

**Local Government Superannuation Scheme
Pool B**

Financial Report

For the Year Ended 30 June 2005

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

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LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

TRUSTEE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

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 2005 and the Statement of Changes in Net Assets for the year ended 30 June 2005;
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; and
5. In the Trustees' opinion 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 28th day of October 2005

Director

Director

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$'000	2004 \$'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT BEGINNING OF THE YEAR		2,657,215	2,453,576
INVESTMENT REVENUE			
Investment Income	6	298,538	125,240
Changes in Net Market Value	7	109,591	232,884
		408,129	358,124
Investment Expenses		(11,272)	(8,394)
Net Investment Revenue		396,857	349,730
CONTRIBUTIONS REVENUE			
Employer Contributions	8	2,303	1,766
Member Contributions	8	38,881	38,651
Transfers In		2,347	2,648
		43,531	43,065
TOTAL REVENUE		440,388	392,795
Benefits Paid		(159,832)	(156,078)
Scheme Administration Expenses		(9,743)	(9,731)
Superannuation Contributions Surcharge	1(h)	(1,054)	(1,016)
TOTAL EXPENSES		(170,629)	(166,825)
INCREASE IN NET ASSETS BEFORE INCOME TAX		269,759	225,970
Income Tax (Expense)	4	(33,229)	(22,331)
INCREASE IN NET ASSETS AFTER INCOME TAX		236,530	203,639
NET ASSETS AVAILABLE TO PAY BENEFITS AT END OF THE YEAR	9,10	2,893,745	2,657,215

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 2005

	Note	2005 \$'000	2004 \$'000
INVESTMENTS	1(b), 14		
Unit Trusts		2,463,625	2,341,953
Unlisted Hedge Fund		146,080	-
Australian Equities		60,064	52,015
International Investments		-	1,330
Local Government Property Trust		<u>277,365</u>	<u>271,183</u>
TOTAL INVESTMENTS		<u>2,947,134</u>	<u>2,666,481</u>
OTHER ASSETS			
Cash		17,284	6,631
Receivables	3	182	5,910
Income Tax Receivable	4	-	5,926
Total Other Assets		<u>17,466</u>	<u>18,467</u>
TOTAL ASSETS		<u>2,964,600</u>	<u>2,684,948</u>
Less:			
LIABILITIES			
Payables	5	23,019	12,789
Current Tax Liability	4	16,565	-
Deferred Tax Liability		<u>31,271</u>	<u>14,944</u>
TOTAL LIABILITIES		<u>70,855</u>	<u>27,733</u>
NET ASSETS AVAILABLE TO PAY BENEFITS	9,10	<u>2,893,745</u>	<u>2,657,215</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 2005

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 "Financial Reporting by Superannuation Plans".

(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:

Unit Trusts and Unlisted Hedge Fund	Redemption value of units based on market values of underlying assets as advised by the managers of the trusts
Equities - Australian	Stock exchange official quotation or independent valuation if not listed on the stock exchange
- International	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

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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 realization 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 2005 not being recognised as revenue during 2005.

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 2005

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 2005 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.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(k) Impact of First Time Adoption of Australian Equivalents to International Financial Reporting Standards

Local Government Superannuation Scheme Pool B will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ('AIFRS'), to the extent they do not conflict with AAS 25, for reporting periods beginning on or after 1 January 2005. Accordingly the scheme's first annual financial statements prepared under AIFRS will be for the year ending 30 June 2006.

The Trustee has established a project to manage the transition to AIFRS and ensure the 30 June 2006 financial statements are appropriately prepared in accordance with AIFRS to the extent they do not conflict with AAS 25. The project team is assessing the significance of any changes and preparing for their implementation

The Trustee believes that the adoption of AIFRS will not have a material impact on the financial statements of the scheme as no significant changes to accounting policies are expected. However, some changes in presentation and disclosure are expected.

Changes between AGAAP and AIFRS that may have an effect on the scheme's financial performance and financial position are summarised below. The project has not yet progressed to a stage whereby, all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented have been identified.

The key identified accounting policy changes and financial impacts of adopting AIFRS on the scheme identified by the Trustee to date are as follows.

- Income Tax

Under AASB 112 "Income Taxes", the income tax liability of the scheme will be calculated based on the "balance sheet" approach. Timing differences recognised as deferred tax balances are not expected to change when accounted for as temporary differences recognised under AASB 112. Current tax balances are expected to be the same on adoption of AASB 112.

- Financial Assets and Liabilities

All financial assets and liabilities will be subject to the recognition, measurement and disclosure requirements of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" to the extent that the requirements do not conflict with AAS 25.

No material changes to asset valuations are expected as these will continue to be carried at their net market value in accordance with AAS 25. Liabilities will be carried at fair value or at amortised cost, however this is not expected to result in any material change to the carrying amounts of these liabilities.

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(k) Impact of First Time Adoption of Australian Equivalents to International Financial Reporting Standards (Continued)

The above should not be regarded as a complete list of changes in accounting policies that will result from the adoption of AIFRS. To date the Trustee has not analysed all standards for their impact on the financial statements and further pronouncements in AIFRS, for example the release of further pronouncements by the Australian Accounting Standards Board and the Urgent Issues Group, may result in changes to the accounting policy decisions made by the Trustee.

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).

The Scheme consists of three 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 was conducted by FuturePlus Financial Services Pty Limited and Mercer Benefit Services (formerly Mellon Human Resources and Investor Solutions) during the year. On the 1st July 2005 Mellon Human Resources and Investor Solutions ceased administration of the Scheme. Since this date the administration of the Scheme has been conducted solely by FuturePlus Financial Services Pty Limited.

FuturePlus Financial Services Pty Limited also provides secretariat services for the Scheme.

3. RECEIVABLES

	2005	2004
	\$'000	\$'000
Inter fund Receivable	-	3,665
GST Receivable	182	2,245
	<u>182</u>	<u>5,910</u>

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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:

	2005 \$'000	2004 \$'000
Increase in net assets before income tax	<u>269,759</u>	<u>225,970</u>
Prima facie tax @ 15%	40,464	33,896
Permanent Differences		
Transfers-in	(352)	(397)
Non-assessable Contributions	(5,832)	(5,797)
Contributions Surcharge	158	152
Benefit Payments	23,975	23,412
Imputation & Foreign Tax Credits	2,856	2,877
Death or Invalidity Insurance Deduction	(555)	(616)
Non-deductible Expenditure	14	2
Non-assessable Pension Related Investment Income	(551)	(238)
Deductible Investment Revenue/(Losses)	(7,631)	(2,148)
Imputation and Foreign Tax Credits	<u>(19,041)</u>	<u>(19,183)</u>
	33,505	29,083
Timing Differences	<u>(523)</u>	<u>(5,757)</u>
	32,982	23,326
Under/(Over) Provision Last Year	<u>247</u>	<u>(995)</u>
Income Tax Expense	<u><u>33,229</u></u>	<u><u>22,331</u></u>
Income Tax Calculated at 15% Comprises:		
Current Tax Liability before Imputation and Foreign Tax Credits	35,696	15,860
Less: Imputation and Foreign Tax Credits	<u>(19,041)</u>	<u>(19,183)</u>
	16,655	(3,323)
Under/(Over) Provision Last Year	247	(995)
Deferred Income Tax Expense	<u>16,327</u>	<u>26,814</u>
Income Tax Expense	<u><u>33,229</u></u>	<u><u>22,331</u></u>
Current Tax Liability/(Receivable)	16,643	(3,324)
Less: Instalments Paid	<u>(78)</u>	<u>(2,602)</u>
Current Tax Liability/(Receivable)	<u><u>16,565</u></u>	<u><u>(5,926)</u></u>

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

5. PAYABLES

	2005	2004
	\$'000	\$'000
Benefits Payable	19,195	10,347
Other Payables	3,824	2,442
	23,019	12,789

6. INVESTMENT INCOME

	2005	2004
	\$'000	\$'000
Interest	1,091	637
Unit Trust	276,459	114,097
Local Government Property Fund	17,294	10,432
Unlisted Hedge Fund	3,679	-
Other Investment Income	15	74
	298,538	125,240

7. CHANGES IN NET MARKET VALUE

30 JUNE 2005

	HELD AT REPORTING DATE GAIN/(LOSS) \$'000	REALISED DURING THE YEAR GAIN/(LOSS) \$'000	TOTAL \$'000
Total Revenue			
Unit Trust	59,889	49,930	109,819
Australian Equity	(13,493)	150	(13,343)
International Investment	-	758	758
Local Government Property Fund	15,920	-	15,920
Unlisted Hedge Fund	(3,563)	-	(3,563)
	58,753	50,838	109,591

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

7. CHANGES IN NET MARKET VALUE (Continued)

30 JUNE 2004

	HELD AT REPORTING DATE GAIN/(LOSS) \$'000	REALISED DURING THE YEAR GAIN/(LOSS) \$'000	TOTAL \$'000
Total Revenue			
Unit Trust	231,085	3,378	234,463
Australian Equity	(19,137)	(211)	(19,348)
International Investments	(114)	4,331	4,217
Local Government Property Fund	13,552	-	13,552
	<u>225,386</u>	<u>7,498</u>	<u>232,884</u>

8. FUNDING ARRANGEMENTS

For years ended 30 June 2005 and 30 June 2004, 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 2004 – 30 June 2005).

(a) Division B Scheme

Member Contributions: Each member elects to contribute between 1% and 9% (2004: 1% to 9%) of salary.

Employer Contributions: Employers contribute on a fully funded basis as determined by the trustees based on actuarial advice. During 2004/2005 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 2004/2005 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 2005

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% (2004: 6%) of salary.

Employer Contributions: Employers contribute on a fully funded basis as determined by the trustees based on actuarial advice. During 2004/2005 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 1st 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.

	2003	2000
	\$'000	\$'000
Accrued Benefits as at 1 st 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 2005

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

	2005 \$'000	2004 \$'000
As at 30 th June	<u>2,198,544</u> *	<u>1,961,825</u>
Net Assets	<u>2,893,745</u>	<u>2,657,215</u>

* Excludes benefit for pensions where the Actuary has estimated the liability to be \$49.299 million (2004 \$34.841million)

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 30th June 2005 are as follows:

Employer representatives

Mr P Woods OAM
Mr J Wearne
Ms B Giegerl
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 \$2,463.625 million (2004 \$2,341.953 million). Revenue earned from the Local Investment Fund was \$386.278 million (2004 \$345.182 million).

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

12. RELATED PARTY INFORMATION (Continued)

	2005	2004
	\$	\$
(a) Remuneration Received:		
Remuneration due and receivable by Directors of LGSS Pty Limited (for both Pool A and Pool B) during the financial year is payable directly or indirectly, by LGSS Pty Limited. A number of Directors have their emoluments paid to their sponsoring shareholder.	<u>391,419</u>	<u>369,584</u>
(b) Number of Directors whose total income falls within each relevant \$10,000 band of income:	Numbers	
\$ 0 - \$9,999	-	1
\$30,000 - \$39,999	-	1
\$40,000 - \$49,999	7	6
\$70,000 - \$79,999	<u>1</u>	<u>1</u>
	<u>8</u>	<u>9</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

The Scheme holds 50% of the share capital of FuturePlus Financial Services Pty Limited, which provides management, secretariat, administrative services, financial planning and post retirement planning services to the Schemes. Superannuation Services Company is a wholly owned subsidiary of FuturePlus 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 \$9,000,000 (2004\$6,900,000).

During the period 1 July 2004 to 30 June 2005, FuturePlus Financial Services Pty Limited was paid investment management and administration fees of \$15,879,645 (2004: \$8,925,971), for Local Government Superannuation Scheme Pool A and B.

During the period 1 July 2004 to 30 June 2005, Superannuation Services Company Pty Limited was paid investment management and administration fees of \$282,133 (2004: of \$5,573,448), for Local Government Superannuation Scheme Pool A and B.

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 2005

12. RELATED PARTY INFORMATION (Continued)

Local Government Superannuation Scheme holds 33.33% of the share capital of Chifley Financial Services Limited, which provides investment management services to the Scheme. Included in investments is the value of this 33.33% holding of \$6,000,000 (2004: \$4,983,000).

Included within the Scheme are amounts held with Chifley Investment Fund \$146,079,613 (2004: Nil). Revenue earned from the Chifley Investment Fund was \$115,458 (2004: Nil). Chifley Financial Services Limited is the trustee of the Chifley Investment Fund.

LIF Pty Limited is the Trustee of the Local Government Property Fund, in which the Scheme has an investment of \$277,364,900 (2004: \$271,183,357). Revenue earned from the Local Government Property Fund was \$33,214,016 (2004: \$10,431,562).

Local Government Superannuation Scheme holds 100% of the share capital of Local Government Financial Services Limited. Included in investments is the value of this 100% holding of \$15,400,000.

As at 30 June 2005 the scheme invested \$746,000 (representing 18.66% of total capital) in Hawkesbridge Limited. From 1 July 2005 Hawkesbridge Limited have been appointed as manager of the Regional Development Trust and Private Equity for the Scheme. The fee payable to Hawkesbridge Limited is 2% of committed funds (\$50m), plus a performance based fee. Subsequent to 30 June 2005, the Trustee approved the transfer of directly held listed securities (Market Value of \$6.5m) into a trust managed by Hawkesbridge Limited. The fee payable to Hawkesbridge Limited is 2% of the net assets of that Trust.

Peter Woods a director of LGSS Pty Limited which is the Trustee of the Scheme, became a director of Hawkesbridge Limited on 30 June 2005.

Peter Woods is also the Chairman of Advance Healthcare Group Limited which is an investment of the Scheme. The Scheme holds approximately 11.3% of the share capital of the group.

13. REMUNERATION OF AUDITORS

	2005	2004
	\$	\$
Remuneration for audit of the financial report of the Scheme		
Deloitte Touche Tohmatsu	174,929	83,671
	<u>174,929</u>	<u>83,671</u>

Note: In the current year, the allocation of the audit fee has been charged as 33% for LGSS Pool A and 67% for LGSS Pool B (2004: 30% for LGSS Pool A and 70% 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 2005

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 and Chifley 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 2005: Nil (2004 : Nil).

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

14. FINANCIAL INSTRUMENTS (Continued)

(iv) Currency Risk Exposures

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

30 June 2005	EUR \$'000	USD \$'000	OTHER \$'000	TOTAL \$'000
International Investments	-	-	-	-
Amount Effectively Hedged	-	-	-	-
Net Exposure	-	-	-	-

30 June 2004	EUR \$'000	USD \$'000	OTHER \$'000	TOTAL \$'000
International Investments	-	-	(401)	(401)
Amount Effectively Hedged	-	-	-	-
Net Exposure	-	-	(401)	(401)

During the year all directly held derivative products have been transferred into the Unit Trust.

(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 2005 involves 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 2005 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 2005

14. FINANCIAL INSTRUMENTS (Continued)

(v) Interest Rate Risk (Continued)

<u>INTEREST RATE MATURING</u>							
2005	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
Assets							
Cash and Cash Equivalents							
- Australia	17,284	-	-	-	-	5.20%	17,284
Unit Trust	-	-	-	-	2,463,625	-	2,463,625
Australian Equities,	-	-	-	-	60,064	-	60,064
Property Trusts	-	-	-	-	277,365	-	277,365
Unlisted Hedge Fund	-	-	-	-	146,080	-	146,080
Receivables	-	-	-	-	182	-	182
Total Financial Assets	17,284	-	-	-	2,947,316		2,964,600
Liabilities							
Benefits Payable	-	-	-	-	19,195	-	19,195
Payables	-	-	-	-	3,824	-	3,824
Current Tax Liability	-	-	-	-	16,565	-	16,565
Deferred Tax Liability	-	-	-	-	31,271	-	31,271
Total Financial Liabilities	-	-	-	-	70,855	-	70,855

<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
Assets							
Cash and Cash Equivalents							
- Australia	6,631	-	-	-	-	5.08 %	6,631
Cash and Cash Equivalents	-	-	-	-	-	-	-
Unit Trust	-	-	-	-	2,341,953	-	2,341,953
Australian Equities	-	-	-	-	52,015	-	52,015
Property Trusts	-	-	-	-	271,183	-	271,183
International Investment	-	-	-	-	1,330	-	1,330
Receivables	-	-	-	-	5,910	-	5,910
Income Tax Receivable	-	-	-	-	5,926	-	5,926
Total Financial Assets	6,631	-	-	-	2,678,317		2,684,948
Liabilities							
Benefits Payable	-	-	-	-	10,347	-	10,347
Payables	-	-	-	-	2,442	-	2,442
Deferred tax Liability	-	-	-	-	14,944	-	14,944
Total Financial Liabilities	-	-	-	-	27,733	-	27,733

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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 2005 or on the results for the year ended on that date.

Independent Report by Approved Auditor to the Members of 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 2005 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 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 2005 and the changes in net assets for the year ended 30 June 2005.

(B) Compliance

Scope

I have conducted tests in accordance with Australian Auditing 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* (the SIS Act) 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, 113, 117, 118, 121, 121A, 122, 124, 125, 152, 154;
Regulations 2.33(2), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and
- (b) complied with the Reporting Standards made under section 13 of the *Financial Sector (Collection of Data) Act 2001* (FSCODA) 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* (the Corporations Act) and Regulations:
Sections 1012A, 1012B, 1012F, 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 Regulation 13.15A of the *Superannuation Industry (Supervision) Regulations 1994* (the SIS Regulations) and the guidelines for preparing Derivative Risk Statements (“guidelines”) issued by APRA in Circular II.D.7 (to the extent applicable)

for the year ended 30 June 2005; 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 SIS Act and Regulations, the FSCODA and the Corporations Act and Regulations.

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

My procedures with respect to the guidelines included confirming whether any Derivatives Risk Statement was to be prepared by the superannuation entity’s trustee under the guidelines contained in APRA Circular II.D.7 at any time during the year of income. These procedures indicated that a Derivatives Risk Statement is unnecessary under 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 SIS Act and Regulations or guidelines, the FSCODA or the Corporations Act and Regulations apart from those specified. The superannuation entity’s trustee is responsible for complying with the SIS Act and Regulations, the FSCODA and the Corporations Act 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 SIS Act and Regulations, the Reporting Standards made under Section 13 of the FSCODA and the Corporations Act and Regulations and applied the guidelines specified above for the year ended 30 June 2005.

DELOITTE TOUCHE TOHMATSU



Richard Rassi
Partner
Chartered Accountants

28 October 2005