables		**8,761**	6,107	**535**	696
Amounts held in trust		**392**	465	**392**	465
Current tax liabilities	*13*	**95,254**	43,182	**95,254**	43,182
Deferred tax liabilities	*14*	**24,951**	78,615	**24,951**	75,698
Derivative liabilities		**64,540**	3,662	**-**	-
Net assets attributable to non-controlling interests	*2(d)*	**885,783**	740,984	**-**	-
Total liabilities (excluding net assets available to pay benefits)		**1,095,642**	891,595	**137,093**	138,621
Net assets available to pay benefits		**5,467,052**	4,869,129	**5,467,052**	4,869,129

The above statement of net assets is to be read in conjunction with the accompanying notes.

VISION SUPER
YOUR INDUSTRY SUPER FUND

Local Authorities Superannuation Fund and its controlled entities
Statement of changes in net assets for the year ended 30 June 2013

		Consolidated		Fund	
	Note	**2013**	2012	**2013**	2012
		$000	$000	**$000**	$000
Investment revenue					
Interest		**69,071**	86,757	**-**	-
Dividends and trust distributions revenue		**175,851**	179,111	**-**	-
Other investment income		**691**	1,037	**-**	-
Changes in net market value of investments	*8*	**501,807**	(69,667)	**610,926**	84,789
		747,420	197,238	**610,926**	84,789
Direct investment expense	*9*	**(28,009)**	(23,148)	**-**	-
Net investment revenue		**719,411**	174,090	**610,926**	84,789
Contributions revenue					
Employer contributions		**337,120**	801,374	**337,120**	801,374
Member contributions		**59,255**	58,832	**59,255**	58,832
Transfer from other funds		**86,733**	101,001	**86,733**	101,001
		483,108	961,207	**483,108**	961,207
Other revenue					
Group life insurance proceeds		**3,469**	4,149	**3,469**	4,149
Other revenue		**2,880**	497	**2,880**	497
		6,349	4,646	**6,349**	4,646
Total revenue		**1,208,868**	1,139,943	**1,100,383**	1,050,642
Expenses					
Benefits paid		**(422,609)**	(404,087)	**(422,609)**	(404,087)
General administration expenses	*10*	**(21,016)**	(18,026)	**(21,016)**	(18,026)
Group life insurance premium expense	*17*	**(14,360)**	(13,576)	**(14,360)**	(13,576)
Superannuation contributions surcharge		**(8)**	(3)	**(8)**	(3)
		(457,993)	(435,692)	**(457,993)**	(435,692)
Change in net assets before income tax		**750,875**	704,251	**642,390**	614,950
Income tax expense	*12*	**(88,217)**	(116,740)	**(44,467)**	(114,934)
Change in net assets after income tax		**662,658**	587,511	**597,923**	500,016
Change in net assets after income tax attributable to non-controlling interests	*2(d)*	**64,735**	87,495		
Change in net assets after income tax & non-controlling interests available to pay benefits		**597,923**	500,016		
Net assets available to pay benefits at the beginning of the financial year		**4,869,129**	4,369,113	**4,869,129**	4,369,113
Net assets available to pay benefits at the end of the financial year		**5,467,052**	4,869,129	**5,467,052**	4,869,129

The above statement of changes in net assets is to be read in conjunction with the accompanying notes.

Notes to the financial statements for the year ended 30 June 2013

1. Operation of the Fund

Local Authorities Superannuation Fund (the "Fund") is a superannuation fund domiciled in Australia. The address of the Fund 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 statements of the Fund as at and for the financial year ended 30 June 2013 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 statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standard AAS 25 Financial Reporting by Superannuation Plans, 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 are presented in Australian Dollars and all values are rounded to the nearest thousand dollars except where otherwise stated.

(b) Statement of compliance

The financial statements comply with AAS 25. 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.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB. The financial statements of the Group do not comply with IFRS.

The financial statements were authorised for issue by the Directors of the Trustee, Vision Super Pty Ltd, on 27 September 2013.

(c) Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, 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

Deferred Tax Asset recognition - The significant accounting judgements are discussed in Note 2 (m).

Valuation of Accrued Benefits - The amount of accrued benefits has been actuarially determined. The key assumptions are discussed in Note 4,5,6 and 7.

Notes to the financial statements for the year ended 30 June 2013

2. Summary of significant accounting policies (continued)

(c) Significant accounting judgements, estimates and assumptions (continued)

Valuation of Investments and Derivatives – the key assumptions are set out in Note 2 (e) and Note 18 (a).

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Local Authorities Superannuation Fund (the Fund) and Vision Pooled Superannuation Trust (collectively referred to as "the Group") as at 30 June 2013.

Subsidiaries are all those entities over which the Fund has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Fund controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Fund. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Fund and cease to be consolidated from the date on which control is transferred out of the Fund.

Investments in subsidiaries held by the Fund are accounted for at net market value in the separate financial statements of the Fund.

(e) Investments

Investments of the Group 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.

Estimated costs of disposal have been deducted in determining net market value. As disposal costs are generally immaterial, unless otherwise stated net market value is considered a reasonable approximation of fair value.

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.

Notes to the financial statements for the year ended 30 June 2013

2. Summary of significant accounting policies (continued)

(e) Investments (continued)

(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.

(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 three months or less that are readily convertible to cash and subject to an insignificant risk of changes in value.

(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 are valued at net market value which 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) Accrued benefits

For defined benefit members, the amount of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions. Refer to Note 4 for disclosure of accrued benefits.

For defined contribution members, the liability for accrued benefits is the Fund's present obligation to pay benefits to members and beneficiaries.

Notes to the financial statements for the year ended 30 June 2013

2. Summary of significant accounting policies (continued)

(i) Accrued benefits (continued)

This has been calculated as the difference between the carrying amount of the assets and the carrying amounts of the sundry liabilities and income tax liabilities as at balance date.

(j) Other payables

Other payables are carried at nominal amounts which approximate net market value. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid when the Group becomes obliged to make future payments in respect of the purchase of these goods or services. Payables are normally settled on 30 day terms.

(k) 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 in Net Assets.

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

(l) 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 Change 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.

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 the deficit.

(iii) Interest revenue

Interest income is recognised in the Statement of Change 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.

Notes to the financial statements for the year ended 30 June 2013

2. Summary of significant accounting policies (continued)

(l) Revenue recognition (continued)

(iv) Dividend 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.

(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.

(m) 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 reporting 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 45% 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 payable by the Group.

(n) Derecognition of financial assets and financial liabilities

A financial asset is derecognised when:

- the rights 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; and
- the Group 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 2013

2. Summary of significant accounting policies (continued)

(n) Derecognition of financial assets and financial liabilities (continued)

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

(o) 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 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 members' accounts. Where a tax offset is obtained by the Fund in relation to members' no-TFN contribution tax, the tax offset will be included in the relevant members' accounts.

(p) 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.

(q) New accounting standards and interpretations

Accounting standards	Nature	Application date of standard	Application date for entities
AASB 1053 – Application of Tiers of Australian Accounting Standards	Differential reporting framework established allowing the availability of reduce disclosures to entities which do not have public accountability.	1 July 2013	1 July 2013
AASB 9 – Financial Instruments	Changes to the classification and measurement of financial assets.	1 January 2013	1 July 2013
AASB 10 – Consolidated Financial Statements	New control model established, expanding the definition of when an entity is considered to be controlled.	1 January 2013	1 July 2013
AASB 12 – Disclosure of Interest in Other Entities	Additional disclosure relating to judgements made by management to determine whether control exists.	1 January 2013	1 July 2013
AASB 13 – Fair Value Measurement	Additional disclosures for assets and liabilities carried at fair value.	1 January 2013	1 July 2013
AASB2011-4 Related Party	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	1 July 2013

Notes to the financial statements for the year ended 30 June 2013

2. Summary of significant accounting policies (continued

(q) New accounting standards and interpretations (continued)

The Management has assessed the impact of the changes listed above and concluded that there would be no material change in the financial statements by adoption of the above standards.

(r) Reclassification of financial information

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

(s) Valuation dates

The investment held in VPST has been valued at 30 June 2013 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 2013.

3. Group entities

During the year ended 30 June 2013 Local Authorities Superannuation Fund controlled VPST with an ownership interest of 85.8% (2012: 85.8%). VPST was incorporated in Australia. The Fund has no jointly controlled entities.

4. Accrued benefits

The valuation of accrued benefits was undertaken by the Actuary as part of a comprehensive actuarial valuation as at 31 December 2011. Accrued benefits were previously valued as part of an actuarial review as at 31 December 2008. A summary of the Actuarial Report as at 31 December 2011, prepared by the Fund's actuary from Russell Employee Benefits, is attached as an addendum.

	As at 31 December 2011 $000	As at 31 December 2008 $000
Accrued Benefits	**4,642,133**	3,616,422

The Trustee has a number of steps in place to manage the risks associated with the defined benefit plan. The Trustee has appointed an external actuary to advise on these risks, including establishing suitable funding objectives. The actuary conducts regular (at least every three years, or more frequently as required) actuarial investigations of the defined benefit plan at the Trustee's request. Taking into account the Trustee's policy on funding objectives and the Fund's circumstances, the actuary recommends the employers' required contribution levels.

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 next actuarial review for the Fund is currently scheduled for 30 June 2014.

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

Net investment return – 7.50% p.a.
Salary inflation – 4.25% p.a.
Price inflation – 2.75% p.a.

Notes to the financial statements for the year ended 30 June 2013

4. Accrued benefits (continued)

The Fund's Actuary on completion of the 31 December 2011 actuarial review of the Fund recommended that participating employers pay an additional contribution to the level discussed in Note 7 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 plan of their share of the unfunded liability as at 31 December 2011. 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 $162 million remains as contributions receivable as at 30 June 2013 (2012: $539 million). As at 30 June 2013, the employers of the Defined Benefit plan have paid $377 million. The payments received represent 70% 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 Defined Benefits plan. The contributions receivable of $162 million at 30 June 2013 represents the outstanding unfunded liability which has been invoiced but not yet paid. The subsequent position of this receivable as at 31 August 2013 was $13 million.

5. Guaranteed benefits

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

6. 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 reporting date.

	2013 **$000**	2012 $000
Defined benefit plans	**2,333,584**	2,302,658
Accumulation plans	**3,085,572**	2,686,929
Total vested benefits	**5,419,156**	4,989,587
As compared to net assets available to pay benefits	**5,467,052**	4,869,129

Key results as at 30 June 2013, as confirmed by the actuary, on the defined benefit plans are as follows:

Results	**30 June 2013**	**30 June 2012**	**31 Dec 2011**
LASF Defined Benefit Plan VBI	100.7%	94.7%	n/a
City of Melbourne Plan VBI	104.6%	87.4%	n/a
Parks Victoria Plan VBI	95.6%	87.4%	n/a
Total VBI	101%	95%	89%
Discounted Accrued Benefits Index (DABI)	109%	104%	93%
Minimum Requisites Benefits Index (Solvency basis)	151%	141%	105%

Notes to the financial statements for the year ended 30 June 2013

7. Funding arrangements

(a) LASF defined benefits

The actuarial investigation of the LASF Defined Benefit Plan conducted as at 31 December 2011 identified an actuarial shortfall of $406 million. The actuarial shortfall was mainly caused by poor investment returns to 31 December 2011 predominantly due to the general financial crisis (GFC) and the assumed lower investment returns for the future.

The Trustee agreed the following funding plan to bring the LASF Defined Benefit Plan to a favourable financial position by the end of the fifteen-year period covered by the plan. Under the plan:

- Active members will continue to pay 6% of salary;
- Employers will continue to pay 9.25% of members' salaries;
- Employers will make 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; and
- Employers will make a top-up contribution of $453 million (plus contribution tax) payable on 1 July 2013

Employers are offered a fifteen-year payment plan for the top-up contribution at the interest rate of 7.5% per annum, the expected long-term investment return on the assets of defined benefits plan. The employers may choose to make their payment prior to the end of this fifteen-year payment plan.

The actuary has confirmed that the funding plan in place for the LASF Defined Benefits Plan as at 30 June 2013 remains appropriate and no additional contributions are currently required as the LASF Defined Benefit Plan is not in an unsatisfactory financial condition.

(b) City of Melbourne – defined benefits

The actuarial investigation of the City of Melbourne Plan conducted as at 31 December 2011 identified an actuarial shortfall of $8.9 million. Based on these actuarial investigations as at 31 December 2011, the Actuary's recommended funding plan below was adopted by City of Melbourne in December 2012 to return City of Melbourne plan VBI to above 100%:

- Increase the employer contribution to 13% of members' salaries from 1 July 2012;
- A single lump sum contribution of $8.0 million payable at 31 December 2012; and
- Fund the top up payments 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 from 1 July 2012.

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

The actuary has confirmed that the funding plan in place for the City of Melbourne Plan as at 30 June 2013 remains appropriate and no additional contributions are currently required as the City of Melbourne Plan is not in an unsatisfactory financial condition.

Notes to the financial statements for the year ended 30 June 2013

7. Funding arrangements (continued)

(c) Parks Victoria – defined benefits

The actuarial investigation of the Parks Victoria Plan conducted as at 31 December 2011 identified an actuarial shortfall of $3.2 million. Based on the actuarial investigation as at 31 December 2011, the Actuary's recommended funding plan below was adopted by Parks Victoria in November 2012 to return Parks Victoria Plan VBI to above 100%:

- Increase the employer contribution to 12% of members' salaries from 1 July 2012;
- Contribute an additional $0.8 million (inclusive of 15% contribution tax) per annum in each of the financial year 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17; and
- Fund the top up payments 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 from 1 April 2012.

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

The Parks Victoria Plan continues to be in an unsatisfactory financial position as at 30 June 2013. The actuary has said that he will investigate:

- whether the funding plan is adequate to restore the Parks Victoria Plan to a satisfactory financial position within three years to 30 June 2016;or
- if not, a revised funding plan will need to be determined and implemented.

The actuary has confirmed that this investigation will be performed in October/November 2013.

(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 Superannuation Guarantee Legislation for each year (for the year ended 30 June 2013 – 9%). This rate increasing to 9.25% for the 2013/14 year and will progressively increase to 12% by 1 July 2019. 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

Prudential Standard 160 (SPS 160) applies to the Fund with effect from 1 July 2013. The Fund had applied for a variation to the funding requirements as prescribed in SPS 160, whereby the Fund was seeking to continue the LASF Defined Benefit Plan funding based on the total service liability method, as opposed to the VBI method prescribed by the standard. However, APRA had not provided approval for any alternative funding plan and the actuary had recommended that the Trustee put in place a restoration plan to restore the VBI to 100% if: a) the VBI falls below 97% at any time when an actuarial investigation is not completed and there is not a valuation date within 6 months or b) VBI falls below 100% at the date an actuarial investigation is completed. The actuary concurs with the trustee's shortfall limit of 97%for the LASF Defined Benefit Plan.

Notes to the financial statements for the year ended 30 June 2013

8. Change in net market values

	Consolidated		Fund	
	2013 **$000**	2012 $000	**2013** **$000**	2012 $000
Investments held at balance date				
Diversified bonds	**(7,548)**	22,145	**-**	-
Australian equities	**103,494**	(103,771)	**-**	-
International equities	**203,696**	10,096	**-**	-
Property	**27,722**	(263)	**-**	-
Private equity	**(4,467)**	(5,348)	**-**	-
Infrastructure	**50,314**	42,866	**-**	-
Absolute return	**(864)**	(7,234)	**-**	-
Units in VPST	**-**	-	**610,926**	84,789
Total unrealised gains/(losses)	**372,347**	(41,509)	**610,926**	84,789
Cash	**3**	7,851	**-**	-
Diversified bonds	**5,735**	43,013	**-**	-
Australian equities	**86,264**	(22,944)	**-**	-
International equities	**38,917**	(44,672)	**-**	-
Property	**(1,973)**	(569)	**-**	-
Private equity	**(2,738)**	3,268	**-**	-
Infrastructure	**3,252**	-	**-**	-
Absolute return	**-**	(14,105)	**-**	-
Total realised gains/(losses)	**129,460**	(28,158)	**-**	-
Total changes in net market values	**501,807**	(69,667)	**610,926**	84,789

9. Direct investment expenses

	Consolidated		Fund	
	2013 **$000**	2012 $000	**2013** **$000**	2012 $000
Custodian fees	**2,248**	2,520	**-**	-
Fund managers' fees	**14,741**	11,698	**-**	-
VPST's trustee services fees	**5,704**	5,158	**-**	-
Other investment expenses	**5,316**	3,772	**-**	-
Total	**28,009**	23,148	**-**	-

Notes to the financial statements for the year ended 30 June 2013

10. Administration expenses

	Consolidated		Fund	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Annual lodgement fee - APRA	**1,628**	858	**1,628**	858
Banking & Regulatory Charges	**26**	58	**26**	58
External audit fees	**-**	50	**-**	50
Trustee services fees	**19,318**	16,962	**19,318**	16,962
Other administration expenses	**44**	98	**44**	98
Total	**21,016**	18,026	**21,016**	18,026

11. Contributions receivable

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

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

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

	Consolidated		Fund	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Ongoing service	**(62)**	2,107	**(62)**	2,107
Past service - 2010	**4,618**	7,566	**4,618**	7,566
Past service - 2011	**161,719**	495,294	**161,719**	495,294
Contributions receivable	**166,275**	504,967	**166,275**	504,967

Notes to the financial statements for the year ended 30 June 2013

12. Income tax expense

	Consolidated		Fund	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Current tax expense				
Current income tax	**98,716**	55,756	**95,254**	43,182
Adjustment of current income tax of previous years	**(3,243)**	1,299	**(32)**	495
	95,473	57,055	**95,222**	43,677
Deferred tax expense				
Relating to origination and reversal of temporary difference	**(50,237)**	67,193	**(50,755)**	71,257
Adjustment of deferred income tax of previous years	**42,981**	(7,508)	**0**	-
	(7,256)	59,685	**(50,755)**	71,257
	88,217	116,740	**44,467**	114,934

Numerical reconciliation between tax expense and net change for the year before tax	Consolidated		Fund	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Benefits accrued before income tax	**1,361,801**	789,040	**642,391**	620,444
At the tax rate of 15%	**204,270**	118,356	**96,359**	93,067
Additional tax on no TFN contributions	**7**	-	**7**	-
Increase in tax expenses due to:				
Non-deductible benefits paid	**63,391**	60,614	**63,391**	60,614
Imputation credits from franked dividends received	**3,193**	2,770	**-**	-
Foreign tax credits	**360**	325	**-**	-
Deferred franking credit	**-**	-	**-**	-
Other	**(3,313)**	4,609	**(520)**	(622)
Decrease in tax expenses due to:				
Non-assessable contributions	**(8,888)**	(8,825)	**(8,888)**	(8,825)
Non-assessable rollovers	**(12,974)**	(15,116)	**(12,974)**	(15,116)
Death and disability insurance	**(833)**	(794)	**(833)**	(794)
Anti-detriment deduction	**(403)**	(342)	**(403)**	(342)
Non-taxable income/loss from PST	**(103,508)**	(20,716)	**(91,639)**	(13,542)
Pension exemption	**(3,747)**	(6,766)	**-**	-
Imputation and foreign tax credits	**(23,160)**	(20,256)	**-**	-
Adjustment to recognise losses at 10%	**(23,451)**	5,647	**-**	-
No TFN tax credit	**(2)**	-	**(2)**	-
Over/under provision in previous year	**(2,725)**	(2,766)	**(31)**	494
Income tax expense reported in operating statement	**88,217**	116,740	**44,467**	114,934

Notes to the financial statements for the year ended 30 June 2013

13. Tax assets and liabilities

The current tax liabilities for the Fund of $95,253,531 (2012: $43,182,512) 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	
	2013	2012	**2013**	2012
Deferred tax assets	**$000**	$000	**$000**	$000
Unrealised taxable capital losses	**26,490**	74,515		-
Investment liability	**-**	-	**-**	-
Other	**1,616**	-	**8**	-
	28,106	74,515	**8**	-
Deferred tax liabilities				
Contributions receivable	**24,951**	75,698	**24,951**	75,698
Unrealised investment income	**-**	2,917	**-**	-
Other	**-**	-	**-**	-
	24,951	78,615	**24,951**	75,698
Net deferred tax assets/(liabilities)	**3,155**	(4,100)	**(24,943)**	(75,698)

Movement in temporary differences during the year:

2013 Consolidated

	Opening balance $000	Recognised in income $000	Acquisition /disposal $000	Exchange differences $000	Closing balance $000
Deferred tax liabilities:					
Contribution receivable	**75,698**	**(50,747)**	**-**	**-**	**24,951**
Unrealised taxable capital gain	**-**	**-**	**-**	**-**	**-**
Investment income	**-**	**-**	**-**	**-**	**-**
Operating assets	**-**	**-**	**-**	**-**	**-**
Other	**2,917**	**(2,917)**	**-**	**-**	**-**
	78,615	**(53,664)**	**-**	**-**	**24,951**
Deferred tax assets:					
Investment liability	**-**	**-**	**-**	**-**	**-**
Unrealised taxable capital losses	**74,515**	**(46,417)**	**-**	**-**	**28,098**
Other	**-**	**8**	**-**	**-**	**8**
	74,515	**(46,409)**			**28,106**
			-	**-**	
	(4,100)	**(7,255)**	**-**	**-**	**3,155**

Notes to the financial statements for the year ended 30 June 2013

14. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year (continued):

2012 Consolidated

	Opening balance $000	Recognised in income $000	Acquisition/ disposal $000	Exchange differences $000	Closing balance $000
Deferred tax liabilities:					
Contribution receivable	4,446	71,252	-	-	75,698
Unrealised taxable capital gain	-	-	-	-	-
Investment income	-	-	-	-	-
Operating assets	-	-	-	-	-
Other	-	2,917	-	-	2,917
	4,446	74,169	-	-	78,615
Deferred tax assets:					
Investment liability	1,087	(1,087)	-	-	-
Unrealised taxable capital losses	58,831	15,684	-	-	74,515
Other	112	(112)	-	-	-
	60,030	14,485	-	-	74,515
	55,584	(59,684)	-	-	(4,100)

2013 Fund

	Opening balance $000	**Recognised in income $000**	**Acquisition /disposal $000**	**Exchange differences $000**	**Closing balance $000**
Gross deferred tax liabilities:					
Contribution receivable	**75,698**	**(50,747)**	**-**	**-**	**24,951**
Unrealised taxable capital gain	**-**	**-**	**-**	**-**	**-**
Investment income	**-**	**-**	**-**	**-**	**-**
Operating assets	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**
	75,698	**(50,747)**	**-**	**-**	**24,951**
Gross deferred tax assets:					
Investment liability	**-**	**-**	**-**	**-**	**-**
Other	**-**	**8**	**-**	**-**	**8**
	-	**8**	**-**	**-**	**8**
	(75,698)	**(50,755)**	**-**	**-**	**(24,943)**

Notes to the financial statements for the year ended 30 June 2013

14. Deferred tax assets and liabilities (continued)

2012 Fund

	Opening balance $000	Recognised in income $000	Acquisition/ disposal $000	Exchange differences $000	Closing balance $000
Gross deferred tax liabilities:					
Contribution receivable	4,446	71,252	-	-	75,698
Unrealised taxable capital gain	-	-	-	-	-
Investment income	-	-	-	-	-
Operating assets	-	-	-	-	-
Other	-	-	-	-	-
	4,446	71,252	-	-	75,698
Gross deferred tax assets:					
Investment liability	-	-	-	-	-
Other	6	(6)	-	-	-
	6	(6)	-	-	-
	(4,440)	(71,258)	-	-	(75,698)

15. Related parties

(a) Trustee and key management personnel

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

Member Directors:	**Alternates:**
Brian Parkinson	Harriet Shing
Tony Tuohey	Harriet Shing
Wendy Phillips	Richard Duffy
Russell Atwood	Richard Duffy
Employer directors:	**Alternates:**
Peter Wilson (Chairman since 1 February 2013)	Steve Bird
Graham Sherry	Leigh Harder
Rob Spence	Alison Lyon
Geoff Lake	Alison Lyon

Director Angela Emslie was replaced as Employer Director on 28 September 2012 by Graham Sherry. Director Tony Tuohey was replaced as Member Director on 1 July 2013 by Harriet Shing.

Notes to the financial statements for the year ended 30 June 2013

15. Related parties (continued)

(a) Trustee and key management personnel (continued)

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
Peter Wilson	13	11
Tony Tuohey	13	12
Wendy Phillips	13	12
Brian Parkinson	13	11
Russell Atwood	13	11
Rob Spence	13	13
Graham Sherry	10	8
Geoff Lake	13	13
Angela Emslie	3	2

Board Committees are open to all Directors and were attended by a quorum of Directors on all occasions. Apart from Directors of the Trustee Company, the Chief Executive Officer, Chief Financial Officer, General Counsel, General Manager Finance and Compliance, Chief Operating Officer, Manager Investments, General Manager Fund Development, Manager Human Resources and Manager Information Technology are considered to be Key Management Personnel (KMP) for the purpose of these financial statements.

(b) Key management personnel and executives' compensation

The KMPs' compensation is presented in the table below for year 2013. This compensation was paid by the Trustee. Total compensation received, or due and receivable, by key management personnel amounted to $3,095,775 (2012: $1,832,484). The detail is as follows:

	2013	2012
	$000	$000
Short-term employee benefits	**2,831**	1,663
Other long-term benefits	**-**	-
Post-employment benefits	**265**	170
	3,096	1,833

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:

Notes to the financial statements for the year ended 30 June 2013

15. Related parties (continued)

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

Amounts falling between…	2013	2012
Up to $39,999	**7**	3
$40,000 - $49,999	**7**	7
$50,000 - $99,999	**2**	1
$100,000 - $149,999	**2**	-
$150,000 - $199,999	**2**	-
$200,000 – $249,999	**2**	2
$250,000 - $299,999	**2**	2
$400,000 - $449,999	**1**	1
$500,000 - $549,999	**1**	-

During the year ended 30 June 2013, a senior executive retired. The senior executive's total remuneration included an employment termination payment of approximately $465,000.

During the year, there were a number of changes to the Directors and their roles on the VSPL's Board. The total remuneration paid during the year was:

	2013	2012
	$000	$000
Chairman	**85**	80
Deputy Chairman	**49**	43
Other Directors	**267**	261
Alternate Directors (retaining fees)	**27**	3
	428	387

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

Any Director of the 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. 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.

	2013	2012
	$000	$000
Rollins from KMP to LASF/VSF	**-**	-
Benefits paid to KMP	**373**	60
Vested Benefits of KMP	**10,795**	8,186

(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.

Notes to the financial statements for the year ended 30 June 2013

15. Related parties (continued)

(c) Related party transactions (continued)

(ii) Regional Infrastructure Fund

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

RIF was established primarily to invest in regional infrastructure projects. RIF has three Directors, all of whom are current or former Directors of Vision Super Pty Ltd, namely, Tony Tuohey, Graham Sherry and Geoffrey Lake.

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).

(iv) Vision Super Pty Ltd

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

	Consolidated		**Fund**	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Trustee services fees payable/paid to VSPL	**25,022**	22,893	**19,318**	17,357

(v) Directors

Ms Emslie's partner, Garry Weaven, is Executive 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. He is also a Director of Utilities Trust of Australia which is an unlisted unit trust offered by Hastings Funds Management Limited. He excludes himself from any decision making in relation to the Utilities Trust of Australia.

Director Geoff Lake is also a Director of Hawkesbridge Capital Pty Ltd, a fund manager engaged by the Group, and excludes himself from any decision making in relation to this manager.

Notes to the financial statements for the year ended 30 June 2013

16. Auditor's remuneration

	Consolidated		Fund	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Amounts received or due and receivable by Ernst & Young for:				
An audit of the financial statements of the Group	**145**	102	**71**	67
Other services in relation to the Group	**-**	19	**-**	-
Total	**145**	121	**71**	67

17. Insurance

The Fund has a group policy in place with CommInsure to provide both Death & Disability and Income Protection insurance cover for SuperSaver and Personal plan members. The Fund provides Death & Disability insurance cover for Defined Benefits plan members.

Notes to the financial statements for the year ended 30 June 2013

18. Investments and derivatives

(a) Classification of financial instruments under the Fair Value Hierarchy

AAS 25 requires investments to be measured using net market value. The following table shows financial instruments recorded at net market value, analysed between those whose net market value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market and those where the valuation technique involves the use of non-market observable inputs that are significant to the determination of net market value. Net market value is considered a reasonable approximation of fair value, and for the purposes of the “fair value hierarchy”, estimated costs of disposal have been disregarded for Level 1 financial assets. Listed equities, listed trusts and cash and deposits have been disclosed within level 1 and 2 in the fair value hierarchy, as the Trustee considers this is the most appropriate treatment that reflects how listed equities, listed trusts and cash and deposits are valued.

The analysis is consistent for both the consolidated entity and Fund. The categorisation within the fair value hierarchy is the same for both the Fund and consolidated entity.

	2013			
	Value at quoted market price (level 1)	**Valuation technique – market observable inputs (level 2)**	**Valuation technique – non-market observable inputs (level 3)**	**Total**
	$000	**$000**	**$000**	**$000**
Cash	**1,146,003**	**-**	**-**	**1,146,003**
Diversified bonds	**26,431**	**648,152**	**28,686**	**703,269**
Australian equities	**1,470,568**	**-**	**490**	**1,471,058**
International equities	**1,009,175**	**217,202**	**3**	**1,226,380**
Property	**1,454**	**5,141**	**558,045**	**564,640**
Private equities	**15,314**	**13,459**	**459,111**	**487,884**
Infrastructure	**-**	**45,133**	**570,149**	**615,282**
Absolute return	**-**	**74,119**	**-**	**74,119**
Derivative assets	**3,344**	**3,174**	**-**	**6,518**
Derivative liabilities	**(693)**	**(63,847)**	**-**	**(64,540)**
Total	**3,671,596**	**942,533**	**1,616,484**	**6,230,613**

Notes to the financial statements for the year ended 30 June 2013

18. Investments and derivatives (continued)

(a) Classification of financial instruments under the Fair Value Hierarchy (continued)

	2012			
	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	Total $000
Cash	955,058	-	-	955,058
Diversified bonds	9,052	436,361	70,455	515,868
Australian equities	931,786	131,694	85	1,063,565
International equities	684,983	166,379	2	851,364
Property	2,782	1,280	566,903	570,965
Private equities	14,219	12,141	`472,730	499,090
Infrastructure	-	-	586,702	586,702
Absolute return	-	74,983	-	74,983
Derivative assets	14,632	1,572,189	-	1,586,821
Derivative liabilities	(392)	(1,557,408)	-	(1,557,800)
Total	2,612,120	837,619	1,696,877	5,146,616

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.

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

(b) Level 3 financial instruments transactions

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

Consolidated

	2013 $000	2012 $000
Opening balance	**1,696,877**	1,670,998
Realised/unrealised gains and losses	**86,440**	19,255
Purchases/applications	**32,501**	66,919
Sales/redemptions	**(120,117)**	(41,569)
Accrued interests	**(1,140)**	313
Adjustments	**(78,568)**	(19,771)
Transfers into level 3	**490**	732
Transfers out of level 3	**-**	-
Closing balance	**1,616,483**	1,696,877

Notes to the financial statements for the year ended 30 June 2013

18. Investments and derivatives (continued)

(b) Level 3 financial instruments transactions (continued)

Fund

	2013 $000	2012 $000
Opening balance	**1,560,930**	1,538,712
Realised/unrealised gains and losses	**74,229**	16,530
Purchases/applications	**27,910**	57,449
Sales/redemptions	**(103,148)**	(35,687)
Accrued interests	**(979)**	269
Adjustments	**(67,471)**	(16,972)
Transfers into level 3	**421**	629
Transfers out of level 3	**-**	-
Closing balance	**1,491,892**	1,560,930

Total gains/(losses) recognised in the Statement of Changes in Net Assets for Level 3 transactions are presented in the movement in net market value of investments as follows:

Consolidated

	2013 $000	2012 $000
Total gains/(losses) recognised in the Statement of Changes in Net Assets for the period	**86,440**	19,255
Total gains/(losses) recognised in the Statement of Changes in Net Assets for the period for assets held at the end of the reporting period	**82,914**	20,399

Fund

	2013 $000	2012 $000
Total gains/(losses) recognised in the Statement of Changes in Net Assets for the period	**74,229**	16,530
Total gains/(losses) recognised in the Statement of Changes in Net Assets for the period for assets held at the end of the reporting period	**71,201**	17,512

For financial instruments classified in Level 3 in the fair value hierarchy some of the inputs to the valuation models are unobservable and therefore subjective in nature. The use of reasonably possible alternative assumptions could possibly produce a different net market value measurement. If the impact of using those alternative assumptions would cause the fair value of Level 3 asset to be higher or lower by 5% the net assets of the Group and the result for the year would have been higher or lower by $81 million (2012: $85 million).

(c) Transfers between hierarchy levels

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the year.

Notes to the financial statements for the year ended 30 June 2013

19. 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.

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.

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 (e).

Notes to the financial statements for the year ended 30 June 2013

19. Risk management (continued)

(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.

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.

2013 – 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
Loans	-	-	-	-	-	4,208	4,208
Fixed interest bonds	419,549	35,423	29,719	-	-	76,923	561,614
Indexed bonds	51,582	-	-	-	-	18,345	69,927
Floating rate notes	5,690	2,416	-	-	-	-	8,106
Zero coupon bonds	108	-	-	-	-	-	108
Asset backed securities	1,508	-	-	-	-	-	1,508
Discount securities	301	-	-	-	-	6,589	6,890
Cash & deposits	-	-	-	-	-	1,340,749	1,340,749
Pooled funds*	-	-	-	-	-	111,437	111,437
Total	478,738	37,839	29,719	-	-	1,558,251	2,104,547

Notes to the financial statements for the year ended 30 June 2013

19. Risk management (continued)

(b) Credit risk (continued)

2012 – 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
Loans	-	-	150	-	-	2,632	2,782
Fixed interest bonds	286,898	33,579	13,597	-	-	27,376	361,450
Indexed bonds	65,463	-	-	-	-	4,494	69,957
Floating rate notes	2,728	1,788	-	-	-	104	4,620
Zero coupon bonds	96	-	-	-	-	-	96
Asset backed securities	-	-	-	-	-	-	-
Discount securities	192	-	-	-	-	-	192
Cash & deposits	-	-	-	-	-	1,023,459	1,023,459
Pooled funds*	-	-	-	-	-	153,104	153,104
Total	355,377	35,367	13,747	-	-	1,211,169	1,615,660

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 2013

19. Risk management (continued)

(b) Credit risk (continued)

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

	Consolidated		Fund	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Australia	**5,447,494**	4,562,684	**4,677,939**	3,917,013
North America	**572,153**	415,930	**491,326**	357,072
Europe	**177,912**	143,338	**152,779**	123,054
Asia	**47,026**	23,642	**40,383**	20,297
Others	**7,886**	4,293	**6,772**	3,685
Total	**6,252,471**	5,149,887	**5,369,199**	4,421,121

Significant economic sector exposure exists as follows:

	Consolidated		Fund	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Financials	**642,549**	420,995	**551,778**	361,419
Materials	**304,880**	254,820	**261,811**	218,760
Industrials	**232,904**	151,858	**200,003**	130,368
Energy	**157,742**	121,514	**135,458**	104,319
Consumer discretionary	**255,228**	141,879	**219,173**	121,802
Consumer staples	**201,837**	123,559	**173,324**	106,074
Information technology	**212,579**	156,710	**182,549**	134,534
Health care	**187,746**	106,746	**161,224**	91,640
Telecommunication	**83,821**	61,435	**71,980**	52,741
Utilities	**35,192**	33,660	**30,221**	28,897

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

Notes to the financial statements for the year ended 30 June 2013

19. Risk management (continued)

(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.

As at 30 June 2013 - Consolidated	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)
Financial liabilities							
Benefits payable	**15,961**	**-**	**-**	**-**	**-**	**-**	**15,961**
Other payables	**8,762**	**-**	**-**	**-**	**-**	**-**	**8,762**
Vested benefits	**5,419,156**	**-**	**-**	**-**	**-**	**-**	**5,419,156**
Total undiscounted financial liabilities (excluding gross settled derivatives)	**5,443,879**	**-**	**-**	**-**	**-**	**-**	**5,443,879**
Gross settled derivatives:							
Warrants							
Gross cash inflow	**-**	**-**	**-**	**-**	**3,138**	**-**	**3,138**
Options							
Gross cash inflow	**50**	**-**	**-**	**-**	**-**	**-**	**50**
Gross cash outflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Futures							
Gross cash inflow	**-**	**284**	**18**	**-**	**-**	**-**	**302**
Gross cash outflow	**-**	**(839)**	**-**	**-**	**-**	**-**	**(839)**
Forward foreign currency contracts							
Gross cash inflow	**874,680**	**734,232**	**-**	**-**	**-**	**-**	**1,608,912**
Gross cash outflow	**(893,290)**	**(776,294)**	**-**	**-**	**-**	**-**	**(1,669,584)**
Total undiscounted gross settled derivatives inflow/(outflow)	**(18,560)**	**(42,617)**	**18**	**-**	**3,138**	**-**	**(58,021)**

Notes to the financial statements for the year ended 30 June 2013

19. Risk management (continued)

(c) Liquidity risk (continued)

As at 30 June 2012 - Consolidated	**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)**
Financial liabilities							
Benefits payable	18,580	-	-	-	-	-	18,580
Other payables	6,107	-	-	-	-	-	6,107
Vested benefits	4,989,587	-	-	-	-	-	4,989,587
Total undiscounted financial liabilities (excluding gross settled derivatives)	5,014,274	-	-	-	-	-	5,014,274
Gross settled derivatives:							
Warrants							
Gross cash inflow	-	-	-	4,562	10,060	-	14,622
Options							
Gross cash inflow	341	39	-	-	-	-	380
Gross cash outflow	(69)	(2)	-	-	-	-	(71)
Futures							
Gross cash inflow	-	4	5	-	-	-	9
Gross cash outflow	-	-	(391)	-	-	-	(391)
Forward foreign currency contracts							
Gross cash inflow	508	1,064	-	-	-	-	1,572
Gross cash outflow	(502)	(1,055)	-	-	-	-	(1,557)
Total undiscounted gross settled derivatives inflow/(outflow)	278	50	(386)	4,562	10,060	-	14,564

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 futures payable within 12 months.

Notes to the financial statements for the year ended 30 June 2013

19. Risk management (continued)

(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.

Based on the NAS Accounting Policy Manual June 2013, a 25 basis points movement in interest rates is considered reasonably possible for the 2012/2013 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 reporting date would have increased/(decreased) the changes in net assets available to pay benefits by the amounts shown below:

2013 – 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	**+/-25**	**-**
Fixed interest securities	**+/-25**	**(9,328)/9331**
Derivatives	**+/-25**	**(139)/139**

2012 – 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	-
Fixed interest securities	+/-50	(14,188)/14,195
Derivatives	+/-50	168/(168)

Notes to the financial statements for the year ended 30 June 2013

19. 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.

Based on the NAS Accounting Policy Manual June 2013, the movement of main currency exchange rates below is considered reasonably possible for the 2012/2013 reporting period:

USD	10%
British pounds	5%
Euro	5%
Japanese Yen	10%

The percentage 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.

Currency	**2013**		2012	
	Change in Currency rate %	**Effect on changes in net assets $000**	Change in currency rate%	Effect on changes in net assets $000
USD	**+/-10**	**(51,099)/62,455**	+/-5	(19,424)/21,469
Euro	**+/-5**	**(4,042)/4,468**	+/-10	(7,117)/8,699
Japanese Yen	**+/-5**	**(4,696)/5,740**	+/-5	(1,311)/1,449
British pounds	**+/-10**	**(2,453)/2,711**	+/-10	(2,607)/3,187

(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.

Based on the NAS Accounting Policy Manual June 2013, a 10% movement in equity price is considered reasonably possible for the 2012/2013 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 2012.

Notes to the financial statements for the year ended 30 June 2013

19. Risk management (continued)

(d) Market risk (continued)

(iii) Equity price risk (continued)

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:

Consolidated and Fund

	2013		2012	
Asset class sector	**Change in equity price**	**Effect on changes in net assets**	Change in equity price	Effect on changes in net assets
	%	**$000**	%	$000
Life insurance policies	**+/-10**	**15,350/(15,350)**	+/-10	14,238/(14,238)
Listed equities	**+/-10**	**221,826/(221,826)**	+/-10	150,011/(150,011)
Listed property trusts	**+/-10**	**5,943/(5,943)**	+/-10	4,701/(4,701)
Listed units trust	**+/-10**	**3,477/(3,477)**	+/-10	1,676/(1,676)
Pooled Development Fund	**+/-10**	**433/(433)**	+/-10	-
Listed investment company	**+/-10**	**3,085/(3085)**	+/-10	2,924/(2,924)
Preference shares	**+/-10**	**587/(587)**	+/-10	301/(301)
Unlisted equities	**+/-10**	**27,942/(27,9420**	+/-10	24,584/(24,584)
Unlisted MIS	**+/-10**	**148,640/(148,640)**	+/-10	164,746/(164,746)
Others	**+/-10**	**21,631/(15,071)**	+/-10	10,820/(10,820)

19. Investment commitments

The Group has a private market commitment of $1,754 million (2012: $1,742 million) as at the reporting date consists of the drawn commitment of $1,596 million (2012: $1,559 million and undrawn commitment of $132 million (2012: $183 million).

20. Contingent liabilities/assets

The Group has no contingent liabilities/assets as at 30 June 2013.

21. Significant event after balance date

Between 30 June 2013 and the date of approval of this financial report, there have been no matters or circumstances not otherwise dealt with in the financial period that have significantly affected or may significantly affect the Group.

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 2013 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 2013.

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

BRIAN PARKISON	ROB SPENCE
Director	Director

Melbourne, 27 September 2013

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Building a better working world

LOCAL AUTHORITIES SUPERANNUATION FUND (ABN: 24 496 637 884)

REPORT BY THE INDEPENDENT APPROVED AUDITOR TO THE TRUSTEE AND MEMBERS

Financial statements

I have audited the financial statements of Local Authorities Superannuation Fund for the year ended 30 June 2013 comprising the statement of net assets, statement of changes in net assets, summary of significant accounting policies, other explanatory notes and the Directors' declaration.

Trustee's Responsibility for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the requirements of the SIS Act and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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, the net assets of Local Authorities Superannuation Fund as at 30 June 2013 and the changes in net assets for the year ended 30 June 2013.

Building a better working world

Emphasis of Matter

I draw attention to Notes 4, 5, 6 and 7 to the financial statements. These notes describe the Accrued and Vested Benefits of the Defined Benefit plans together with the Trustee approved future funding arrangements, including the key assumptions which underpin both the Trustee's and Actuary's assessments of these arrangements. The matters in these notes are material key assumptions to the calculation of the defined benefit obligations of the Local Authorities Superannuation Fund. My opinion is not qualified in respect of these matters.

Ernst & Young

ERNST & YOUNG

Martin Walsh
Partner
Melbourne

27 September 2013