

LGSS PTY LIMITED

ACN 078 003 497

Annual Financial Report for the Year Ended 30 June 2023

LGSS Pty Limited
ACN 078 003 497

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2023

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LGSS Pty Limited
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Report by Members of the Board

The directors of LGSS Pty Limited (“the company” or “the Trustee”) submit herewith the annual financial statements of the company for the financial year ended 30 June 2023. The report by members of the board is as follows:

Directors

The following persons held office as directors of LGSS Pty Limited during the year or since the end of the year and up to the date of this report unless otherwise stated:

Ms C Bels
Mr G Brock
Mr D Clausen
Mr N Hagarty
Mr K Loades (Chair)
Ms K McKeown
Mr G McLean
Ms S Orleow
Mr C Peate

Principal activities

The principal activity of the company during the financial year was to act as Trustee of Local Government Super (“Active Super” or “the Fund”). The company’s subsidiary, LIF Pty Limited, acts as Trustee for Local Government Property Fund (“LGPF”).

Review of operations

The profit after income tax expense for the year is \$265,397 (2022 - \$137,455).

Dividends

The Directors have determined not to pay any dividends for the year ended 30 June 2023 (2022 - \$Nil).

Report by Members of the Board (continued)

Changes in the state of affairs

In the current financial year, there have been no material changes in the state of affairs.

Subsequent events

The Australian Securities and Investments Commission (ASIC) announced on 11 August 2023 the commencement of civil penalty proceedings against the Trustee in the Federal Court in relation to our ESG practices and disclosure.

Active Super has co-operated with ASIC's investigation and welcomes increased scrutiny on ESG disclosure standards as being good for members, the super industry and the community.

There has not been any other matter or circumstance, that has arisen since the end of the financial year, which has significantly affected, or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Future developments

On 9 June 2022, the Trustee announced that it had signed a Memorandum of Understanding (MOU) with Vision Super to explore a potential merger and will undertake due diligence to determine if a merger is likely to be in the best financial interests of members of both funds.

On 5 June 2023, the Trustee and Vision Super signed a non-binding Heads of Agreement (HOA) to further pursue the merger. The merger will result in the formation of a new, larger entity with around \$27 billion in funds under management, approximately 170,000 member accounts and a broader geographic presence across NSW and Victoria. Stephen Rowe, the current Chief Executive Officer of Vision Super has been selected to assume the role of the CEO for the new fund should the merger be concluded. As at the date of this report, the specific date for establishing the new Successor Fund Transfer, should the merger proceed, is expected to be 1 October 2024.

Environmental regulations

The company's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory of Australia.

Share issue

The Board of Directors can confirm that as at the date of this report, no shares or interests in the company were granted in the financial year ended 30 June 2023 (2022 - Nil).

Share options

No options for shares in the company have been granted during the financial year and there were no options outstanding at the end of the financial year.

Report by Members of the Board (continued)

Indemnification of Officers and Auditors

During the financial year, the company insured the directors of the company, the company secretary and all executive officers of the company against any liability. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the payment.

The company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the entity or any related body corporate against a liability incurred as such an officer or auditor.

Signed in accordance with a resolution of the directors.



Director
Sydney
20 September 2023



Director
Sydney
20 September 2023

Directors' Declaration

Pursuant to the requirements of the *Government Sector Finance Act 2018*, the directors declare that in their opinion:

- (a) the financial statements present fairly the Company's financial position at 30 June 2023 and the financial performance and cashflows for the year then ended;
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the attached financial statements and notes thereto are in compliance with the *Government Sector Finance Act 2018*, the *Government Sector Finance Regulation 2018* and Australian Accounting Standards and Interpretations.

Signed in accordance with a resolution of the directors.

On behalf of the directors



Director
Sydney
20 September 2023



Director
Sydney
20 September 2023

LGSS Pty Limited
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Statement of Comprehensive Income
for the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Revenue	4	<u>45,788</u>	<u>45,101</u>
Operating Expenses:			
Auditor's remuneration	7	39	34
Depreciation of plant and equipment	10	195	189
Depreciation of right-of-use assets	15(a)	1,492	1,561
Key management personnel expenses	6	4,153	4,034
Employee related expenses		16,122	15,425
Variable lease expenses		168	136
Software maintenance		2,656	2,239
Communications		376	417
Professional fees		7,690	9,643
Member communication		3,334	2,247
Regulatory fees		1,245	1,279
Administration fees		6,773	6,492
Insurance		827	935
Other		<u>406</u>	<u>276</u>
Total Operating Expenses		<u>45,476</u>	<u>44,907</u>
Surplus from operating activities excluding finance costs		312	194
Finance costs		<u>41</u>	<u>59</u>
Surplus from operating activities after finance costs		<u>271</u>	<u>135</u>
Income tax (benefit)/expense	5(a)	6	(2)
Operating profit after income tax		<u>265</u>	<u>137</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>265</u>	<u>137</u>

The accompanying notes form part of these financial statements.

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Statement of Financial Position
as at 30 June 2023

	Note	2023 \$'000	2022 \$'000
Current Assets			
Cash and cash equivalents	14(a)	3,363	3,855
Receivables	8	4,305	3,597
Current tax asset	5(c)	41	166
Other assets	9	1,041	1,066
Total Current Assets		<u>8,750</u>	<u>8,684</u>
Non-Current Assets			
Plant and equipment	10	305	195
Right-of-use assets	15(a)	1,836	3,281
Deferred tax asset	5(d)	1,521	1,527
Total Non-Current Assets		<u>3,662</u>	<u>5,003</u>
Total Assets		<u>12,412</u>	<u>13,687</u>
Current Liabilities			
Lease liabilities	15(b)	1,515	1,468
Payables	11	2,420	2,359
Provisions	12	3,986	3,577
Total Current Liabilities		<u>7,921</u>	<u>7,404</u>
Non-Current Liabilities			
Lease liabilities	15(b)	472	1,954
Payables	11	2,733	3,405
Provisions	12	881	784
Total Non-Current Liabilities		<u>4,086</u>	<u>6,143</u>
Total Liabilities		<u>12,007</u>	<u>13,547</u>
Net Assets		<u>405</u>	<u>140</u>
Equity			
Contributed equity	13(a)	-	-
Accumulated funds		3	3
Capital indemnity reserve	13(b)	402	137
Total Equity		<u>405</u>	<u>140</u>

The accompanying notes form part of these financial statements.

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Statement of Changes in Equity
for the year ended 30 June 2023

	Contributed Equity \$'000	Accumulated Funds \$'000	Capital Indemnity Reserve \$'000
2023			
At 1 July 2022	-	3	137
Operating profit after income tax	-	265	-
Transfer to Capital Indemnity Reserve	-	(265)	-
Transfer from Accumulated Funds	-	-	265
Other comprehensive income	-	-	-
At 30 June 2023	-	3	402
2022			
At 1 July 2021	-	3	-
Operating profit after income tax	-	137	-
Transfer to Capital Indemnity Reserve	-	(137)	-
Transfer from Accumulated Funds	-	-	137
Other comprehensive income	-	-	-
At 30 June 2022	-	3	137

Contributed equity at 30 June 2023 is \$8 (30 June 2022 - \$8).

The accompanying notes form part of these financial statements.

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Statement of Cash Flows
for the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Receipts from the Fund for Management Fees		42,593	45,107
Receipts from the Fund for Management Fees – Investment Related		4,268	4,219
Receipts from LIF Pty Ltd for Management Fees		859	844
Receipts from financial planning services		1,035	1,359
Receipts – other		36	32
Payments to suppliers and employees		(47,678)	(47,234)
Income tax refund/(payment)		125	(79)
Interest received		98	1
Interest paid on lease liability		(41)	(59)
Net cash provided by operating activities		<u>1,295</u>	<u>4,190</u>
	14(b)	<u>1,295</u>	<u>4,190</u>
Cash flows from investing activities			
Payment for plant and equipment		(264)	(28)
Net cash used in investing activities		<u>(264)</u>	<u>(28)</u>
Cash flows from financing activities			
Payment for principal portion of lease liability		(1,523)	(1,429)
Net cash used in financing activities		<u>(1,523)</u>	<u>(1,429)</u>
Net (decrease)/increase in cash and cash equivalents		(492)	2,733
Cash and cash equivalents at the beginning of the financial year		<u>3,855</u>	<u>1,122</u>
Cash and cash equivalents at the end of the financial year	14(a)	<u>3,363</u>	<u>3,855</u>

The accompanying notes form part of these financial statements.

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Notes to the Financial Statements for the Year Ended 30 June 2023

I. Reporting Entity

LGSS Pty Limited (“the company”) is a proprietary company, incorporated, domiciled, and operating in Australia. The company operates as a not-for-profit entity.

The principal activity of the company during the financial year was to act as Trustee of Local Government Super (“Active Super”, “the Fund”). The company’s subsidiary, LIF Pty Limited, acts as Trustee for Local Government Property Fund (“LGPF”).

The registered office and principal place of business is:

Level 12
28 Margaret Street
Sydney, NSW 2000
Telephone (02) 9333 3000

2. Basis of Preparation

(a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with the Australian Accounting Standards (AASB) and Interpretations adopted by the Australian Accounting Standards Board.

The financial statements also conform to the requirements of the *Government Sector Finance Act 2018* and the *Government Sector Finance Regulation 2018*.

The financial statements were authorised for issue by the Directors on 20 September 2023.

(b) Basis of measurement

The financial statements have been prepared on an accrual basis. Financial statement items are prepared in accordance with the historical cost convention except where specified otherwise.

(c) Functional and Presentation Currency

The financial statements are presented in Australian dollars which is the company’s functional currency and rounded to the nearest thousand.

(d) Trustee Obligation

LGSS Pty Limited was the Trustee of the Fund for the financial year ended 30 June 2023. By law, the Trustee is liable for the obligations of the Fund and has right of indemnity against the assets of the Fund.

LIF Pty Limited, a wholly owned subsidiary of LGSS Pty Limited, was the Trustee of LGPF for the financial year ended 30 June 2023. By law, the Trustee is liable for the obligations of LGPF, and has right of indemnity against the assets of LGPF.

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Notes to the Financial Statements for the Year Ended 30 June 2023

2. Basis of Preparation (continued)

These financial statements do not recognise these liabilities except to the extent that the Trustee has committed a breach of fiduciary duty or to the extent that the Fund and LGPF have insufficient assets to settle their obligations nor do they reflect any cash flow attributable to the activities of the company undertaken on behalf of the Fund and LGPF.

(e) Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making judgements. Actual results may differ from these estimates.

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

(f) Going concern

The Company's financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the Directors of the Company have considered the impact of the potential successor fund transfer ("SFT") of the Fund and other future events and conditions for the period of twelve months following the approval of these financial statements. The Directors are confident that the Company will be able to continue as a going concern as the Company is indemnified by the Fund to fulfill its financial obligations.

If a SFT takes place the Trustee will continue to be indemnified by the merged entity as it is the intention of the Directors' that the Company will continue to exist for a number of years.

The Company has accumulated reserves within its Capital Indemnity Reserve and established an arrangement under which it is able to draw a loan arrangement with the Fund to meet potential future penalties which will be in place until any SFT occurs. Additionally, The Company has procured sufficient insurance coverage to safeguard against potential liabilities that may arise from the court proceedings currently before the Federal Court.

3. Summary of significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements for the years ended 30 June 2023 and 30 June 2022.

(a) Basis of consolidation

Although the company has a controlling interest in LIF Pty Limited, consolidated accounts have not been prepared because LIF Pty Limited has negligible assets and liabilities, and these are not considered to be material to the company.

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Notes to the Financial Statements for the Year Ended 30 June 2023

3. Summary of significant accounting policies (continued)

(b) Payables

Trade and other payables are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

Trade and other payables are initially recognised at fair value and, if applicable, subsequently carried at amortised cost using the effective interest method. Based on historical experience of credit losses, the company assumes future credit risk to be nil.

(c) Plant and equipment

Office equipment, computer hardware and office fit-out costs are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that the settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on office equipment, computer hardware and office fit-out. Depreciation is calculated on a straight-line basis to write off the net cost or other revalued amounts of each asset over its expected useful life to its estimated residual value.

Office fit-out improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

(d) Employee benefits

Provision is made for benefits accruing to employees in relation to annual leave and long service leave. Provisions made in respect of annual leave and long service leave expected to be settled within 12 months are measured at their nominal value using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of long service leave which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date. Annual leave not expected to be settled within twelve months is measured at the rate expected to be applicable at the time of settlement and is measured as the present value of the estimated future cash outflows to be made.

Notes to the Financial Statements for the Year Ended 30 June 2023

3. Summary of significant accounting policies (continued)

(e) Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(f) Goods and services tax

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

- Where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO), it is recognised as part of the cost of acquisition of an asset or as part of an item of expense, or
- For receivables and payables which are recognised inclusive of GST, if applicable.

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

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

(g) Income tax

Current tax

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

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Notes to the Financial Statements for the Year Ended 30 June 2023

3. Summary of significant accounting policies (continued)

(g) Income tax (continued)

Deferred tax

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

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax Losses

The company has Nil (2022 - Nil) estimated un-recouped tax losses available to offset against future years' taxable income.

(h) Right-of-use assets and lease liabilities

At commencement date, the right-of-use assets were measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the company, and any lease payments made in, at or before the lease commencement date (net of any incentives received).

Lease payments included in the measurement of the lease liability were predominantly made up of fixed payments. Variable lease payments were considered immaterial and were expensed as they were incurred.

If the lease liability is remeasured, a corresponding adjustment would be reflected in the right-of-use asset.

Depreciation of right-of-use assets is recorded on a straight-line basis from 1 July 2019 or the lease commencement date to the end of the lease term. In future periods, the company will assess the right-of-use asset for impairment when such indicators exist.

At the commencement date, the lease liability is measured at the present value of the lease payments unpaid at that date, discounted using the company's incremental borrowing rate. The borrowing rate applied for office premises and office equipment leases is based on the applicable incremental borrowing rates for AASB 16. For motor vehicle leases, a weighted average rate has been applied. Discount rates are determined based on the term of the leases.

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Notes to the Financial Statements for the Year Ended 30 June 2023

3. Summary of significant accounting policies (continued)

(h) Right-of-use assets and lease liabilities (continued)

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. In future periods, the liability would be remeasured to reflect any reassessment or modification, or if there are changes in fixed payments. If the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The right-of-use assets and lease liabilities have been disclosed separately in the Statement of Financial Position. Depreciation of the right-of-use asset has been disclosed in a separate line item in the Statement of Comprehensive Income. Interest expense on lease liabilities is classified as finance costs in the Statement of Comprehensive Income and recognised under operating activities in the Statement of Cash Flows. Cash payments for the principal portion of the lease liability are recognised under financing activities in the Statement of Cash Flows.

The company has elected to apply exemptions relating to short-term leases and leases of low-value assets using the practical expedients. Lease payments on short-term and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

(i) Receivables

Trade and other receivables are initially recognised at fair value and, if applicable, subsequently carried at amortised cost using the effective interest method. The company currently has no doubtful debts and based on a favourable historical experience of credit losses, the company believes exposure to future expected credit losses is nil.

(j) Revenue recognition

Revenue is recognised based on satisfaction of specific performance obligations and measurement is based on contract prices relevant to the individual revenue stream which is demonstrated below.

Rendering of services

During the financial year ended 30 June 2023, LGSS Pty Limited invoiced the Fund based on the company satisfying the performance obligation of managing the Fund which is performed over time. The invoices were based on actual Funds Under Management (FUM) multiplied by relevant scheme fee rates. An annual review of Administration Fee Income was conducted for financial year ended 30 June 2023 whereby any excess or deficit funding was recorded as an adjustment back to the Fund.

As at 30 June 2023, the amount of management fees invoiced in excess of actual expenditure is recorded as a liability back to the Fund. The Trustee may retain the surplus funds for a period greater than 12 months to the extent that it has determined that these funds are required to maintain liquidity but such amounts must ultimately be repaid to the Fund.

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Notes to the Financial Statements for the Year Ended 30 June 2023

3. Summary of significant accounting policies (continued)

(j) Revenue recognition (continued)

Management Fees

The company also recognises revenue from Management Fees payable under specific Management Services Agreements in place with the Fund and LIF Pty Limited. Management Fees are recognised when the performance obligation of managing the Fund and LGPF is satisfied.

Financial Planning Services

The company recognises revenue from providing financial advice to external counterparties. Revenue is recognised to the extent that the financial advice service has been performed in full at a point in time.

Trustee Fee

Revenue from trustee services is charged for the provision of trustee services and recognised when performance obligation is satisfied.

Interest revenue

Interest income on financial assets is calculated by applying the effective interest rate to the gross carrying amount of financial assets.

(k) Cash and cash equivalents

Cash and cash equivalents include deposits held at call with a bank. Under AASB 9 Financial Instruments, classification and measurement is recorded at an amortised cost basis. Given the 'AA-' rating of the company's banking facilities, the company assumes the credit risk to be nil.

(l) Adoption of new and revised Accounting Standards

In the current annual reporting period, the company has not adopted the following new or revised Standards and Interpretations issued by the Australian Accounting Standards Board ("the AASB"). The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements:

AASB 2021-5 Amendments to Australian Accounting Standards: Deferred Tax related to Assets and Liabilities arising from a single transaction

The amendments are effective for the year ending 30 June 2024. The amendments clarify that the exemption does not apply to transactions for which entities recognise both an asset and a liability and that give rise to equal taxable and deductible temporary differences.

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Notes to the Financial Statements for the Year Ended 30 June 2023

3. Summary of significant accounting policies (continued)

(m) Standards and Interpretations issued but not yet effective

AASB 2021-2 Amendments to AASB 108 – Definition of Accounting Estimates

The amendments are effective for the year ending 30 June 2024. The amendments to AASB 108 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different

AASB 2020-1 Amendments to Australian Accounting Standards: Classification of Liabilities as Current or Non-Current

The amendments are effective for the year ending 30 June 2024. A liability is classified as current if the entity has no right at the end of reporting period to defer settlement for at least 12 months after the reporting period.

AASB 2020-6 Amendments to AASs – Non-current Liabilities with Covenants

The amendments are effective for the year ending 30 June 2024. The amendments clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.

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Notes to the Financial Statements for the Year Ended 30 June 2023

4. Revenue

	2023	2022
	\$'000	\$'000
Management Fee from the Fund	39,571	38,606
Management Fee from the Fund – Investment Related	3,953	3,933
Management Fee from LIF Pty Ltd	768	818
Other Income	31	339
Revenue from financial planning services ¹	989	1,208
Trustee Fee	379	196
Interest revenue	97	1
	45,788	45,101

1. Revenue from financial planning services which was deducted from member account balances held by the Fund was \$768,978 (2022 - \$1,175,058). Revenue from financial planning services received directly from clients was \$219,934 (2022 - \$33,068).

5. Income tax

(a) Income tax recognised in net result

	2023	2022
	\$'000	\$'000
Prior year over provision	(1)	(15)
Current tax expense	2	23
Deferred tax expense/(benefit)	5	(10)
Total income tax (benefit)/expense	6	(2)

(b) The prima facie income tax expense on pre-tax net result reconciles to the income tax expense in the financial statements as follows:

Net result from operating activities before income tax expense	271	136
Income tax expense calculated at 30%	81	41
Expenses that are not deductible in determining taxable income	5	14
Other adjustment	(79)	(42)
Prior year over provision	(1)	(15)
	6	(2)

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Notes to the Financial Statements for the Year Ended 30 June 2023

5. Income tax (continued)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by an Australian corporate entity on taxable income under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(c) Current tax:

	2023 \$'000	2022 \$'000
Current tax comprises:		
Current tax asset	<u>41</u>	<u>166</u>

(d) Deferred tax balances:

Deferred tax assets comprises:		
Temporary differences	<u>1,521</u>	<u>1,527</u>

(e) Deferred tax assets arise from the following:

	Opening Balance \$'000	Recognised in the Statement of Comprehensive Income \$'000	Closing Balance \$'000
30 June 2023			
Expenses accrued but not incurred	<u>1,527</u>	<u>(6)</u>	<u>1,521</u>
	<u>1,527</u>	<u>(6)</u>	<u>1,521</u>
30 June 2022			
Expenses accrued but not incurred	<u>1,517</u>	<u>10</u>	<u>1,527</u>
	<u>1,517</u>	<u>10</u>	<u>1,527</u>

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Notes to the Financial Statements for the Year Ended 30 June 2023

6. Key management personnel compensation

The following persons held office as Directors of LGSS Pty Limited during the year or since the end of the year and up to the date of this report unless otherwise stated:

Ms C Bels
Mr G Brock
Mr D Clausen
Mr N Hagarty
Mr K Loades (Chair)
Ms K McKeown
Mr G McLean
Ms S Orleow
Mr C Peate

Other key management personnel

The following are considered to be key management personnel of LGSS Pty Limited:

Mr T Carmichael	Head of Human Resources
Mr P Gilmore	Chief Financial and Commercial Officer
Mr A Gledhill	Chief Product and Retirement Solutions (effective 1 July 2023, previously Acting Chief Product and Retirement Solutions)
Ms D Heffernan	Deputy Chief Executive Officer and Company Secretary (ceased 18 June 2023) Acting Chief Executive Officer and Company Secretary (appointed 19 June 2023)
Ms N Kalouche	Acting Chief Governance Officer (appointed 19 June 2023)
Mr B Kula	Acting Head of Risk (ceased 30 June 2023) Head of Risk (appointed 1 July 2023)
Mr P Stockwell	Chief Executive Officer (ceased 3 July 2023)
Mr C Turnbull	Chief Investment Officer
Ms C Walker	Chief Member Experience and Growth Officer

The aggregate compensation of the key management personnel of the company is set out below:

	2023	2022
	\$'000	\$'000
Short-term benefits	3,827	3,722
Post-employment benefits	326	312
	<u>4,153</u>	<u>4,034</u>

LGSS Pty Limited
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Notes to the Financial Statements for the Year Ended 30 June 2023

		2023 \$'000	2022 \$'000
7.	Auditor's remuneration		
	Audit Office of NSW – audit of the financial statements	39	34
		39	34

The Company also remunerates Ernst & Young as the auditor of the Fund and LGPF. Remuneration to Ernst & Young is disclosed in the separate financial statements of the Fund and LGPF.

8.	Receivables		
	Other Receivables	53	58
	GST Receivable	-	28
	Receivables from the Fund and LGPF	4,252	3,511
		4,305	3,597

There are no significant terms or conditions applicable to the above receivables. All amounts are expected to be recovered in whole within the next 12 months and are non-interest bearing.

9.	Other assets		
	Current		
	Prepayments	1,041	1,037
	Other	-	29
		1,041	1,066

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Notes to the Financial Statements for the Year Ended 30 June 2023

	2023 \$'000	2022 \$'000
10. Plant and equipment		
Office Equipment		
Gross carrying amount		
Opening balance		
Additions	-	-
Disposals	-	-
Closing balance	<u> </u>	<u> </u>
Accumulated depreciation		
Opening balance		-
Depreciation expense		-
Disposals	-	-
Closing Balance	<u>-</u>	<u>-</u>
Carrying amount – office equipment	<u>-</u>	<u> </u>
Computer Hardware		
Gross carrying amount		
Opening balance	548	520
Additions	96	28
Disposals	-	-
Closing balance	<u>644</u>	<u>548</u>
Accumulated depreciation		
Opening balance	370	198
Depreciation expense	149	172
Disposals	-	-
Closing balance	<u>519</u>	<u>370</u>
Carrying amount – computer hardware	<u>125</u>	<u>178</u>
Office fit-out		
Gross carrying amount		
Opening balance	163	163
Additions	210	-
Disposals	-	-
Closing balance	<u>373</u>	<u>163</u>
Accumulated depreciation		
Opening balance	147	130
Depreciation expense	46	17
Disposals	-	-
Closing balance	<u>193</u>	<u>147</u>
Carrying amount – office fit-out	<u>180</u>	<u>16</u>
Plant and equipment net book value	<u>305</u>	<u>195</u>
Total depreciation expense	<u>195</u>	<u>189</u>

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Notes to the Financial Statements for the Year Ended 30 June 2023

	2023 \$'000	2022 \$'000
11. Payables		
Current liabilities		
Accruals	2,292	2,359
GST payable	128	-
	2,420	2,359
Non-current liabilities		
Payable to the Fund	2,733	3,405
	2,733	3,405
All current amounts are expected to be payable in whole within the next 12 months and are non-interest bearing.		
12. Provisions		
Current liabilities – make good provision		
Opening balance	77	35
(Decrease)/Increase in provision	(11)	42
Closing balance	66	77
Current liabilities – employee benefits		
Annual leave	1,684	1,625
Long service leave	2,236	1,874
	3,920	3,500
Total Current Liabilities – Provisions	3,986	3,577
Non-current liabilities – make good provision		
Opening balance	358	398
(Decrease) in provision	3	(40)
Closing balance	361	358
Non-current liabilities – employee benefits		
Long service leave	520	426
	520	426
Total Non-Current Liabilities – Provisions	881	784

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Notes to the Financial Statements for the Year Ended 30 June 2023

12. Provisions (continued)

Liabilities for employee benefits cover the company's liability for long service leave and annual leave. The current portion of long service leave is based on unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

	2023	2022
13. (a) Contributed equity		
	\$	\$
Fully paid ordinary shares	8	8
	<u>8</u>	<u>8</u>
	No.	No.
Fully paid ordinary shares	8	8
	<u>8</u>	<u>8</u>

Fully paid ordinary shares carry one vote and do not carry the right to any dividend.

(b) Capital indemnity reserve

In response to the changes to section 56 of the Superannuation Industry (Supervision) Act 1993 (SIS Act), in January 2022, a trustee fee was established to build up funds for a capital indemnity reserve. The purpose of the capital indemnity reserve is to pay any future commonwealth penalties, infringement notices or liabilities incurred by the company.

The trustee fee is charged to the Fund on a monthly instalment and in such manner as determined by the company from time to time.

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Notes to the Financial Statements for the Year Ended 30 June 2023

14. Notes to Statement of Cash Flows

	2023 \$'000	2022 \$'000
(a) Cash and cash equivalents	3,363	3,855
 (b) Reconciliation of net result for the year to net cash flows from operating activities		
Net Result	265	137
Depreciation of plant and equipment	195	189
Depreciation of right-of-use assets	1,492	1,561
(Increase)/Decrease in receivables	(708)	472
Decrease/(Increase) in current tax asset	125	(71)
Decrease in other current assets	25	319
(Increase) in right-of-use assets	(47)	(536)
Decrease/(Increase) in deferred tax asset	6	(10)
Increase in current and non-current lease liabilities	47	534
Increase in current payables	61	146
Increase in current provisions	409	838
(Decrease)/Increase in non-current payables	(672)	1,244
Increase/(Decrease) in non-current provisions	97	(633)
Net cash provided by operating activities	1,295	4,190

15. Right-of-use assets and lease liabilities

The company leases office premises in Sydney, Newcastle and Wollongong. The Sydney office lease is the most material lease, accounting for \$1,393,888 (81%) of the total right-of-use assets balance at 30 June 2023 and \$2,588,650 (84%) of the total right-of-use assets balance at 30 June 2022.

Office premises leases currently span over either a one, two, three or five year period, with the Sydney office having a lease period of five years. Motor vehicle and office equipment leases are based on a three year period.

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Notes to the Financial Statements for the Year Ended 30 June 2023

15. Right-of-use assets and lease liabilities (continued)

(a) Right-of-use assets

	Office Premises \$'000	Motor Vehicle \$'000	Office Equipment \$'000	Total \$'000
2023				
Right-of-use assets				
Cost	7,005	284	47	7,336
Accumulated depreciation	(5,202)	(284)	(14)	(5,500)
Net carrying amount at 30 June 2023	1,803	-	33	1,836
Opening balance at 1 July 2022	3,244	37	-	3,281
Additions	-	-	47	47
Depreciation	(1,441)	(37)	(14)	(1,492)
Closing net carrying amount at 30 June 2023	1,803	-	33	1,836
	Office Premises \$'000	Motor Vehicle \$'000	Office Equipment \$'000	Total \$'000
2022				
Right-of-use assets				
Cost	7,307	348	119	7,774
Accumulated depreciation	(4,063)	(311)	(119)	(4,493)
Net carrying amount at 30 June 2022	3,244	37	-	3,281
Opening balance at 1 July 2021	4,152	154	-	4,306
Additions	536	-	-	536
Depreciation	(1,444)	(117)	-	(1,561)
Closing net carrying amount at 30 June 2022	3,244	37	-	3,281

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Notes to the Financial Statements for the Year Ended 30 June 2023

15. Right-of-use assets and lease liabilities (continued)

(b) Lease liabilities

	Office Premises \$'000	Motor Vehicle \$'000	Office Equipment \$'000	Total \$'000
2023				
Lease liabilities				
Current lease liabilities	1,500	-	15	1,515
Non-current lease liabilities	455	-	17	472
Total lease liabilities	1,955	-	32	1,987
Opening balance at 1 July 2022	3,382	40	-	3,422
Additions			47	47
Lease payments (gross)	(1,466)	(41)	(15)	(1,523)
Unwinding of discount	39	1	1	41
Closing net carrying amount at 30 June 2023	1,955	-	33	1,987
	Office Premises \$'000	Motor Vehicle \$'000	Office Equipment \$'000	Total \$'000
2022				
Lease liabilities				
Current lease liabilities	1,428	40	-	1,468
Non-current lease liabilities	1,954	-	-	1,954
Total lease liabilities	3,382	40	-	3,422
Opening balance at 1 July 2021	4,155	162	-	4,317
Additions	536	-	-	536
Lease payments (gross)	(1,361)	(129)	-	(1,490)
Unwinding of discount	52	7	-	59
Closing net carrying amount at 30 June 2022	3,382	40	-	3,422

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Notes to the Financial Statements for the Year Ended 30 June 2023

15. Right-of-use assets and lease liabilities (continued)

(c) Undiscounted lease payments (capitalised leases)

	Office Premises \$'000	Motor Vehicle \$'000	Office Equipment \$'000	Total \$'000
2023				
Undiscounted lease payments (capitalised leases):				
1 year	1,515	-	15	1,530
2 years	386	-	16	402
3 years	101	-	18	119
4 years	61	-	-	61
5 years	-	-	-	-
> 5 years	-	-	-	-
Total (capitalised leases)	2,063	-	49	2,112

	Office Premises \$'000	Motor Vehicle \$'000	Office Equipment \$'000	Total \$'000
2022				
Undiscounted lease payments (capitalised leases):				
1 year	1,467	40	-	1,507
2 years	1,518	-	-	1,518
3 years	328	-	-	328
4 years	71	-	-	71
5 years	61	-	-	61
> 5 years	-	-	-	-
Total (capitalised leases)	3,445	40	-	3,485

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Notes to the Financial Statements for the Year Ended 30 June 2023

15. Right-of-use assets and lease liabilities (continued)

(d) Undiscounted lease payments (non-capitalised leases)

	Office Premises \$'000	Motor Vehicle \$'000	Office Equipment \$'000	Total \$'000
2023				
Undiscounted lease payments (non-capitalised leases):				
1 year	-	-	-	-
2 years	-	-	-	-
3 years	-	-	-	-
4 years	-	-	-	-
5 years	-	-	-	-
> 5 years	-	-	-	-
Total (non-capitalised leases)	-	-	-	-

	Office Premises \$'000	Motor Vehicle \$'000	Office Equipment \$'000	Total \$'000
2022				
Undiscounted lease payments (non-capitalised leases):				
1 year	-	33	-	33
2 years	-	-	-	-
3 years	-	-	-	-
4 years	-	-	-	-
5 years	-	-	-	-
> 5 years	-	-	-	-
Total (non-capitalised leases)	-	33	-	33

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Notes to the Financial Statements for the Year Ended 30 June 2023

16. Business and geographic segments

The company is a Trustee company and conducts business as a Trustee within Australia.

17. Subsidiary

Name of entity	Country of incorporation	Ownership interest	
		2023 %	2022 %
Subsidiary LIF Pty Limited	Australia	100	100

Although the company has a controlling interest in LIF Pty Limited, consolidated accounts have not been prepared because LIF Pty Limited has negligible assets and liabilities and these are not considered to be material to the company.

18. Related party disclosure

(a) Directors of related parties and director-related entity

LGSS Pty Limited was the Trustee of the Fund for the financial year ended 30 June 2023.

LIF Pty Limited, a subsidiary of LGSS Pty Limited was the Trustee for LGPF for the financial year ended 30 June 2023.

As at 30 June 2023, Active Super held 100% of the share capital of Local Government Financial Services Pty Limited.

LGSS Pty Limited provides or provided management and administration services to the following:

- Active Super
- LIF Pty Limited as trustee for Local Government Property Fund

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 6 to the financial statements.

(c) Transactions with key management personnel

There have been no transactions between the key management personnel and the company except for the payment of key management remuneration as set out in note 6 and for the reimbursement of administration costs incurred by the directors whilst attending to company business.

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Notes to the Financial Statements for the Year Ended 30 June 2023

18. Related party disclosure (continued)

(d) Transactions within the wholly-owned group

Amounts receivable from entities in the wholly-owned group are disclosed in note 8, and amounts payable to entities in the wholly-owned group are disclosed in note 11 to the financial statements. Transactions within the group were conducted on normal commercial terms and conditions.

(e) Transactions with related entities

Amounts receivable from and payable to related parties are disclosed in notes 8 and 11 to the financial statements. Transactions with director related parties were conducted on normal commercial terms and conditions.

During the financial year, LGSS Pty Limited entered into the following transactions with related entities:

- Received \$39,570,365 (2022 - \$38,801,559) from the Fund for the provision of management and trustee services
- Received \$3,952,945 (2022 - \$3,932,811) from the Fund for investment related administration services
- Received \$768,978 (2022 - \$1,175,058) from the Fund for financial planning services which were deducted from member account balances
- Received \$379,138 (2022 - \$196,364) from the Fund for trustee fee
- Received \$768,389 (2022 - \$818,427) from LIF Pty Limited for the provision of management and trustee services.

19. Financial instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in notes 2 and 3 to the financial statements.

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Notes to the Financial Statements for the Year Ended 30 June 2023

19. Financial instruments (continued)

(b) Categories of financial instruments

	Note	2023 \$'000	2022 \$'000
Financial assets			
Cash and cash equivalents	14(a)	3,363	3,855
Receivables ¹	8	4,305	3,568
Financial liabilities			
Accruals ²	11	2,182	2,259

1. Excludes statutory receivables and prepayments

2. Excludes statutory payables and unearned revenue

(c) Financial risk management objectives

The company seeks to minimise the effects of financial risks through prudent investment and cash flow management. These financial risks include market risk (including fair value interest rate risk), credit risk, and liquidity risk. The company does not enter into or trade financial instruments (including derivative financial instruments) for speculative purposes.

(d) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The risk is managed by ensuring that all activities are transacted in accordance with mandates, the overall investment strategy and within approved limits.

The company invests its cash and cash equivalents in bank accounts held with the Commonwealth Bank of Australia. It similarly has interest rate exposure with regard to interest earned on these bank accounts.

The sensitivity analyses below have been determined based on the exposure to interest rate risk and is done on a pre-tax basis. The analyses are done utilising a volatility factor of 25 basis points (2022 - 25 basis points). This factor has been determined with respect to current market conditions. At reporting date, if there had been a 25 basis points (2022 - 25 points) increase/decrease in interest rates in the year and all other variables were held constant:

- Net income would increase/decrease by \$8,547 (2022 - \$9,301)

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk. The company had no other exposure to other price risks or foreign currency risk at the reporting date (2022 - Nil).

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Notes to the Financial Statements for the Year Ended 30 June 2023

19. Financial instruments (continued)

(e) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted the policy of only dealing with creditworthy counterparties. Furthermore, the company conducts regular ageing assessments of receivables to assist with credit risk management.

At the reporting date the company had significant credit exposure to the Commonwealth Bank of Australia. Commonwealth Bank of Australia held cash and cash equivalents of \$3,362,512 (2022 - \$3,855,286).

Commonwealth Bank of Australia is rated 'AA-' by Standard and Poor's rating agency. There is no other significant credit exposure to any single counterparty or group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements represents the company's maximum exposure to credit risk.

(f) Liquidity risk management and cash flow risk management

Liquidity risk is the risk that the company will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy financial commitments. Cash flow risk is the risk that the future cash flows from holding financial instruments will fluctuate. The company's risk management is designed to minimise liquidity and cash flow risk through ensuring that there is no significant exposure to illiquid or thinly traded financial instruments. The following tables detail the expected maturity for non-derivative financial assets:

	Weighted average interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000	\$'000
2023						
Non Interest Bearing – receivables		-	4,305	-	-	4,305
Variable Interest Rate Instruments – cash & cash equivalents	2.74	3,363	-	-	-	3,363
		3,363	4,305	-	-	7,668
2022						
Non Interest Bearing – receivables		-	3,568	-	-	3,568
Variable Interest Rate Instruments – cash & cash equivalents	0.04	3,855	-	-	-	3,855
		3,855	3,568	-	-	7,423

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Notes to the Financial Statements for the Year Ended 30 June 2023

19. Financial instruments (continued)

(f) Liquidity risk management and cash flow risk management (continued)

The following tables detail the expected maturity profile of non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the requirement to pay can arise.

	Less than 1 month \$'000	1 to 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Total \$'000
2023					
Non-Interest Bearing – Payables	3	2,179	-	-	2,182
	3	2,179	-	-	2,182
2022					
Non-Interest Bearing – Payables	162	2,097	-	-	2,259
	162	2,097	-	-	2,259

20. Trust liabilities and right of indemnity

During the financial year ended 30 June 2023, LGSS Pty Limited was the Trustee of the Fund.

Liabilities of the Fund are not recorded in the financial statements of the company. At the reporting date the assets of the Fund are sufficient to discharge all of the liabilities incurred by the company in its capacity as Trustee for the Fund.

Under the Trust Deed of the Fund, the Trustee and each director of the Trustee shall be indemnified by the Fund in respect of any liability incurred while acting as the Trustee or as a director of the Trustee (as applicable). The Trustee shall not be liable to the Fund nor any person whatsoever to an extent greater than the assets of the Fund.

The indemnity will not apply where the liability cannot be indemnified consistently with section 56 or section 57 (as applicable) of the *Superannuation Industry (Supervision) Act 1993*.

21. Other information

On 9 June 2022, the Trustee announced that it had signed a Memorandum of Understanding (MOU) with Vision Super to explore a potential merger and will undertake due diligence to determine if a merger is likely to be in the best financial interests of members of both funds.

On 5 June 2023, the Trustee and Vision Super signed a non-binding Heads of Agreement (HOA) to further pursue the merger. The merger will result in the formation of a new, larger entity with around \$27 billion in funds under management, approximately 170,000 member accounts and a broader geographic presence across NSW and Victoria. Stephen Rowe, the current Chief Executive Officer of Vision Super has been selected to assume the role of the CEO for the new fund should the merger be concluded. As at the date of this report, the specific date for establishing the new Successor Fund Transfer, should the merger proceed, is expected to be 1 October 2024.

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Notes to the Financial Statements for the Year Ended 30 June 2023

22. Subsequent events

The Australian Securities and Investments Commission (ASIC) announced on 11 August 2023 the commencement of civil penalty proceedings against the trustee in the Federal Court in relation to our ESG practices and disclosure. Active Super has co-operated with ASIC's investigation.

No other significant events have occurred since balance date which would require disclosure in the financial statements of the company as at 30 June 2023.

23. Contingent liabilities and contingent assets

The ASIC civil proceedings may result in civil penalty against the Company. Given that the case is subject to legal proceedings for which the outcome is unknown, the quantification of contingent liability cannot be determined at present time.

The company is not aware of any other contingent liabilities or contingent assets for the financial year ended 30 June 2023 (30 June 2022 - Nil).



INDEPENDENT AUDITOR'S REPORT

LGSS Pty Limited

To the Treasurer and Members of LGSS Pty Limited

Opinion

I have audited the accompanying financial statements of LGSS Pty Limited (the Company), which comprise the Statement of Comprehensive Income for the year ended 30 June 2023, the Statement of Financial Position as at 30 June 2023, the Statement of Changes in Equity and the Statement of Cash Flows, for the year then ended, notes comprising a Summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act) and the *Government Sector Finance Regulation 2018* (GSF Regulation)
- presents fairly the Company's financial position, financial performance and cash flows.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Company in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants (including Independence Standards)' (APES 110).

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I have fulfilled my other ethical responsibilities in accordance with APES 110.

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

Directors' Responsibilities for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the GSF Act and the GSF Regulation. The Directors' responsibility also includes such internal control as the Directors determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Company carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Weini Liao
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

21 September 2023
SYDNEY