

**Local Government Superannuation Scheme  
Pool B**

**Financial Report**

**For the Year Ended 30 June 2004**

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2004

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# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

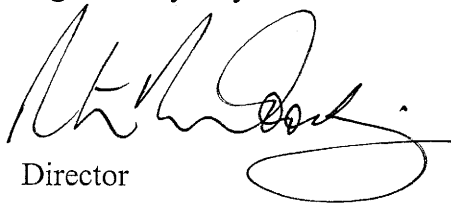
## TRUSTEE STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

In the opinion of the Trustee of the Local Government Superannuation Scheme Pool B:

1. The accompanying financial statements of the Local Government Superannuation Scheme Pool B are properly drawn up so as to present fairly the Statement of Net Assets of the Scheme as at 30 June 2004 and the Statement of Changes in Net Assets for the year ended 30 June 2004;
2. The financial statements have been prepared in accordance with the requirements of the Trust Deed;
3. The accompanying financial statements have been drawn up in accordance with Australian Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views);
4. The Scheme has been conducted in accordance with its constituent Trust Deed dated 30 June 1997 as amended and all legislative requirements at all times during the period;
5. In the Trustees' opinions there are reasonable grounds to believe that the scheme will be able to pay its debts as and when they fall due.

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

Signed at Sydney this 20<sup>th</sup> day of October 2004

  
Director

  
Director

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 \$'000	2003 \$'000
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT BEGINNING OF THE YEAR</b>		2,453,576	2,560,617
<b>INVESTMENT REVENUE</b>			
Investment Income	6	125,240	89,219
Changes in Net Market Value	7	232,884	(109,984)
		358,124	(20,765)
Investment Expenses		(8,394)	(7,870)
Net Investment Revenue		349,730	(28,635)
<b>CONTRIBUTIONS REVENUE</b>			
Employer Contributions	8	1,766	140
Member Contributions	8	38,651	40,599
Transfers In		2,648	44,734
		43,065	85,473
Other Revenue		-	203
<b>TOTAL REVENUE</b>		392,795	57,041
Benefits Paid		(156,078)	(158,901)
Scheme Administration Expenses		(9,731)	(10,715)
Superannuation Contributions Surcharge	1(h)	(1,016)	(890)
<b>TOTAL EXPENSES</b>		(166,825)	(170,506)
<b>(DECREASE)/INCREASE IN NET ASSETS BEFORE INCOME TAX</b>		225,970	(113,465)
Income Tax Benefit/(Expense)	4	(22,331)	6,424
<b>(DECREASE)/INCREASE IN NET ASSETS AFTER INCOME TAX</b>		203,639	(107,041)
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT END OF THE YEAR</b>	9,10	2,657,215	2,453,576

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

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## STATEMENT OF NET ASSETS AS AT 30 JUNE 2004

	Note	2004 \$'000	2003 \$'000
<b>INVESTMENTS</b>	1(b)		
Short Term Investments		94	6,250
Unit Trusts		2,341,953	2,091,266
Australian Equities		52,015	60,511
International Investments		1,330	482
Local Government Property Trust		<u>271,183</u>	<u>280,353</u>
<b>TOTAL INVESTMENTS</b>		<u>2,666,575</u>	<u>2,438,862</u>
<b>OTHER ASSETS</b>			
Cash		6,537	8,896
Receivables	3	5,910	7,112
Income Tax Receivable	4	5,926	2,469
Deferred Tax Asset		-	11,708
Total Other Assets		<u>18,373</u>	<u>30,185</u>
<b>TOTAL ASSETS</b>		<u>2,684,948</u>	<u>2,469,047</u>
Less:			
<b>LIABILITIES</b>			
Payables	5	12,789	15,471
Deferred Tax Liability		<u>14,944</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u>27,733</u>	<u>15,471</u>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	9,10	<u>2,657,215</u>	<u>2,453,576</u>

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

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 1. STATEMENT OF ACCOUNTING POLICIES

The following explains the significant accounting policies which have been adopted in the preparation of the financial statements. Unless otherwise stated, such accounting policies were also adopted in the corresponding preceding reporting period.

#### (a) Basis of Preparation

The financial statements have been drawn up in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views, the provisions of the Trust Deed and relevant legislative requirements to the extent that they do not conflict with SIS legislation and AAS 25.

#### (b) Investments

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

The valuation of each class of investment is determined as follows:

Short Term Investments	Market rates
Unit Trusts	Redemption value of units based on market values of underlying assets as advised by the managers of the trusts
Australian and International Fixed Interest	Market rates
Equities – Australian - International	Stock exchange official quotation Valued at reporting date and translated in Australian dollars at current exchange rate
Local Government Property Trust	Valuation by a registered valuer during the reporting period

On 30 November 2002 the Scheme transferred the majority of its investments into Local Investment Fund (LIF) which is disclosed as Investments – Unit Trusts.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

#### (c) Income Tax

The Scheme has adopted the liability method of tax-effect accounting in accordance with the provisions of Australian Accounting Standard AAS 3 "Accounting for Income Tax (Tax-effect accounting)". The income tax expense shown in the Statement of Changes in Net Assets is based on the operating surplus or deficit adjusted for any permanent differences.

The tax-effect of timing differences, which occur where items are allowed for income tax purposes in a period different from that in which they are recognised in the financial statements, is included as a provision for deferred tax liability or deferred tax asset as applicable at current taxation rates.

Deferred tax assets attributable to timing differences are not brought to account unless realisation of the benefits are assured beyond reasonable doubt. Deferred tax assets applicable to income tax losses are brought to account only where realisation is virtually certain.

#### (d) Contributions

Member and employer contributions are recorded on a cash basis in relation to Divisions B, C and D members.

This has resulted in contributions outstanding at the reporting date in relation to Divisions B, C and D members for the year ending June 2004 not being recognised as revenue during 2004.

Member and employer contributions are recorded on an accrual basis for Division D members during 2003.

Transfers from other funds are recognised on a cash basis. Amounts are recognised when transfer receipts are received by the Scheme.

#### (e) Benefits Paid and Payable

The Scheme recognises a benefit to be payable to a member where a valid withdrawal notice is received from the employer sponsor, and is approved by the Trustee in accordance with the Scheme's Trust Deed.

The benefits payable represent amounts which have not been paid where a valid and approved withdrawal notice is received. The lag between receipt of valid and approved withdrawal notice and the payment of the benefit is mainly attributed to the time taken for the Scheme to receive payment instructions from the member.

#### (f) Foreign Currency Transactions

Foreign currency transactions during the year are converted to Australian dollars at the rate of exchange applicable at the date of the transaction. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

#### (g) Expenses

Scheme administration expenses, other than expenses of administering the death or invalidity insurance provision of the Scheme, are charged directly to net assets of the Scheme.

Death or invalidity insurance expenses are charged directly to the Death or Invalidity Reserve.

Investment expenses are charged directly against investment revenue.

#### (h) Superannuation Contributions Surcharge

The superannuation contributions surcharge which may be payable by the Scheme under the Superannuation Contributions Tax (Assessment and Collection) Act 1997 is brought to account as a liability and an expense in the year when assessments are received from the Australian Taxation Office. The Trustee is unable to determine the amount of the surcharge until assessments are received from the Australian Taxation Office.

As the surcharge is levied based upon individual members' taxable income any surcharge for the year ended 30 June 2004 subsequently levied against the Scheme will be charged to the relevant members' benefits or otherwise dealt with in accordance with the provisions of the Trust Deed and relevant legislation. The benefits of members not subject to the surcharge will be unaffected.

#### (i) Goods and Services Tax (GST)

Where applicable, GST incurred by the Scheme that is not recoverable from the Australian Taxation Office, has been recognised as part of the expenses to which it applies. Receivables and payables are stated with any applicable GST included in their carrying amounts.

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

#### (j) Roundings

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

#### (k) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in the presentation of the financial report in the current year.

#### (l) Impact of Adopting Australian Equivalents of International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the fund must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.



# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the Fund's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The Fund has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the operations and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the Fund's financial reports in the future. The potential impacts on the Fund's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The key potential implications of the conversion to IFRS on the Fund are as follows:

- income tax will be calculated based on the "balance sheet" approach, which will impact on the Methodology and disclosures in the financial statements but should not impact the values reported in the financial statements.
- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.
- financial assets and liabilities will be subject to recognition, measurement and disclosure requirements of AASB 132 and 139 to the extent that the requirements do not conflict with AAS 25. AAS 25 does not currently contain prescriptive measurement or disclosure criteria for liabilities, although it will continue to require assets to be measured at net market value.
- financial statement disclosures may be impacted by AASB 101 to the extent that AAS 25 is silent on disclosure requirements.
- transitional rules set out in AASB 1 will apply to the first IFRS reporting period.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 2. DESCRIPTION OF THE SCHEME

The Local Government Superannuation Scheme Pool B (the Scheme) consists of Local Government Members and was established in accordance with sections 127 and 128 of the Superannuation Administration Act, 1996 (the Act). LGSS Pty Limited acts as trustee and holds in trust all assets of the Scheme. The Scheme is a reporting entity for accounting purposes.

The Scheme's custodial activities are provided by JP Morgan Chase bank (JP Morgan), from 23 May 2003. Prior to this date, custodial activities were performed by Commonwealth Custodial Service Limited.

The Scheme consists of 3 Divisions. Division C and Division D are defined benefit schemes whilst Division B comprises both a defined benefit component and a defined contribution component. All the divisions are closed to new members. The Scheme is a reporting entity for financial reporting purposes.

Administration of the Scheme is conducted by FuturePlus Financial Services Pty Limited and Mellon Human Resources and Investor Solutions.

Superannuation Services Company Pty Limited ceased providing secretariat services on 31 December 2003. FuturePlus Financial Services Pty Limited commenced secretariat service from 1 January 2004 onwards.

### 3. RECEIVABLES

	2004	2003
	\$'000	\$'000
Contributions Receivable	-	3,253
Other Receivables	-	3,649
Inter fund Receivable	3,665	-
GST Receivable	2,245	210
	<u>5,910</u>	<u>7,112</u>

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 4. INCOME TAX

Income tax expense in the Statement of Changes in Net Assets represents the tax on changes in net assets before tax, adjusted for permanent differences. A rate of tax of 15 % has been used on the assumption that the Scheme will continue to be a complying Scheme for the purposes of the Income Tax Assessment Act 1936, as amended.

The calculation of tax provided for is as follows:

	2004 \$'000	2003 \$'000
Increase/(Decrease) in net assets before income tax	<u>225,970</u>	<u>(113,465)</u>
Prima facie tax @ 15%	33,896	(17,020)
<b>Permanent Differences</b>		
Transfers-in	(397)	(6,710)
Non-assessable Contributions	(5,797)	(6,090)
Contributions Surcharge	152	134
Benefit Payments	23,412	23,835
Death or Invalidity Insurance Deduction	(616)	-
Non-deductible Expenditure	2	-
Non-assessable Pension Related Investment Income	(238)	(188)
Non-assessable/deductible Investment Revenue/Losses	(2,148)	9,299
Imputation and Foreign Tax Credits	<u>(19,183)</u>	<u>(9,840)</u>
	29,083	(6,580)
Timing Differences	<u>(5,757)</u>	-
	23,326	(6,580)
Under/(Over) Provision Last Year	<u>(995)</u>	<u>156</u>
<b>Income Tax Expense/(Benefit)</b>	<u><u>22,331</u></u>	<u><u>(6,424)</u></u>
<b>Income Tax Calculated at 15% Comprises:</b>		
Current Income Tax Payable before Imputation and Foreign Tax Credits	15,860	16,182
Less: Imputation and Foreign Tax Credits	<u>(19,183)</u>	<u>(9,840)</u>
	(3,323)	6,341
Under/(Over) Provision Last Year	(995)	156
Deferred Income Tax Expense	<u>26,814</u>	<u>(12,922)</u>
<b>Income Tax Expense/(Benefit)</b>	<u><u>22,331</u></u>	<u><u>(6,424)</u></u>
Current Income Tax Payable	(3,324)	3,983
Less: Instalments Paid	<u>(2,602)</u>	<u>(6,452)</u>
<b>Income Tax Refund Receivable</b>	<u><u>(5,926)</u></u>	<u><u>(2,469)</u></u>

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 5. PAYABLES

	2004	2003
	\$'000	\$'000
Benefits Payable	10,347	13,159
Other Payables	2,442	2,312
	12,789	15,471

### 6. INVESTMENT INCOME

	2004	2003
	\$'000	\$'000
Interest	637	9,312
Dividends	-	22,833
Unit Trust	114,097	38,715
Local Government Property Fund	10,432	18,174
Other Investment Income	74	185
	125,240	89,219

### 7. CHANGES IN NET MARKET VALUE

30 JUNE 2004

	HELD AT REPORTING DATE GAIN/(LOSS) \$'000	REALISED DURING THE YEAR GAIN/(LOSS) \$'000	TOTAL  \$'000
<b>Total Revenue</b>			
Short Term Investments	-	3,378	3,378
Unit Trust	231,085	-	231,086
Australian Equity	(19,137)	(211)	(19,348)
International Investment	(114)	4,331	4,216
Local Government Property Fund	13,552	-	13,552
	225,386	7,498	232,884

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004

## 7. CHANGES IN NET MARKET VALUE (Continued)

30 JUNE 2003

	HELD AT REPORTING DATE GAIN/(LOSS) \$'000	REALISED DURING THE YEAR GAIN/(LOSS) \$'000	TOTAL    \$'000
<b>Total Revenue</b>			
Unit Trust	(54,761)	-	(54,761)
Australian Fixed Interest	-	5,391	5,391
Property	7,596	(54,927)	(47,331)
Australian Equities	(307)	(12,080)	(12,387)
International Investments	(1,564)	668	(896)
	<u>(49,036)</u>	<u>(60,948)</u>	<u>(109,984)</u>

## 8. FUNDING ARRANGEMENTS

For years ended 30 June 2004 and 30 June 2003, member and employer contributions for each of the schemes are determined on the basis described below. Employers in Local Government Superannuation Scheme Pool B were on a contribution holiday for the financial year (1 July 2003 – 30 June 2004).

### (a) Division B Scheme

**Member Contributions:** Each member elects to contribute between 1% and 9% (2003: 1% to 9%) of salary.

**Employer Contributions:** Employers contribute on a fully funded basis as determined by the trustees based on actuarial advice. During 2003/2004 all employers were on a contribution holiday.

### (b) Division C Scheme

**Member Contributions:** As the Scheme is 100% employer funded, there are no member contributions.

**Employer Contributions:** Employers contribute on a fully funded basis as determined by the trustees based on actuarial advice. During 2003/2004 all employers were on a contribution holiday.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 8. FUNDING ARRANGEMENTS (Continued)

#### (c) Division D Scheme

**Member Contributions:** Each member contributes on a "rate for age" basis to individual pension units which become available with salary increases. Members may elect to abandon units where total contributions payable would exceed 6% (2003: 6%) of salary.

**Employer Contributions:** Employers contribute on a fully funded basis as determined by the trustees based on actuarial advice. During 2003/2004 all employers were on a contribution holiday.

### 9. LIABILITY FOR ACCRUED BENEFITS

The value of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Scheme at the date of the actuarial review. The value of the accrued benefits was calculated by the actuary as part of the comprehensive actuarial review, which was performed as at 1<sup>st</sup> July 2003.

The figure reported has been determined using the assumed future salary increases, future Scheme earnings and other relevant actuarial assumptions used in the actuarial review.

	<b>2003</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
Accrued Benefits as at 1 <sup>st</sup> July	<u>2,251,639</u>	<u>2,136,680</u>
Net Assets	<u>2,453,576</u>	<u>2,880,437</u>

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 10. VESTED BENEFITS

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

	2004 \$'000	2003 \$'000
As at 30 <sup>th</sup> June	<u>1,961,825</u> *	<u>1,774,734</u>
Net Assets	<u>2,657,215</u>	<u>2,453,576</u>

\* Excludes benefit for pensions where the Actuary has estimated the liability to be \$34.841 million (2003: \$ 27.825 million)

### 11. GUARANTEED BENEFITS

No guarantees have been made in respect of any future payment to members concerning accrued benefits.

### 12. RELATED PARTY INFORMATION

#### Identification of Related Parties

The Trustee of the Scheme is LGSS Pty Limited (ABN 68 078 003 497). The names of the Directors of LGSS Pty Limited in office during or since the end of the financial year ended 30<sup>th</sup> June 2004 are as follows:

#### Employer representatives

Mr P Woods OAM  
Mr J Wearne  
Ms B O'Connor (Resigned 1 September 2003)  
Ms B Giegerl (Appointed 1 September 2003)  
Mr L Kelly

#### Employee representatives

Mr I Robertson  
Mr J Ernst  
Mr B Mason  
Mr M O'Connell

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

The above Directors are also directors of LIF Pty Limited, a wholly owned subsidiary of the Trustee. LIF Pty Limited is the Trustee of the Local Investment Fund, which the Scheme has an investment in of \$2,341.953 million (2003 \$2,091.266 million). Revenue earned from the Local Investment Fund was \$345.182 million (2003 (\$16.046 million)).

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 12. RELATED PARTY INFORMATION (Continued)

	2004	2003
	\$	\$
<b>(a) Remuneration Received:</b>		
Remuneration due and receivable by Directors of LGSS Pty Limited (for both Pool A and Pool B) during the financial year payable directly or indirectly, by LGSS Pty Limited. A number of Directors have their emoluments paid to their sponsoring shareholder.	<u>369,584</u>	<u>304,084</u>
<b>(b) Number of Directors whose total income falls within each relevant \$10,000 band of income:</b>	<b>Numbers</b>	
\$ 0 - \$9,999	1	-
\$30,000 - \$39,999	1	7
\$40,000 - \$49,999	6	-
\$50,000 - \$59,999	-	1
\$70,000 - \$79,999	1	-
	<u>9</u>	<u>8</u>

### (c) Transactions entered into during the year with Directors and their related entities

There have been no transactions between the directors and their related entities, except for the payment to the Directors for services rendered in relation to their duties as Directors as set out in the note 12(a), and for the reimbursement of administration costs incurred by the Directors whilst attending to Trustee business.

### (d) Other Related Party Transactions

During the period 01 July 2003 to 31 December 2003, Superannuation Services Company Pty Limited was paid investment management and administration fees of \$5,573,448 (2003: \$9,979,16).

During the period 01 January 2004 to 30 June 2004, FuturePlus Financial Services Pty Limited was paid investment management and administration fees of \$8,925,971 (2003 : \$1,874,219).

These fees are based on the cost to the relevant entity of providing these services.



# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 12. RELATED PARTY INFORMATION (Continued)

Local Government Superannuation Scheme holds 50% of the share capital of Future Plus Financial Services Pty Limited, which provides management, and administrative services, financial planning and post retirement planning services to the Local Government Superannuation Schemes. Superannuation Services Company is a wholly owned subsidiary of Future Plus Financial Services Pty Limited. Included in investments is the Scheme's investment in Futureplus Financial Services Pty Limited which has been brought to account at the independent valuation amount of \$6,900,000 (2003 : \$4,480,000).

Local Government Superannuation Scheme holds 33.33% of the share capital of Chifley Financial Services Limited, which provides management, and administrative services, financial planning and post retirement planning services to the Local Government Superannuation Schemes. Included in investments is the value of this 33.33% holding of \$4,983,000 (2003 : \$6,352,500).

### 13. REMUNERATION OF AUDITORS

	2004	2003
	\$	\$
<b>Remuneration for audit of the financial report of the Scheme</b>		
Deloitte Touche Tohmatsu	83,671	78,408
	<u>83,671</u>	<u>78,408</u>

Note: In the current year, the allocation of the audit fee has been charged as 30% for LGSS Pool A and 70% for LGSS Pool B (2003: 10% for LGSS Pool A and 90% for LGSS Pool B).

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 14. FINANCIAL INSTRUMENTS

The information pertaining to financial instruments set out below is made in accordance with the provisions of AAS33 "Presentation and Disclosure of Financial Instruments".

For the purpose of these financial statements, a financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary instruments (such as receivables, payables and equity securities) and derivative instruments (such as financial options, foreign exchange transactions, forward rate agreements and interest rate and currency swaps). The Scheme's monies are invested in a variety of financial instruments included in the asset classes in Note 1

#### (i) Credit Risk Exposures

The net market value of financial assets, including derivatives, included in the financial accounts represents the Scheme's exposure to credit risk in relation to those assets.

The Scheme does not have any significant exposure to any individual counter-party or industry. The underlying assets of the Schemes investment in the Local Investment Fund are managed by a number of unrelated investment managers.

#### (ii) Liquidity Risk Exposures

Liquidity risk is the risk that there are insufficient liquid assets available to pay the beneficiaries of the Scheme. This risk is managed by assessing on both a short term and long term basis, the Scheme's cash flow requirements.

#### (iii) Derivatives

Derivatives are used by the unit trust managers in managing portfolios as a hedge against market movements in the values of physical assets and as a means of effecting a change in the asset mix of the investment portfolio of the Scheme. Derivative instruments currently used are futures contracts and forward rate agreements.

All derivative contracts are written against cash, physical securities or other specific commitments and are not leveraged. Derivatives are not used for speculative purposes. These activities are undertaken within authorised and clearly defined limits.

The Scheme has no direct exposure to derivatives.

The nominal principal amounts and net fair value of derivatives held by the Scheme are 2004: Nil (2003 : Nil).

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### FINANCIAL INSTRUMENTS (Continued)

#### (iv) Currency Risk Exposures

The exposure to foreign exchange rate movements on international investments is shown below:

30% June 2004	EUR \$'000	USD \$'000	OTHER \$'000	TOTAL \$'000
International Investments	-	-	(401)	(401)
Amount Effectively Hedged	-	-	-	-
Net Exposure	<u>-</u>	<u>-</u>	<u>(401)</u>	<u>(401)</u>
30 June 2003	EUR \$'000	USD \$'000	OTHER \$'000	TOTAL \$'000
International Investments	-	-	482	482
Amount Effectively Hedged	-	(39,000)	39,000	-
Net Exposure	<u>-</u>	<u>(39,000)</u>	<u>39,482</u>	<u>482</u>

#### (v) Interest Rate Risk

The Scheme invests in financial assets for the primary purpose of obtaining a return on investments on behalf of its members. The Scheme's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in the market interest rates.

The Scheme's investment at 30 June 2004 involve cash and cash equivalents, longer dated fixed interest investments and equities. Longer dated fixed interest investments result in the Scheme having exposure to interest rate movements.

The Scheme's exposure to interest rate risk and the effective interest rates on financial instruments at 30 June 2004 are shown as follows. All other financial assets and liabilities are non-interest bearing.

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 14. FINANCIAL INSTRUMENTS (Continued)

#### (v) Interest Rate Risk (Continued)

<u>INTEREST RATE MATURING</u>							
2004	FLOATING INTEREST RATE	WITHIN 12 MONTHS	1 – 5 YRS	OVER 5 YRS	NON- INTEREST BEARING	WEIGHTED AVG INTEREST RATE	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	%	\$'000
<b>Assets</b>							
Cash and Cash Equivalents							
- Australia	6,537	-	-	-	-	4.83 %	6,537
Cash and Cash Equivalents	-	94	-	-	-	5.33 %	94
Short Term Securities	-	-	-	-	2,341,953	-	2,341,953
Unit Trust							
Australian Fixed Interest	-	-	-	-	-	-	-
Australian Equities,	-	-	-	-	52,015	-	52,015
Property Trusts	-	-	-	-	271,183	-	271,183
International Investments	-	-	-	-	1,330	-	1,330
Receivables	-	-	-	-	5,910	-	5,910
<b>Total Financial Assets</b>	<b>6,537</b>	<b>94</b>	<b>-</b>	<b>-</b>	<b>2,672,391</b>	<b>-</b>	<b>2,679,022</b>
<b>Liabilities</b>							
Benefits Payable	-	-	-	-	10,347	-	10,347
Payables	-	-	-	-	2,442	-	2,442
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,789</b>	<b>-</b>	<b>12,789</b>

<u>INTEREST RATE MATURING</u>							
2003	FLOATING INTEREST RATE	WITHIN 12 MONTHS	1 – 5 YRS	OVER 5 YRS	NON- INTEREST BEARING	WEIGHTED AVG INTEREST RATE	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	%	\$'000
<b>Assets</b>							
Cash and Cash Equivalents							
- Australia	8,896	-	-	-	-	3.57	8,896
Cash and Cash Equivalents	-	6,250	-	-	-	4.90	6,250
- International	-	-	-	-	2,091,266	-	2,091,266
Short Term Securities	-	-	-	-	-	-	-
Australian Fixed Interest	-	-	-	-	340,864	-	340,864
International Equity	-	-	-	-	482	-	482
Receivables	-	-	-	-	7,112	-	7,112
<b>Total Financial Assets</b>	<b>8,896</b>	<b>6,250</b>	<b>-</b>	<b>-</b>	<b>2,439,724</b>	<b>-</b>	<b>2,454,870</b>
<b>Liabilities</b>							
Provisions	-	-	-	-	13,159	-	13,267
Payables	-	-	-	-	2,312	-	2,204
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,471</b>	<b>-</b>	<b>15,471</b>

# LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 14. FINANCIAL INSTRUMENTS (Continued)

#### (vi) Net Fair Values of Financial Assets and Liabilities

The Scheme's financial assets and liabilities are included in the Statement of Net Assets at amounts that approximate net fair value.

#### (vii) Net Fair Values Disclosures

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

*Cash, cash equivalents and short term investments:* The carrying amounts approximate fair value because of their short term maturity.

*Non-current investments/securities:* For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset, adjusted for transaction costs necessary to realise the asset. For investments where there is no quoted market price, the last sale price or calculated underlying value is used, adjusted for transaction costs.

### 15. SEGMENT INFORMATION

#### Primary Segment

##### *Business Segments*

The Scheme operates solely to provide benefits to its members in accordance with the Trust Deed and relevant legislative requirements.

#### Secondary Segment

##### *Geographical Segments*

The Scheme operates in Australia and the primary assets it invests in on behalf of its members are managed and administered in Australia. The members of the Scheme are based in Australia.

### 16. SUBSEQUENT EVENTS

No significant events have occurred since balance date which would impact on the financial position of the scheme as disclosed in the Statement of Net Assets as at 30 June 2004 or on the results for the year ended on that date.

## Independent Report by Approved Auditor to the Members Local Government Superannuation Scheme Pool B

### **(A) Financial Statements**

#### Scope

I have audited the financial statements of Local Government Superannuation Scheme Pool B for the year ended 30 June 2004 as set out on pages 4 to 21 attached. The superannuation entity's trustee is responsible for the financial statements. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of Local Government Superannuation Scheme Pool B.

My audit has been conducted in accordance with Australian Auditing and Assurance Standards to provide reasonable assurance whether the financial statements are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with my understanding of the superannuation entity's net assets and changes in net assets.

The financial statements audit opinion expressed in this report has been formed on the above basis.

#### Audit Opinion

In my opinion, the financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the net assets of Local Government Superannuation Scheme Pool B as at 30 June 2004 and the changes in net assets for the year ended 30 June 2004.

### **(B) Compliance**

#### Scope

I have conducted tests in accordance with Australian Auditing and Assurance Standards as necessary to provide reasonable assurance whether the trustee of the Local Government Superannuation Scheme Pool B has, in all material respects:

- (a) complied with the relevant requirements of the following provisions (to the extent applicable) of the *Superannuation Industry (Supervision) Act 1993* and Regulations:  
Sections 19(2), 19(3), 36, 65, 66, 67, 69 to 85, 86 to 93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 111, 112, 113, 117, 118, 121, 121A, 122, 124, 125, 152, 153, 154;  
Regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and
- (b) complied with the Reporting Standards made under section 13 of the *Financial Sector (Collection of Data) Act 2001* that are subject to audit (to the extent applicable); and

- (c) complied with the relevant requirements of the following provisions (to the extent applicable) of the *Corporations Act 2001* and Regulations:  
Sections 1012A, 1012B, 1012F, 1012G(3), 1012H(2), 1012I, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 1017C(2), 1017C(3), 1017C(5), 1017C(8), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3), 1017E(4), 1020E(8) and 1020E(9); and  
Regulation 7.9.32(3); and
- (d) adhered to the Guidelines for preparing risk management statements (“Guidelines”) issued by APRA in Circular II.D.7 on Derivatives (to the extent applicable)  
for the year ended 30 June 2004; and
- (e) complied with the requirement to prepare and lodge the respective returns comprising the APRA Annual Return.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, the *Financial Sector (Collection of Data) Act 2001* and *Corporations Act 2001* and Regulations.

My procedures with respect to Regulation 6.17 included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of the regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts beyond a broad assessment of the apparent reasonableness of the calculations.

My procedures with respect to the Guidelines consisted of confirming whether any Risk Management Statement was to be prepared by the superannuation entity’s trustees under the Guidelines contained in APRA Circular II.D.7 at any time during the year of income. These procedures indicated that only a Part A Risk Management Statement should be prepared by the superannuation entity’s trustees. This has been prepared and is broadly consistent with the requirements of the Guidelines.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the *Superannuation Industry (Supervision) Act 1993* and Regulations or Guidelines, the *Financial Sector (Collection of Data) Act 2001* or the *Corporations Act 2001* and Regulations apart from those specified. The superannuation entity’s trustee is responsible for complying with the *Superannuation Industry (Supervision) Act 1993* and Regulations, the *Financial Sector (Collection of Data) Act 2001* and the *Corporations Act 2001* and Regulations and appropriately applying the Guidelines.

The opinion on compliance expressed in this report has been formed on the above basis.

## Audit Opinion

In my opinion the trustee of Local Government Superannuation Scheme Pool B has complied, in all material respects, with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, the Reporting Standards made under section 13 of the *Financial Sector (Collection of Data) Act 2001* and the *Corporations Act 2001* and Regulations and applied the Guidelines specified above for the year ended 30 June 2004.

DELOITTE TOUCHE TOHMATSU



Richard Rassi  
Partner  
Chartered Accountants

22 October 2004