



annual report **statutory**
information



BOX 12 GPO, SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

To Members of the New South Wales Parliament and the Trustees of the Scheme

(A) Financial Statements

Scope

I have audited the accounts of the Local Government Superannuation Scheme Pool B for the year ended 30 June 1998. The preparation and presentation of the financial report consisting of the accompanying statement of net assets and statement of changes in net assets, together with the notes thereto, and the information contained therein, is the responsibility of the Trustee of the Scheme. My responsibility is to express an opinion on the financial report to Members of the New South Wales Parliament and Trustee of the Scheme based on my audit as required by sections 34 and 45(1) of the *Public Finance and Audit Act 1983*.

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

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

Audit Opinion

In my opinion, the financial report of the Local Government Superannuation Scheme Pool B presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements, the net assets of the Scheme as at 30 June 1998 and the changes in net assets for the year then ended. ▶

(B) Compliance**Scope**

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

- (a) 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), 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 102, 103, 104, 106, 107, 108, 109, 111, 112, 113, 117, 118, 122, 124, 125, 152, 153, 154, 169; and Regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and
- (b) The Guidelines issued by the ISC on Risk Management Statements For Superannuation Entities Investing In Derivatives (to the extent applicable) for the year ended 30 June 1998.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations. My procedures with respect to the Guidelines consisted of confirming that the relevant Risk Management Statements have been prepared and are broadly consistent with the requirements of the Guidelines. No opinion is expressed on the appropriateness of the Risk Management Statements or whether the Scheme has complied with the procedures set out in the Risk Management Statements.

These tests have not been performed continuously throughout the year, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the *Superannuation Industry (Supervision) Act 1993*, Regulations and Guidelines apart from those specified. The Scheme Trustee is responsible for ensuring compliance with the requirements of the *Superannuation Industry (Supervision) Act 1993*, Regulations and Guidelines.

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

Audit Opinion

In my opinion, the Local Government Superannuation Scheme Pool B has complied, in all material respects, with the requirements of the *Superannuation Industry (Supervision) Act 1993*, Regulations and Guidelines specified above for the year ended 30 June 1998.



A C HARRIS

SYDNEY

24 December 1998

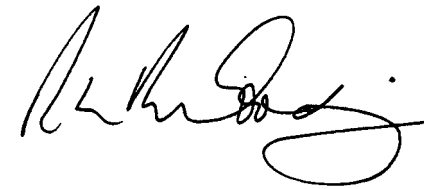
STATEMENT BY THE TRUSTEES FOR THE YEAR ENDED 30 JUNE 1998

Pursuant to Section 41C(1B) and (1C) of the Public Finance and Audit Act, 1983 and in accordance with a resolution of the Board of LGSS Pty Limited, we declare on behalf of the Board that in our opinion:

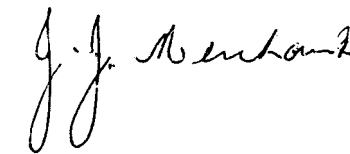
1. The financial statements present a true and fair view of the position of the Local Government Superannuation Scheme Pool B as at 30 June 1998 and transactions for the year then ended; and
2. The financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act, 1983, the Public Finance and Audit (Statutory Bodies) Regulation, 1995 and the Treasurer's directions.

Further, we are not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 22nd day of December 1998.



Director



Director

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 1998

	NOTE	1998 \$'000
Net Assets Available to Pay Benefits at Beginning of Financial Year		-
Contribution Revenue		
Employer Contributions		97,147
Member Contributions		42,157
Contribution Revenue	8	<u>139,304</u>
Investment Revenue		
Short Term Securities		2,429
Australian Fixed Interest		25,932
Australian Equities		31,491
International Investments		24,759
Property Trusts		14,266
		<u>98,877</u>
Changes in Market Values		249,341
Investment Revenue	7	<u>348,218</u>
Investment Expenses		(7,774)
Net Investment Revenue		<u>340,444</u>
Other Revenue		<u>8,077</u>
Total Revenue		487,825
Benefits Paid	9	(176,749)
Scheme Administration Expenses	10	<u>(7,743)</u>
Increase in Net Assets Before Abnormal Item and Income Tax		303,333
Abnormal Item	2	<u>2,136,696</u>
Increase in Net Assets Before Income Tax		2,440,029
Income Tax Expense	4	<u>(54,472)</u>
Increase in Net Assets Available to Pay Benefits After Income Tax		<u>2,385,557</u>
Net Assets Available to Pay Benefits at End of Financial Year	11	<u>2,385,557</u>

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

STATEMENT OF NET ASSETS AS AT 30 JUNE 1998

	NOTE	1998 \$'000
Investments		
Short Term Securities		180,183
Australian Fixed Interest		402,603
Australian Equities		839,079
International Investments		873,670
Property Trusts		187,036
Total Investments		<u>2,482,571</u>
Other Assets		
Cash		29
Receivables	3	<u>22,325</u>
Total Other Assets		<u>22,354</u>
Total Assets		<u>2,504,925</u>
LESS:		
Liabilities		
Reserve Units		16
Creditors	5	64,880
Provisions	6	<u>54,472</u>
Total Liabilities		<u>119,368</u>
Net Assets Available to Pay Benefits	11	<u>2,385,557</u>

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 1998

1. STATEMENT OF ACCOUNTING POLICIES

The Local Government Superannuation Scheme Pool B ("The Fund") was established under a trust deed and commenced operations on 1 July 1997. It consists of Local Government members transferred from the State Authorities Superannuation Scheme ("Division B"), the State Authorities Non-contributory Superannuation Scheme ("Division C") and the State Superannuation Scheme ("Division D") in accordance with sections 127 and 128 of the Superannuation Administration Act, 1996 ("the Act"). Previously, all scheme members were included in the Pooled Fund and the assets were administered by the SAS Trustee Corporation ("STC") under the Act. Since the Local Government members separated from the Pooled Fund on 1 July 1997, LGSS Pty Limited ("LGSS") acts as trustee and holds in trust all assets of the Fund.

Scheme administration services for the Fund were performed by the Superannuation Administration Authority of New South Wales ("SAA"). SAA ceased to act as administrators on 30 June 1998. Buck Consultants Pty Limited commenced administration services effective 1 July 1998.

The Fund's custodial activities are provided by State Street Australia Limited ("State Street"). The following fund managers perform the funds management activities:

■ Cash Portfolio	100%	– Morgan Grenfell (Australia) Limited
■ Australian Fixed Interest Portfolio	100%	– Morgan Grenfell (Australia) Limited
■ Australian Equity Portfolio	90.5%	– Morgan Grenfell (Australia) Limited
	9.5%	– State Street Global Advisors Australia Limited
■ International Equity Portfolio	89.0%	– Morgan Grenfell (Australia) Limited
	11.0%	– Standish Ayer & Wood & Inc
■ Property Trust Portfolio	100%	– Morgan Grenfell (Australia) Limited

SAA and State Street charge management fees for the services provided.

The schemes of the Fund were established under and are governed by various Acts of the New South Wales Parliament. The Division C and Division D Schemes are defined benefit schemes while the Division B Scheme comprises both a defined benefit component and a defined contribution component. All the schemes are closed to new members. The fund is the reporting entity for financial reporting and taxation purposes.

The significant accounting policies which have been adopted in the preparation of the financial statements are set out below.

(a) General System of Accounting Underlying the Financial Statements

The financial statements form a general purpose financial report and are prepared in accordance with the Public Finance and Audit Act, 1983, section 41B of the Public Finance and Audit (Statutory Bodies) Regulation, 1995, and the Treasurer's directions. They also comply with applicable Australian Accounting Standards and other professional reporting requirements (for example, Urgent Issues Group Consensus Views).

The financial statements are prepared in accordance with AAS 25 "Financial Reporting by Superannuation Plans", the Superannuation Industry (Supervision) Act 1993 and Regulations.

The financial statements are prepared using the accrual method of accounting.

(b) Investments

Investments are recorded at balance date at net market value, 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 as at 30 June is determined as follows:

Short Term Securities:	Market rates.
Fixed Interest:	Relevant fixed interest securities markets.
Equities:	Relevant stock exchange official quotation or if unlisted last sale price.
Property Trusts:	Stock exchange official quotation.

(c) 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.

(d) Income Tax

LGSS has adopted the liability method of tax effect accounting whereby income tax is regarded as an expense and is calculated on the operating result after allowing for permanent differences.

To the extent that timing differences occur between the time items are recognised in the accounts and when items are taken into consideration in determining taxable income, the net related taxation benefit or liability calculated at current rates is disclosed as a Future Income Tax Benefit or Provision for Deferred Income Tax.

Future Income Tax Benefits are not brought to account unless their realisation is assured beyond reasonable doubt. The amount of these benefits is based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Fund will derive sufficient future assessable income to enable the benefit to be realised and will comply with the conditions of deductibility imposed by law.

(e) Liability for Accrued Benefits

An actuarial valuation of accrued benefits of the membership of each scheme as at 30 June 1998 was undertaken by William M Mercer. The results are based on valuation assumptions consistent with the requirements of AAS 25 "Financial Reporting by Superannuation Plans".

AAS 25 requires that a "market-determined risk-adjusted discount rate" be applied as the valuation interest rate in the calculation of the value of the accrued benefits. The 1997 triennial valuation economic assumptions have been used as they are considered to closely reflect long term economic conditions. The following short and long term economic assumptions have been used for these calculations, and also for the employer liability calculations.

	1997/98 % PA	1998/99 % PA	1999/2000 % PA	THEREAFTER % PA
Valuation Interest Rate	7.00	7.00	7.00	7.00
Salary Growth Rate	3.70	4.00	4.00	5.00
CPI Rate	1.10	2.00	2.50	3.25

The projected unit credit method has been used by the actuaries to value the accrued benefits for the Division B, Division C and Division D Schemes. The accrued benefits of the schemes are derived from the value of expected benefits arising in each future year divided in the ratio of duration of service to the valuation date to the duration of service to the year in which the benefit is expected to be payable.

The present value of expected future benefit payments has been determined by discounting the gross benefit payments at a current, market-determined, risk-adjusted discount rate appropriate to the Fund. In all schemes, accumulations of member contributions have, where appropriate, been included in full. Also, for all schemes, future pension entitlements have been included in full in the calculation of accrued benefits.

(f) Vested Benefits

Vested benefits are benefits, which are not conditional upon continued membership of the schemes administered by LGSS, and are the benefits which members were entitled to receive had they terminated their membership as at 30 June 1998.

(g) Management Expenses

Management expenses charged to the Fund comprise:

Investment Expenses:	These are charged directly against investment revenue.
Scheme Administration Expenses:	These are charged to employers and members on the basis of membership numbers.

(h) Reserve Units

Reserve Units are units held by certain Division D Scheme members. They represent units purchased in advance at a rate which is the "rate for age" at the date purchased with an option to convert to full rate units in the Division D Scheme at any future date. On conversion they are no longer recognised as a liability but as part of member funds.

(i) Year 2000 Software Modification Costs

LGSS has ensured that it has a strategy in place to assess if and to what extent the date change from 1999 to 2000 may affect its activities. LGSS has established a programme to help ensure that the impact of the transition to the year 2000 on LGSS and its members is minimised by seeking to ensure that its significant/core computer hardware, software and/or systems are year 2000 compliant. LGSS does not expect its activities to be significantly impacted by the date change.

(j) Superannuation Contributions Surcharge

No provision has been made in these financial statements for the amount of the superannuation contributions surcharge which may be payable by the Fund under the Superannuation Contributions Tax (Assessment and Collection) Act 1997. The Trustee is unable to determine the amount of the surcharge until assessments are received from the Australian Taxation Office.

(k) Roundings

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

(l) Comparative Figures

The Fund commenced as an entity on 1 July 1997; consequently no comparative figures are available.

2. ABNORMAL ITEM

	1998
	\$'000
Transfer from the Pooled Fund	<u>2,136,696</u>
Income tax Effect	-

Effective from 1 July 1997 and in accordance with a government policy decision, certain Local Government members were transferred from the Pooled Fund to their own superannuation scheme known as Local Government Superannuation Scheme Pool B. All assets of the Fund were transferred in accordance with Trustee agreements. The establishment costs relating to the transfer amounted to \$982,589 and were paid out of the Fund's Employer Reserves.

All assets of the Fund were transferred in accordance with Trustee agreements.

3. RECEIVABLES

Contributions Receivable	2,801
Other Receivables	2
Investment Sales	7,527
Accrued Income	11,978
Prepayments	17
	<u>22,325</u>

4. INCOME TAX

The prima facie tax on the Increase in Net Assets after Abnormal Item is reconciled to the Income Tax Expense as follows:

Prima facie tax on the Increase in Net Assets at 15%	366,004
(Less)/Plus net tax effect of permanent differences:	
Transfers of member balances	(320,504)
Non-assessable contributions	(5,423)
Non-deductible benefit payments	26,512
Death or invalidity insurance deduction	(799)
Anti-detriment deduction	(260)
Gross-up of franked dividends and WHT	1,917
Exempt income	(338)
Non-deductible expenditure	16
Non-assessable pension related investment income	(870)
Eligible infrastructure bonds	(3)
Adjustment on transfer of assets	934
Imputation and foreign tax credits	(12,714)
Income Tax Expense	<u>54,472</u>

The Income Tax Expense comprises:

Current Income Tax Provision	22,370
Deferred Income Tax Provision	32,102
	<u>54,472</u>

The Fund is exempt from tax on investment income set aside for the payment of pensions.

5. CREDITORS

Superannuation Benefits	5,040
Investment Purchases	32,221
Amounts Payable - LGSS	640
Other Creditors	26,979
	<u>64,880</u>

6. PROVISIONS

Income Tax	22,370
Deferred Income Tax	32,102
	<u>54,472</u>

7. INVESTMENT REVENUE

	1998 CHANGES IN NET MARKET VALUES			TOTAL
	INCOME	HELD AT REPORTING DATE	REALISED DURING THE YEAR	
	\$'000	GAIN/(LOSS) \$'000	GAIN/(LOSS) \$'000	
Short Term Securities	2,429	455	12,806	15,690
Australian Fixed Interest	25,932	897	-	26,829
Australian Equities	31,491	202	(1,017)	30,676
International Investments	24,759	163,141	56,281	244,181
Property Trusts	14,266	16,576	-	30,842
Total Investment Revenue	<u>98,877</u>	<u>181,271</u>	<u>68,070</u>	<u>348,218</u>

Investment revenue includes earnings on unlisted investments of \$1,240,410.

8. EMPLOYER AND MEMBER CONTRIBUTIONS

	1998			
	DIVISION B SCHEME \$'000	DIVISION C SCHEME \$'000	DIVISION D SCHEME \$'000	TOTAL SCHEMES \$'000
Employer Contributions	79,196	17,436	515	97,147
Member Contributions	41,729	-	428	42,157
Total Contributions	120,925	17,436	943	139,304

Member and Employer contributions for each of the schemes are determined on the bases described below.

(a) Division B Scheme

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

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

(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.

(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% of salary.

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

9. BENEFITS PAID

	1998			
	DIVISION B SCHEME \$'000	DIVISION C SCHEME \$'000	DIVISION D SCHEME \$'000	TOTAL SCHEMES \$'000
Benefits paid	166,919	9,280	550	176,749

10. SCHEME ADMINISTRATION EXPENSES

	1998 \$'000
Included in Scheme Administration Expenses are the following items:	
Audit Fees	53

11. NET ASSETS

	1998			
	DIVISION B SCHEME \$'000	DIVISION C SCHEME \$'000	DIVISION D SCHEME \$'000	TOTAL SCHEMES \$'000
Balance at Beginning of Financial Year	-	-	-	-
Transfer from the Pooled Fund	1,952,593	157,777	26,326	2,136,696
Increase in Net Assets	169,906	74,892	4,063	248,861
Balance at End of Financial Year	2,122,499	232,669	30,389	2,385,557
Comprising:				
Member Reserves	731,366	-	9,226	740,592
Employer Reserves	1,346,938	122,857	21,163	1,490,958
Death or Invalidity Reserves (1)	267	-	-	267
Preserved Benefit Reserves (2)	43,928	109,812	-	153,740
Net Assets Available to Pay Benefits	2,122,499	232,669	30,389	2,385,557

(1) The Death or Invalidity Reserve represents accumulated funds available to provide death or invalidity cover to members for the months during which they have public sector employment. The reserve balance is the excess of member premiums over benefits paid.

(2) The Preserved Benefit Reserve represents member account balances that, on the election of the member or by default, are to remain with the Fund following the member's exit from employment in the public sector.

12. ACCRUED BENEFITS

(a) Liability for Accrued Benefits

	1998		
	ACCRUED BENEFITS \$'000	NET ASSETS AVAILABLE TO PAY BENEFITS \$'000	OVER/(UNDER) FUNDED \$'000
Division B Scheme	1,701,160	2,122,499	421,339
Division C Scheme	165,390	232,669	67,279
Division D Scheme	25,142	30,389	5,247
	1,891,692	2,385,557	493,865

(b) Movement in the Liability for Accrued Benefits

	1998			
	DIVISION B SCHEME \$'000	DIVISION C SCHEME \$'000	DIVISION D SCHEME \$'000	TOTAL SCHEMES \$'000
Balance at Beginning of Financial Year	-	-	-	-
Transfer from the Pooled Fund	1,952,593	157,777	26,326	2,136,696
Less: Benefits Paid	(166,919)	(9,280)	(550)	(176,749)
	1,785,674	148,497	25,776	1,959,947
(Decrease)/Increase in Accrued Benefits	(84,514)	16,893	(634)	(68,255)
Balance at End of Financial Year	1,701,160	165,390	25,142	1,891,692

13. VESTED BENEFITS

	1998		
	ACCRUED BENEFITS \$'000	NET ASSETS AVAILABLE TO PAY BENEFITS \$'000	OVER/(UNDER) FUNDED \$'000
Division B Scheme	1,264,696	2,122,499	857,803
Division C Scheme	193,361	232,669	39,308
Division D Scheme	17,385	30,389	13,004
	1,475,442	2,385,557	910,115

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).

(i) Terms, Conditions and Accounting Policies

Derivatives are used 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 Fund. Derivative instruments currently used are futures contracts, exchange traded options, forward rate agreements and foreign exchange contracts.

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 Fund's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instruments, both recognised and unrecognised, at the balance date are as follows:

Financial Assets			
Recognised Financial Instruments	Statement of Net Assets Notes	Accounting Policies	Terms and Conditions
Cash and Cash Equivalents		Reflects in Australian dollars the sum of all currencies held. Cash equivalents are short term interest bearing securities held at call.	Effective interest rates are between -0.27% and 4.75%
Short Term Investments		Short term interest bearing securities held at a fixed or indexed interest rate valued at net fair value.	Investments represent deposits at call, which have no fixed maturity date. The effective interest rates are between 5.07% and 5.23%.
Fixed Interest Investments		Longer term interest bearing securities held at a fixed or indexed interest rate valued at net fair value.	Effective interest rates are between 4.53% and 5.41%.
Derivatives	14	Derivatives are measured at net fair value at reporting date. Any unrealised gains or losses are recognised in that reporting period. Realised gains or losses on termination of derivative positions are brought to account in the period in which they occur.	Derivatives are used to gain access to and allow flexibility in the financial markets in order to manage and structure the Fund's investment portfolio.
Forward Exchange Contracts	14	Unrealised gains and losses on forward foreign exchange contracts are recognised at reporting period. Realised gains and losses are brought to account in the period in which they occur.	The contracts are entered into to hedge certain purchase and sale commitments denominated in foreign currencies. The objective is to match the anticipated future cash flows in foreign currencies and to protect the Fund against future loss from exchange rate fluctuations.
Receivable for Investments Sold	3	Records that total proceeds from sales physical assets that have been processed, but have not been settled as at balance date.	Sales of investments are settled shortly after the execution of the trade, according to the market convention. Total value of receivables \$7,526,524.16.
Receivable for Currency Exchanged		Records the total proceeds from currency sales (foreign exchange contracts) that have been processed, but have not been settled as at balance date.	Foreign exchange contracts are entered into to hedge purchase and sale commitments denominated in foreign currencies. Total value \$361,772,345.23.
Dividends Receivable	3	Dividend income due but not yet received on equities/trusts from the date the dividend was announced (ex-date).	Total value \$5,661,638.01.
Interest Receivable	3	Interest income, net of withholding tax and tax refunds, due but not yet received on interest bearing securities.	Total value \$6,050,077.03.
Unlisted Investments	14	The basis of valuation is the last sale price or calculated underlying value adjusted for transaction costs.	

Financial Liabilities			
Recognised Financial Instruments	Statement of Net Assets Notes	Accounting Policies	Terms and Conditions
Payable for Investments Purchased	5	Records the total payments for the purchase of physical assets that have been processed, but have not settled as at balance date.	Purchases of investments are settled shortly after the execution of the trade, according to market convention. Total value of payables \$32,221,193.57.
Payable for Currency Exchanged		Records the total payments for the purchase of currency (foreign exchange contracts) that have been processed, but have not settled as at balance date.	Foreign exchange contracts are entered into to hedge purchase and sale commitments denominated in foreign currencies. Total value \$361,772,345.23.
Tax	4	The liability for taxation is accounted for in accordance with AAS 3.	The income tax liability is calculated using a tax rate of 15%.

(ii) Unlisted investments

Included in investments are unlisted investments with a market value of \$165,103,850.

(iii) Credit Risk Exposures

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

The Fund does not have any significant exposure to any individual counterparty or industry. Its assets are invested by individual investment managers and in specific investments trusts.

(iv) Liquidity Risk Exposures

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

(v) Derivatives

At 30 June 1998, the notional principal amounts and net fair value of derivatives held by the Fund are as follows:

	Notional Principal Amounts 1998 \$'000	Net Market Value 1998 \$'000
1 month to 3 months		
Australian Share Price Index Futures	1,886	71

(vi) Currency Risk Exposures

The exposure at 30 June 1998 to foreign exchange rate movements on international investments is shown below.

United States Dollars (USD)

	USD \$'000	OTHER \$'000	TOTAL \$'000
International Investments	431,295	446,628	877,923
Amounts Effectively Hedged	1,976	(3,059)	(1,083)
Net Exposure	433,271	443,569	876,840
Per Cent Hedged	(0.5)%	0.7%	0.1%

Other Position

	1998	
	USD \$'000	TOTAL \$'000
Forward Foreign Exchange Contract Receivable	29,542	29,542
Forward Foreign Exchange Contract Payable	(316,061)	(316,061)
Net Exposure	(286,519)	(286,519)

As disclosed above the Fund had entered into forward foreign exchange contracts at balance date. The contracts are carried at their net market value. The obligations arising under these contracts will be realised in less than three months from the balance sheet date.

(vii) Interest Rate Risk

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

The Fund's exposure to interest rate risk and the effective interest rates on financial instruments at 30 June 1998 are shown as follows. All other financial assets and liabilities are non-interest bearing.

	MARKET VALUE FIXED INTEREST RATE MATURING					TOTAL \$'000
	FLOATING INTEREST RATE \$'000	WITHIN 12 MONTHS \$'000	1-5 YRS \$'000	OVER 5 YRS \$'000	NON-INTEREST BEARING \$'000	
Assets						
Cash and Cash Equivalents - Australia	46,634	-	-	-	-	46,634
Cash and Cash Equivalents - International	4,257	-	-	-	-	4,257
Short Term Deposits - Australia	-	121,229	-	-	8,399	129,628
Australian Fixed Interest	-	42,341	102,903	257,364	-	402,608
Convertible Notes - Australia	-	-	470	1,946	-	2,416
International Fixed Interest	-	-	-	247	-	247
Australian Equities	-	-	-	-	1,023,363	1,023,363
International Equities	-	-	-	-	873,418	873,418
Cash	29	-	-	-	-	29
Receivables	-	-	-	-	22,325	22,325
Total Financial Assets	50,920	163,570	103,373	259,557	1,927,505	2,504,925
Weighted average interest rate	4.33	5.09	5.40	4.56	N/A	
Liabilities						
Creditors	-	-	-	-	64,880	64,880
Reserve Units	-	-	-	-	16	16
Provisions	-	-	-	-	54,472	54,472
Total Financial Liabilities	-	-	-	-	119,368	119,368

(viii) 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. RELATED PARTY INFORMATION

The Trustee of the Fund is the LGSS Pty Limited. The names of the directors of LGSS Pty Limited in office during the year ended 30 June 1998 are as follows:-

Mr D Campbell	(appointed 26.3.97)
Mr E Carolan OAM	(appointed 26.3.97)
Mr J Wearne	(appointed 26.3.97)
Mr P Woods OAM	(appointed 26.3.97)
Mr G De Courcey	(appointed 26.3.97)
Mr G Humphries	(appointed 26.3.97)
Mr J Merchant	(appointed 26.3.97)
Mr I Robertson	(appointed 26.3.97)

1998

\$'000

(a) Remuneration Received or Due and Receivable by Directors of LGSS (For both Pool A and Pool B):

Directors

295,747

(b) Number of Directors included in these figures are shown in their relevant income bands:

Numbers

Remuneration (including superannuation contributions) of:

\$30,000 - \$39,999

7

\$50,000 - \$59,999

1

8

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

There have been no transactions between these directors and the Fund, except for the payment to the directors for services rendered in relation to their duties as directors of LGSS, and for the reimbursement of administration costs incurred by the directors whilst attending to Trustee business.

(d) Transactions with Other Related Parties:

Superannuation Services Company Pty Limited, a company owned 50% by LGSS in trust for the Fund, received from LGSS, administrative support on a cost basis which is included as part of Scheme Administration Expense in the Statement of Changes in Net Assets.

16. SEGMENT REPORTING

The Fund operates in the superannuation and investment management industry in New South Wales.

17. CONTINGENT LIABILITIES

In managing the investment portfolio State Street enters into various types of investment contracts that can give rise to contingent liabilities. Investment contracts are detailed in Note 14.

- End of Audited Financial Statements -