

MACARTHUR CREDIT UNION LTD

ABN: 83 087 650 244

35TH ANNUAL REPORT 2006



MACARTHUR CREDIT UNION LTD
35TH ANNUAL REPORT 2006

DIRECTORS

Greg Wright (Chairman)	Darryl Haigh (retired 30 April 2006)	Michael Wales
Phillip Rankin (Vice Chairman)	Neville Hoskin	Vernon Wrightson
Kevin Delbridge (appointed 28 September 2005)	Ralph Sharp	
Richard Drinnan (resigned 17 July 2005)	Ronald Streater	

GENERAL MANAGER

Graham Holby

REGISTERED OFFICE

52 Argyle Street
CAMDEN NSW 2570
(02) 4640 9999

BRANCHES

52 Argyle Street CAMDEN 2570 (02) 4640 9999	2/102 Argyle Street PICTON 2571 (02) 4677 1852	1/8-10 Somerset Avenue NARELLAN 2567 (02) 4634 7222	125 Remembrance Drive TAHMOOR 2573 (02) 4683 1999
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SOLICITOR

Kells The Lawyers
83-85 Market Street
WOLLONGONG NSW 2500

BANKERS

Credit Union Services Corporation (Australia) Limited
National Australia Bank Limited

AUDITOR

KPMG
Level 3, 63 Market Street
Wollongong NSW 2500

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CORPORATE GOVERNANCE STATEMENT

OVERVIEW

The Board of Directors of Macarthur Credit Union Ltd (the “Credit Union”) is responsible for the overseeing of policy, performance and strategies to be implemented by Management. The Board, which also establishes and maintains a legal and ethical environment, is responsible to all Members of the Credit Union.

Guidelines have been established to ensure optimum Board performance and the Constitution of the Credit Union provides for one third of the Directors to retire each year. Directors may stand for re-election and where the number of candidates standing exceeds the available positions, a vote by members determines the successful candidates.

COMPOSITION OF THE BOARD

The composition of the Board is determined in accordance with the following principles and guidelines:

- In accordance with the Constitution of the Credit Union, the Board comprises of up to nine (9) Members elected by the Credit Union Membership. The Chairman is elected by the Board of Directors.
- Casual Board vacancies are filled by the Board having regard to appropriate qualifications and expertise.
- The Board is required to meet at least monthly and follow meeting guidelines that ensure all Directors are made aware of, and have all necessary information to participate in an informed discussion of all agenda items.
- All Directors are members of the Australian Credit Union Institute (formerly the Institute of Credit Union Directors).

COMMITTEE STRUCTURE

The following Committees support the work of the Board:

Executive Committee

The Executive Committee’s powers are limited to those delegated to it by the Board from time to time. The Board invites the General Manager to attend all Executive Committee Meetings in an advisory capacity, unless his attendance would be inappropriate because of reasons such as conflict of interest. The Members of the Executive Committee are Greg Wright (Chairman), Phillip Rankin, Darryl Haigh (retired 30 April 2006) and Michael Wales (appointed 26 April 2006).

The role of the Executive Committee is to:

- Undertake any tasks assigned by the Board;
- Review the General Manager’s performance and salary; and
- Review policy recommendations from Management for Board consideration.

CORPORATE GOVERNANCE STATEMENT

Audit Committee

Pursuant to the Australian Prudential Regulation Authority requirements, the Credit Union has been proactive in establishing a Board Audit Committee.

The primary objective of the Audit Committee is to assist the Board in fulfilling its responsibilities in respect of the accounting and reporting practices of the Credit Union.

The Audit Committee consists of three nominated Directors. The Members of the Audit Committee are Phillip Rankin (Chairman), Michael Wales, Richard Drinnan (resigned 17 July 2005) and Kevin Delbridge (appointed 28 September 2005).

The Board invites the General Manager or his nominee(s) to attend all Audit Committee Meetings in an advisory and secretarial capacity unless their attendance would be inappropriate because of reasons such as conflict of interest. In addition, the Committee requires the Manager, Governance to attend the meetings.

The role of the Audit Committee is to:

- Minimise accounting policy risk by reviewing all draft annual financial reports prior to approval by the Board;
- Monitor compliance with statutory requirements for financial reporting;
- Direct and monitor the Internal Audit function;
- Liaise with the External Auditor and review the adequacy of the scope and quality of the audit in consultation with the General Manager;
- Conduct an annual review of the Disaster Recovery Plan;
- Review reports submitted to the Australian Prudential Regulation Authority;
- Initiate special projects and investigations on matters within its Terms of Reference, keeping the Board fully informed on progress and outcomes; and
- Review financial and prudential policies and procedures and to make recommendations.

Governance Committee

The primary objective of the Governance Committee is to assist the Board of Directors in the discharge of its responsibilities by way of enhancing and monitoring the performance of the Credit Union in matters of corporate governance. The specific functions of the Committee include the:

- Establishment and review of procedures to assess Board, Committee and Director performance;
- Development and review of appropriate corporate governance principles, policies and practices; and
- Development, implementation and monitoring of Director development policies and practices.

CORPORATE GOVERNANCE STATEMENT

The members of the Governance Committee are Neville Hoskin (Chairman), Ronald Streater, Darryl Haigh (retired 30 April 2006) and Vernon Wrightson (appointed 26 April 2006).

THE REVIEW OF CREDIT UNION POLICY

The Board recognises the importance and the dynamic nature of its policies and has implemented a program of progressive review. This will ensure a relevant and up to date policy manual is available to assist staff in the day to day interpretation and compliance with Board requirements.

BOARD REMUNERATION

Directors are remunerated by fees determined by the Board within the aggregate amount approved by Members at the Annual General Meeting.

MONITORING THE BOARD'S PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Directors is reviewed annually by the Chairman. In conjunction with this review, the Board undertakes an annual self-assessment and review process.

CHAIRMAN'S REPORT

I am delighted, as Chairman of the Board, to present to you the 35th Annual Report of the Macarthur Credit Union Ltd.

However, as delighted as I am to report on another successful year for your Credit Union, it is tinged with some melancholy in also reporting the retirement of my predecessor and Macarthur Credit Union stalwart, Darryl Haigh.

Darryl was first elected to the board (of what was then the Clutha Employees' Credit Union) in November 1973 – a mere two years into the life of the Credit Union. He held the position of Chairman for an unbroken term of twenty years and a total time in the Chair of 21 years. We can be absolutely certain that that is a record that will never be broken in the life of this institution.

It is important to remember that Darryl Haigh has been involved in, and overseen, every major decision that the Credit Union has made in more than three decades. If a man must be judged on the quality of his decisions then so be it. Time will remember Darryl fondly.

Darryl and his wife have retired and built their dream home in New Zealand and we wish them health and happiness in their retirement.

As indicated earlier it has been another successful year for Macarthur Credit Union with modest growth, full regulatory compliance and still delivering great service and excellent member benefits. We have maintained fees at long time, low levels; reduced home loan interest rates in the past financial year and not passed on the full increases recently; and still be an excellent corporate citizen within our community with our new policy of donating 5% of our net profits to local charities and causes.

Of course, none of this success and member benefit comes easily. It is achieved by a team of dedicated staff under the leadership of Graham Holby. Each member knows where the real strength of Macarthur Credit Union lays – with the smiling, friendly staff and management.

My colleagues on the Board of Directors also deserve your thanks for their dedication and commitment in governing what has become a large and complex business undertaking, and doing so with the best interests of members at heart.

Macarthur Credit Union truly does provide – a different kind of banking.

Greg Wright
Chairman

DIRECTORS' REPORT

The Directors present their report together with the financial report of Macarthur Credit Union Ltd ("the Credit Union") for the financial year ended 30 June 2006 and the auditor's report thereon.

DIRECTORS

The directors of the Credit Union at any time during or since the end of the financial year are:

**Name, qualifications, experience
and special responsibilities**

Greg Wright B.Bus, MBA, MLGMA, AFAIM, MAICD, FACUI Dip	Chairman of Directors Chairman Executive Committee Board Member since 1994
Phillip Rankin B Bus ASA, MAICD, MACUI, JP	Vice Chairman of Directors Chairman Audit Committee Executive Committee Member Board Member since 1995
Kevin Delbridge FCA, ACUI (appointed 28 September 2005)	Member Audit Committee Board Member since 2005
Darryl Haigh MACUI (retired 30 April 2006)	Executive Committee Member Governance Committee Member Board Member 1973-1977, 1980-2006
Neville Hoskin MACUI	Chairman Governance Committee Board Member since 2002
Ralph Sharp MACUI	Board Member 1971-1974, 1985-present
Ronald Streater MACUI	Governance Committee Member Board Member since 2003
Michael Wales FACUI	Audit Committee Member Executive Committee Member Board Member 1977-1981, 1991-present
Vernon Wrightson MACUI	Board Member since 2001
Richard Drinnan B Comm, CA (resigned 17 July 2005)	Board Member 2003-2005 Audit Committee Member

DIRECTORS' REPORT

COMPANY SECRETARY

Graham Holby ACUI was appointed to the position of General Manager/Company Secretary in June 1976. In addition to extensive Credit Union management experience, Mr Holby is a director of CFP Ltd.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of directors) and number of meetings attended by each of the directors of the Credit Union during the financial year are:

	Directors' meetings	Audit committee meetings	Executive committee meetings	Governance committee meetings
Number of meetings held:	13	6	1	4
Number of meetings attended:				
Greg Wright	12	-	1	-
Phillip Rankin	12	6	1	-
Kevin Delbridge*	10	6	-	-
Darryl Haigh**	10	-	-	3
Neville Hoskin	13	-	-	4
Ralph Sharp	12	-	-	-
Ronald Streater	13	-	-	3
Michael Wales	11	6	1	-
Vernon Wrightson	12	-	-	-
Richard Drinnan***	-	-	-	-

*: Kevin Delbridge appointed on 28 September 2005

** : Darryl Haigh retired on 30 April 2006

***: Richard Drinnan resigned on 17 July 2005

DIRECTORS' INTERESTS AND BENEFITS

During or since the financial year ended 30 June 2006, no Director of the Credit Union has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of remuneration paid or payable to the Directors disclosed in the accounts, by reason of a contract entered into by the Credit Union with:

- A Director; or
- A firm of which a Director is a member; or
- An entity in which a Director has a substantial financial interest

DIRECTORS' REPORT

except for loans disbursed to Directors.

All Directors hold One (1) ordinary \$5 share of the Credit Union.

INDEMNIFICATION OF OFFICERS AND AUDITORS

The Credit Union has agreed to indemnify the officers of the Credit Union against all liabilities to another person that may arise from their position as officers of the Credit Union, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Credit Union will meet the full amount of any such liabilities, including costs and expenses.

The officers of the Credit Union covered by the insurance contract include the Directors, Executive Officers, Secretary and Employees.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

No insurance cover has been provided for the benefit of the Auditor of the Credit Union.

PRINCIPAL ACTIVITIES

The principal activity of the Credit Union during the course of the financial year was the provision of a range of financial services and associated activities to Members.

There has been no significant change in the nature of these activities during the year ended 30 June 2006.

REVIEW AND RESULTS OF OPERATIONS

The amount of profit for the Credit Union for the financial year, after providing for income tax, was \$964,286 (2005 \$1,254,071).

The Directors are extremely pleased with this result. This result has been achieved without excessive reliance on fees and charges. Your Credit Union continues to pride itself on the exceptional service levels provided to Members.

Your Credit Union once again continued to provide a range of quality services and products to Members. Increasing balances of assets under management are evidence of your Credit Union's continued success in meeting Members' needs.

Despite continued pressures of reduced margins, and the continually changing economic environment, your Credit Union continues the tradition of mutual equality and service accountability. It continues to endeavour to maintain a commitment to

DIRECTORS' REPORT

minimal fees to all Members despite continuing cost pressures associated with additional compliance and regulatory requirements. It is pleasing to note that this result was achieved without any increases in fees and charges.

The Board of Directors would like to thank all staff for their professionalism and courtesies that are warmly received by all Members.

To the Members, we once again thank you for your continued confidence and support of your Credit Union.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Credit Union, to affect significantly the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union, in future financial years.

EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Credit Union in subsequent financial years.

LIKELY DEVELOPMENTS

The main strategy again this year will be to continue to sustain service excellence so that Members are encouraged to use the Credit Union as their main financial institution.

During the 2006/07 year, the Credit Union will continue its process of undertaking preparatory work in respect of the conversion of its core banking computer operations to a new platform. This follows the sale by the industry association (CUSCAL) of its information technology operations to a 3rd party. While a firm date has not yet been set for the proposed migration, significant preparatory work will be undertaken during the coming year.

Other than disclosed in this report, there are no matters which would have a likely effect on the operations of the Credit Union or the expected results of its operations in future years.

DIRECTORS' REPORT

**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION
307C OF THE CORPORATIONS ACT 2001**

The Lead auditor's independence declaration is set out on page 13 and forms part of the directors' report for the financial year ended 30 June 2006.

This report is made in accordance with a resolution of the directors.

Greg Wright
Chairman of Board of Directors

Phillip Rankin
Vice Chairman of Board of Directors

Dated at Camden this 11th day of October 2006.

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**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001**

To: the directors of Macarthur Credit Union Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Warwick Shanks
Partner

Signed at Camden this 11th day of October 2006.

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INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

		2006	2005
		\$	\$
	Note		
Interest revenue	2	9,916,782	9,708,621
Interest expense	2	(4,567,793)	(4,307,121)
Net interest income		<u>5,348,989</u>	<u>5,401,500</u>
Bad and doubtful debts expense	4	(16,924)	294,855
Net interest income after bad and doubtful debts expense		<u>5,332,065</u>	<u>5,696,355</u>
Dividend income		86,584	51,685
Other income	3	1,944,437	1,835,674
Employee benefits expense	4	(2,546,539)	(2,416,395)
ATM expenses	4	(1,100,170)	(1,051,941)
General administration expenses		(769,729)	(754,102)
Other operating expenses		(529,486)	(494,432)
Depreciation and amortisation expenses	4	(483,362)	(467,139)
Information technology expenses		(399,662)	(372,832)
Office occupancy expense	4	(242,442)	(255,548)
Profit before tax		<u>1,291,696</u>	<u>1,771,325</u>
Income tax expense	6	(327,410)	(517,254)
Profit for the year		<u><u>964,286</u></u>	<u><u>1,254,071</u></u>

The income statement is to be read in conjunction with the notes to the financial statements as set out on pages 18 to 57.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Total equity at the beginning of the year	20	<u>15,082,640</u>	<u>13,828,569</u>
Equity investments revaluation reserve net of tax	20(b)(iii)	66,550	-
Adjustment on adoption of AASB 132/139	20	<u>772,577</u>	-
Net income recognised directly in equity		839,127	-
Profit after tax for the year		<u>964,286</u>	<u>1,254,071</u>
Total recognised income and expense for the year		964,286	1,254,071
Total equity at the end of the year	20	<u><u>16,886,053</u></u>	<u><u>15,082,640</u></u>

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 18 to 57.

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BALANCE SHEET AS AT 30 JUNE 2006

	Note	2006 \$	2005 \$
Assets			
Cash and cash equivalents	7	900,991	2,375,211
Loans and receivables	8,9,10	144,900,332	-
Receivables due from other financial institutions	9	-	51,500,030
Loans and advances	8	-	85,639,116
Other financial assets	11	768,110	808,873
Property, plant and equipment	13	3,789,884	4,119,308
Investment properties	14	996,009	1,016,740
Intangible assets	15	36,886	3,295
Deferred tax assets	12	551,354	876,646
Other assets	16	1,344,438	1,310,358
Total assets		<u>153,288,004</u>	<u>147,649,577</u>
Liabilities			
Deposits	17	133,749,578	130,156,271
Interest bearing liabilities	24	177,801	-
Payables	18	1,555,925	1,417,889
Current tax liabilities	12	62,393	178,870
Provisions	19	856,254	813,907
Total liabilities		<u>136,401,951</u>	<u>132,566,937</u>
Net assets		<u>16,886,053</u>	<u>15,082,640</u>
Equity			
Reserves	20	533,790	40,265
Retained earnings	20	16,352,263	15,042,375
Total equity		<u>16,886,053</u>	<u>15,082,640</u>

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 18 to 57.

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STATEMENT OF CASH FLOWS AS AT 30 JUNE 2006

	Note	2006 \$	2005 \$
Cash flows from operating activities			
Interest received		9,778,536	9,818,304
Dividends received		86,584	51,685
Other cash receipts from members		2,008,021	1,592,655
Interest paid		(4,534,295)	(4,143,247)
Income taxes paid		(478,220)	(471,306)
Net loans repaid/(funded)		2,839,185	(1,034,568)
Net increase/(decrease) in deposits		3,593,307	(5,460,400)
Cash paid to suppliers and employees		(5,463,291)	(5,096,491)
Net cash flows from operating activities	24 a)	7,829,827	(4,743,368)
Cash flows from investing activities			
(Payments for)/redemptions of loans to other ADI's		(9,377,781)	5,616,178
Proceeds on sale of property, plant and equipment			6,364
Rental income from investment properties		62,727	62,727
Acquisitions of property, plant and equipment		(128,114)	(312,993)
Acquisition of investment properties		-	(520,736)
Acquisition of intangible assets		(38,680)	-
Net cash flows used in investing activities		(9,481,848)	4,851,540
Net increase/(decrease) in cash held		(1,652,021)	108,172
Cash at the beginning of the year		2,375,211	2,267,039
Cash at the end of the year	24 b)	723,190	2,375,211

The cash flow statement is to be read in conjunction with the notes to the financial statements set out on pages 18 to 57.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

Macarthur Credit Union Ltd (“the Credit Union”) is a company incorporated and domiciled in Australia.

The financial report was authorised for issue by the directors on 11 October 2006.

a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001. International Financial Reporting Standards (“IFRS”) form the basis of Australian Accounting Standards adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS (“AIFRS”) to distinguish from previous Australian Generally Accepted Accounting Principles (“AGAAP”).

This is the Credit Union’s first financial report to be prepared in accordance with Australian Accounting Standards, being AIFRS and AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. AASB 1 allows exemption from restating comparatives for AASB 132/139. The Credit Union has applied this exemption. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the Credit Union is provided in Note 28.

b) Basis of preparation

The financial report is presented in Australian dollars.

The following standards and amendments were available for early adoption but have not been applied by the Credit Union in these financial statements:

- AASB 7 *Financial Instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132
- *Financial Instruments: Disclosures and Presentation* arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The Credit Union plans to adopt AASB 7 and AASB 2005-10 in the 2007 financial year.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Credit Union as the standard and the amendment are concerned only with disclosures.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as available-for sale.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1 (s).

Except as noted, the accounting policies set out below have been applied consistently to all periods presented in the financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards-AIFRS.

c) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Credit Union recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

item will flow to the Credit Union and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- Buildings 40 years
- Plant and equipment 3-7 years
- Leasehold improvements the lease term

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

d) Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each investment property. The estimated useful life for investment properties in the current and comparative periods is 40 years.

e) Intangible assets

Computer Software: Where computer software costs are not integrally related to associated hardware, the Credit Union recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Credit Union controls.

The Credit Union carries capitalised computer software assets at cost less amortisation and any impairment losses.

Amortisation is charged to the income statement on a straight line basis over the estimated useful life of the computer software. The estimated useful life of computer software in the current and comparative periods is 3 years.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

f) Investments

Current period policy

Financial Instruments that are classified by the Credit Union as available for sale are stated at fair value, with any resultant gain or loss recognised in the income statement. The fair value of financial instruments classified as available for sale is their quoted bid price at the balance sheet date. In cases where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Other Financial Instruments without a “readily tradeable market” are recognised at cost. The unlisted shares consist of shareholdings in Credit Union Services Corporation (Australia) Limited (“CUSCAL”) and Combined Financial Processing (“CFP”) Ltd. The shares in these two companies are held to enable the Credit Union to receive essential banking and information technology services. Both of these companies have been created to supply services to member Credit Unions and as such do not have an independent business focus. The shares are not able to be traded and are not redeemable.

The financial reports of CUSCAL and CFP record net tangible asset backing of these shares exceeding their cost value. Any fair value determination on these shares is likely to be greater than their cost value. However, due to the absence of an active market and restrictions on the ability to transfer the shares, a market value is not able to be readily determined.

Comparative period policy

Investments in other listed and unlisted entities are measured at the lower of cost or recoverable amount.

The quantitative effect of the change in accounting policy is set out in note 29.

g) Loans

Loans are initially recorded at amounts funded. Subsequent measurement is at amortised cost using the effective interest rate method, after assessing required provisions for impairment as described in note 1(j).

h) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash balances in the Credit Union’s bank accounts and at call deposits. Bank overdrafts that are repayable

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

j) Impairment of loans

Current period policy

All loan assets are subject to recurring review and assessed for probable impairment. The Credit Union has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of impairment. It is estimated that full recovery of loans with arrears levels in excess of 30 days is highly unlikely. As such, the Provision for Impairment is calculated on the basis of 100% of the outstanding balance of all loans with arrears balances of greater than 30 days.

In addition, in cases where there is specific evidence of impairment but the loan balance has arrears of less than 30 days, a provision of 100% of the outstanding balance is applied.

The methodology and assumptions used for estimating likely future losses are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in the assumptions used for estimating likely future losses could result in a change in provisions for loan impairment and have a direct impact on the impairment charge.

A general reserve for credit losses is also held as an additional allowance for bad debts to meet prudential requirements.

All bad debts are written off in the period in which they are identified, as approved by the Board of Directors after consultation with management. This action is taken when it is reasonable to expect that the recovery of the debt is unlikely.

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described below:

Comparative period policy

Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

A specific provision calculation is made in accordance with APRA's prudential standard calculation, based on a sliding scale according to a loan's time in arrears. An additional General Provision is also made to cover unidentified potential loan losses.

k) Impairment

The carrying amount of the Credit Union's assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

l) Employee benefits

Wages, salaries and annual leave: Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on wage and salary rates that the Credit Union expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

Long Service Leave: The Credit Union's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to government bonds at the balance sheet date that have maturity dates approximating the terms of the Credit Union's obligations.

Superannuation: Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

The Credit Union contributes to the CUE Super Plan and The Portfolio Service Retirement Fund for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. Corporate trustees separately administer both of these plans. The Credit Union has no interest in these Superannuation Plans (other than as a contributor) and is not liable for the performance or obligations of the plans.

m) Provisions

A provision is recognised in the balance sheet when the Credit Union has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

n) Trade and other payables

Trade and other payables are stated at their amortised cost and are recognised for goods or services received, whether or not billed to the Credit Union.

Trade payables are non-interest bearing and are normally settled on 30 day terms.

o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Dividend income is recognised in the income statement on the date the Credit Union's right to receive payment is established.

Fee and commission income is recognised in the income statement when the service is provided.

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

p) Expenses

Interest payable is calculated using the effective interest rate method. Deposits are recorded at their principal amount as they are either payable at call or repriced within 12 months.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

q) Income Tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

r) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST") except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

s) Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Credit Union's critical accounting policies and estimates and the application of these policies and estimates.

There are no estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

NOTES TO THE FINANCIAL STATEMENTS

2. Interest revenue and expense

The following table shows the average balance for each of the major categories of interest bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate.

	Average Balance \$	2006 Interest \$	Average Interest Rate	Average Balance \$	2005 Interest \$	Average Interest Rate
Interest revenue						
Loans to:						
Other ADI's	61,127,281	3,463,753	5.67%	57,396,077	3,190,852	5.56%
Members	84,594,893	6,453,029	7.63%	86,922,300	6,517,769	7.50%
	<u>145,722,174</u>	<u>9,916,782</u>	<u>6.81%</u>	<u>144,318,377</u>	<u>9,708,621</u>	<u>7.07%</u>
Interest expense						
Deposits	134,840,653	4,562,855	3.38%	133,761,647	4,298,869	3.21%
Interest bearing liabilities	57,751	4,938	8.55%	112,272	8,252	7.35%
	<u>134,898,404</u>	<u>4,567,793</u>	<u>3.39%</u>	<u>133,873,919</u>	<u>4,307,121</u>	<u>3.22%</u>
Net interest income	<u>10,823,770</u>	<u>5,348,989</u>	<u>3.42%</u>	<u>10,444,458</u>	<u>5,401,500</u>	<u>3.85%</u>

	2006 \$	2005 \$
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3. Other income

Other income comprises the following:

Fees and commissions	1,819,491	1,722,011
Bad debts recovered	19,381	32,598
Rental income from property	62,727	62,727
Other revenue	42,838	11,974
Net gain on disposal of property, plant and equipment	-	6,364
	<u>1,944,437</u>	<u>1,835,674</u>

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
4. Other expenses		
Employee benefits		
Personnel costs	2,309,190	2,185,524
Superannuation contributions	195,002	185,980
Provision for employee entitlements	42,347	44,891
	<u>2,546,539</u>	<u>2,416,395</u>
ATM expenses		
Foreign ATM fees	802,425	777,180
ATM running expenses	220,921	250,269
ATM card issue	76,824	24,492
	<u>1,100,170</u>	<u>1,051,941</u>
Office occupancy expenses		
Occupancy	211,180	227,639
Rental-operating leases	31,262	27,909
	<u>242,442</u>	<u>255,548</u>
Depreciation & amortisation expenses		
Plant and Equipment	357,052	350,198
Buildings	99,949	99,920
Leasehold Improvements	541	-
Investment Properties	20,731	14,607
Intangible Assets	5,089	2,414
	<u>483,362</u>	<u>467,139</u>
Charge to income statement for bad and doubtful debts comprises:		
Bad debts recognised directly	75,583	65,247
Movement in provision for impairment	(58,659)	(360,102)
	<u>16,924</u>	<u>(294,855)</u>

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
5. Auditors' remuneration		
Audit services:		
Audit of financial report and other regulatory audit services	46,000	39,050
Other services:		
Other assurance services	9,270	8,950
Taxation services	7,570	3,093
	<u>16,840</u>	<u>12,043</u>
	<u>62,840</u>	<u>51,093</u>
6. Income tax expense		
a) Recognised in the income statement		
Current tax expense		
Current year	502,618	687,496
Adjustments for prior years	(37,203)	(39,261)
	<u>465,415</u>	<u>648,235</u>
Deferred tax expense		
Origination and reversal of temporary differences	(134,583)	(71,776)
Adjustments for prior years	(3,422)	(59,205)
	<u>(138,005)</u>	<u>(130,981)</u>
Total income tax expense in income statement	<u>327,410</u>	<u>517,254</u>

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
6. Income tax expense (continued)		
b) Numerical reconciliation between tax expense and pre-tax net profit		
Profit before tax	1,291,696	1,771,325
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	387,509	531,398
Increase in income tax expense due to:		
Imputation gross-up on dividends received	9,281	6,647
Non-deductible expenses	2,181	37,832
Decrease in income tax expense due to:		
Franking credits on dividends received	(30,936)	(22,151)
	<u>368,035</u>	<u>553,726</u>
Over provided in prior years	<u>(40,625)</u>	<u>(36,472)</u>
Income tax expense on pre-tax net profit	<u>327,410</u>	<u>517,254</u>
7. Cash and cash equivalents		
Cash on hand and at bank	<u>900,991</u>	<u>2,375,211</u>

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
8. Loans and receivables		
Amounts due comprise the following:		
Loans to other ADI's:		
Interest earning deposits	61,013,644	-
Loans to members:		
Overdrafts	18,093	17,073
Term loans	83,333,370	86,139,533
Loans to related parties	1,120,622	1,230,247
	<u>145,485,729</u>	<u>87,386,853</u>
Provision for impairment	(585,397)	(1,747,737)
Total loans to members	<u>83,886,688</u>	<u>85,639,116</u>
Total loans and receivables	<u>144,900,332</u>	<u>85,639,116</u>

An analysis of the maturity profile of loans and receivables is included at Note 21.

Details of loans to related parties are included at Note 25.

Concentration of loans

The Credit Union does not currently have an exposure to groupings of individual loans to any one particular industry.

The loan portfolio of the Credit Union does not include any loan which represents 10% or more of the Credit Union's capital.

The Credit Union operates predominantly in the finance industry within the Macarthur region.

9. Receivables due from other financial institutions

Interest earning deposits	-	<u>51,500,030</u>
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An analysis of the maturity profile of receivables is included at Note 21.

NOTES TO THE FINANCIAL STATEMENTS

	2006 \$	2005 \$
10. Provision for impairment		
a) The Provision for impairment comprises:		
<i>Collective provision</i>		
Opening balance	-	-
Adjustment on adoption of AASB 132/AASB 139	644,056	-
Movement in provision	(58,659)	-
Closing balance	<u>585,397</u>	<u>-</u>
<i>Specific provision</i>		
Opening balance	298,994	403,179
Movement in provision	-	(104,185)
Adjustment on adoption of AASB 132/AASB 139	(298,994)	-
Closing balance	<u>-</u>	<u>298,994</u>
<i>General provision</i>		
Opening balance	1,448,743	1,704,660
Movement in provision	-	(255,917)
Adjustment on adoption of AASB 132/AASB 139	(1,448,743)	-
Closing balance	<u>-</u>	<u>1,448,743</u>
Total provision for impairment	<u>585,397</u>	<u>1,747,737</u>

Analysis of bad debts expense:

Additions to collective provision	(58,659)	-
Movement in general provision	-	(255,917)
Movement in specific provision	-	(104,185)
Bad debts written off directly	75,583	65,247
	<u>16,924</u>	<u>(294,855)</u>

The Credit Union holds a general reserve for credit losses as an additional allowance for bad debts to comply with prudential requirements. Refer to Note 20 for details of this reserve.

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
10. Provision for impairment (continued)		
b) Other impaired loan disclosures		
Restructured loans	110,309	251,127
Past due loans	-	-
Net fair value of assets acquired through the enforcement of security	-	-
Interest revenue on non-accrual and restructured loans	35,249	42,141
Interest foregone on non-accrual and restructured loans	62,873	60,367
Non-accrual loans:		
-with specific provision	330,165	309,342
-without specific provision	3,357	2,264
Specific provision	(322,858)	(298,994)
	<u>10,664</u>	<u>12,612</u>

11. Other financial assets

Listed shares-at cost	-	500
Listed shares-at fair value	95,570	-
Unlisted shares-at cost	672,540	808,373
	<u>768,110</u>	<u>808,873</u>

The Credit Union holds shares in Insurance Australia Group Limited and Baycorp Advantage Limited (following the demutualisation of the Credit Reference Association of Australia). At 30 June 2005 these shares had a market value of \$90,774.

NOTES TO THE FINANCIAL STATEMENTS

2006
\$

2005
\$

12. Tax assets and liabilities

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Deferred tax assets

Property, plant & equipment	141,872	121,564
Provisions	432,495	782,164
Accruals	5,196	-
Other	312	-
Total Deferred tax assets	<u>579,875</u>	<u>903,728</u>

Deferred tax liabilities

Shares in listed companies	(28,521)	(27,082)
Total deferred tax liabilities	<u>(28,521)</u>	<u>(27,082)</u>

Net deferred tax assets 551,354 876,646

Current tax liabilities

The current tax liability for the Credit Union of \$62,393 (2005: \$178,870) represents the amount of income tax payable in respect of the current and prior financial periods due to the Australian Tax Office.

13. Property, plant and equipment

Freehold land and buildings

Freehold Land-at cost	207,650	207,650
Buildings on freehold land-at cost	4,007,727	4,003,683
Provision for depreciation	(1,053,686)	(953,737)
	<u>3,161,691</u>	<u>3,257,596</u>

Leasehold improvements

At cost	23,814	11,893
Provision for depreciation	(12,434)	(11,893)
	<u>11,380</u>	<u>-</u>

Plant and equipment

At cost	2,678,803	2,566,654
Provision for depreciation	(2,061,990)	(1,704,942)
	<u>616,813</u>	<u>861,712</u>

NOTES TO THE FINANCIAL STATEMENTS

2006 **2005**
\$ **\$**

13. Property, plant and equipment (continued)

Total property, plant and equipment

At cost	6,917,994	6,789,880
Provision for depreciation	(3,128,110)	(2,670,572)
	3,789,884	4,119,308

Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:

2006	Freehold land and buildings	Leasehold improvements	Plant and equipment	Total
Carrying amount at the beginning of the year	3,257,596	-	861,712	4,119,308
Additions	4,044	11,921	112,149	128,114
Depreciation	(99,949)	(541)	(357,048)	(457,538)
Carrying amount at the end of the year	3,161,691	11,380	616,813	3,789,884

2005	Freehold land and buildings	Leasehold improvements	Plant and equipment	Total
Carrying amount at the beginning of the year	3,353,976	-	902,457	4,256,433
Additions	3,540	-	309,453	312,993
Depreciation	(99,920)	-	(350,198)	(450,118)
Carrying amount at the end of the year	3,257,596	-	861,712	4,119,308

14. Investment properties

Investment properties-at cost	1,048,699	1,048,699
Provision for depreciation	(52,690)	(31,959)
	996,009	1,016,740

A reconciliation of the carrying amount of investment properties is set out below:

Carrying amount at the beginning of the year	1,016,740	510,611
Additions	-	520,736
Depreciation	(20,731)	(14,607)
Carrying amount at the end of the year	996,009	1,016,740

Investment properties comprise a number of commercial properties that are leased to third parties. As all these leases are outside the initial lease period, they are currently operating on a continuing basis.

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
16. Other assets		
Interest & fees receivable	1,082,150	943,904
Other	163,787	290,098
Prepayments	98,501	76,356
	<u>1,344,438</u>	<u>1,310,358</u>

17. Deposits

Call deposits	61,258,634	58,554,113
Term deposits	72,490,944	71,602,158
	<u>133,749,578</u>	<u>130,156,271</u>

An analysis of the maturity profile of deposits is included in Note 21.

Concentration of deposits

The Credit Union does not currently have an exposure to groupings of individual deposits to any one particular industry.

The deposit portfolio of the Credit Union does not include any one deposit which represents 10% or more of the Credit Union's total liabilities.

The Credit Union operates predominantly in the finance industry within the Macarthur region.

18. Trade and other payables

Trade creditors	159,902	138,088
Accrued interest payable	945,721	912,223
Sundry creditors	450,302	367,578
	<u>1,555,925</u>	<u>1,417,889</u>

19. Provisions

Employee benefits

Annual leave	436,966	427,166
Long service leave-current liability	143,026	124,408
Long service leave-non current liability	276,262	262,333
	<u>856,254</u>	<u>813,907</u>

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
20. Capital and reserves		
a) Retained earnings		
Balance at the beginning of the year	15,042,375	13,794,929
Profit for year attributable to members of the Credit Union	964,286	1,254,071
Adjustments on adoption of AASB 132 and AASB 139	772,577	-
Transfer to general reserve for credit losses	(422,360)	-
Redeemed share capital account	(4,615)	(6,625)
Balance at the end of the year	<u>16,352,263</u>	<u>15,042,375</u>
b) Reserves		
Redeemed share capital account	20(b)(i) 44,880	40,265
General reserve for credit losses	20(b)(ii) 422,360	-
Equity investments revaluation reserve	20(b)(iii) 66,550	-
	<u>533,790</u>	<u>40,265</u>
i) Redeemed Share Capital Account		
Balance at the beginning of the year	40,265	33,640
Member shares redeemed during year	4,615	6,625
Balance at the end of the year	<u>44,880</u>	<u>40,265</u>

The redeemed share capital account represents the value of member shares redeemed during the year. As the member shares are redeemable preference shares, the Corporations Act 2001 requires that any redemptions are made from retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
20. Capital and reserves (continued)		
ii) General reserve for credit losses		
Balance at the beginning of the year	-	-
Transfer from retained earnings	422,360	-
Balance at the end of the year	<u>422,360</u>	<u>-</u>

The General Reserve for Credit Losses contains an additional allowance for bad debts, above that calculated in accordance with Note 10. The general reserve for credit losses together with the amounts calculated in accordance with Note 10 must be adequate to comply with prudential requirements.

iii) Equity investment revaluation reserve

Balance at the beginning of the year	-	-
Adjustment on adoption of AASB 132 and AASB 139	63,192	-
Net increase in reserve	3,358	-
Balance at the end of the year	<u>66,550</u>	<u>-</u>

The Equity Investment Revaluation Reserve relates to the cumulative unrealised gains on equity investments due to revaluation to fair value. The reserve is recorded net of tax.

21. Financial instruments

a) Maturity profile of financial assets and liabilities

Financial assets and liabilities have differing maturity profiles depending on the contractual term, or in the case of loans, the repayment amount and frequency. The table below shows the period in which different financial assets and liabilities held will mature and be eligible for renegotiation or withdrawal.

In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date, assuming contractual repayments are maintained. This will be subject to change in the event that current repayment conditions are varied or not met.

NOTES TO THE FINANCIAL STATEMENTS

21. Financial instruments (continued)

The maturity profile of the Credit Union's financial assets and liabilities is set out below:

2006	At Call	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total
<i>Financial instrument</i>								
<i>Financial assets</i>								
Cash and cash equivalents	-	-	-	-	-	-	900,991	900,991
Receivables-other ADI's	-	13,013,592	17,000,000	31,000,000	-	-	-	61,013,592
Receivables-loans to members	-	1,375,980	2,671,030	11,409,473	39,893,527	28,536,678	-	83,886,688
Other financial assets	-	-	-	-	-	-	768,110	768,110
<i>Total financial assets</i>	-	14,389,572	19,671,030	42,409,473	39,893,527	28,536,678	1,669,101	146,569,381
<i>Financial liabilities</i>								
Deposits	61,258,634	15,301,437	17,378,637	39,810,870	-	-	-	133,749,578
Interest bearing liabilities	177,801	-	-	-	-	-	-	177,801
<i>Total financial liabilities</i>	61,436,435	15,301,437	17,378,637	39,810,870	-	-	-	133,927,379

NOTES TO THE FINANCIAL STATEMENTS

21. Financial instruments (continued)

The maturity profile of the Credit Union's financial assets and liabilities is set out below:

2005	At Call	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total
<i>Financial instrument</i>								
<i>Financial assets</i>								
Cash and cash equivalents	-	1,361,912	-	-	-	-	1,013,299	2,375,211
Receivables-other ADI's	-	12,500,030	15,000,000	24,000,000	-	-	-	51,500,030
Receivables-loans to members	-	1,370,729	2,707,312	11,457,411	41,384,924	28,718,740	-	85,639,116
Other financial assets	-	-	-	-	-	-	808,873	808,873
Total financial assets	-	15,232,671	17,707,312	35,457,411	41,384,924	28,718,740	1,822,172	140,323,230
<i>Financial liabilities</i>								
Deposits	58,554,113	12,955,210	18,977,786	39,669,162	-	-	-	130,156,271
Total financial liabilities	58,554,113	12,955,210	18,977,786	39,669,162	-	-	-	130,156,271

b) Interest rate change profile of financial assets and liabilities

Financial assets and liabilities have conditions which allow interest rates to be amended either at maturity (term deposits and investments) or after adequate notice is given (loans and savings). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

NOTES TO THE FINANCIAL STATEMENTS

21. Financial instruments (continued)

The Credit Union's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

2006	Floating Rate	Fixed Interest Rate Maturing within 1 Year	Fixed Interest Rate Maturing 1 to 5 Years	Non-Interest Bearing	Total	Weighted Average Interest Rate
Financial instrument						
<i>Financial Assets</i>						
Cash and cash equivalents	-	-	-	900,991	900,991	N/A
Receivables-other ADI's	52	61,013,592	-	-	61,013,644	6.13%
Receivables-loans to members	77,237,338	-	6,649,350	-	83,886,688	7.59%
Other financial assets	-	-	-	768,110	768,110	N/A
<i>Total financial assets</i>	<u>77,237,390</u>	<u>61,013,592</u>	<u>6,649,350</u>	<u>1,669,101</u>	<u>146,569,433</u>	<u>6.84%</u>
<i>Financial liabilities</i>						
Deposits	61,258,634	72,490,944	-	-	133,749,578	3.46%
Interest bearing liabilities	177,801	-	-	-	177,801	8.55%
<i>Total financial liabilities</i>	<u>61,436,435</u>	<u>72,490,944</u>	<u>-</u>	<u>-</u>	<u>133,927,379</u>	<u>3.46%</u>

NOTES TO THE FINANCIAL STATEMENTS

21. Financial instruments (continued)

The Credit Union's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

2005	Floating rate	Fixed interest rate maturing within 1 year	Non-interest bearing	Total	Weighted average interest rate
Financial instrument					
<i>Financial assets</i>					
Cash and cash equivalents	1,361,912	-	1,013,299	2,375,211	0.50%
Receivables-other ADI's	30	51,500,000	-	51,500,030	5.87%
Receivables-loans to members	85,639,116	-	-	85,639,116	7.67%
Other financial assets	-	-	808,873	808,873	N/A
<i>Total financial assets</i>	<hr/> 87,001,058	51,500,000	1,822,172	140,323,230	6.81%
<i>Financial liabilities</i>					
Deposits	58,554,113	71,602,158	-	130,156,271	3.24%
<i>Total financial liabilities</i>	<hr/> 58,554,113	71,602,158	-	130,156,271	3.24%

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$

21. Financial instruments (continued)

c) Net fair value of financial assets and liabilities

The net fair value of financial assets and liabilities is the fair value after considering the costs to be incurred in the exchange of an asset or the settlement of a liability.

Reasonable estimates of the net fair value of financial assets and liabilities at balance date do not differ materially from the carrying values of these assets and liabilities on the Credit Union's Balance Sheet.

22. Contingencies

In the normal course of business the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of Members. The Credit Union uses the same credit policies and assessment criteria in making commitments and conditional obligations for these risks as it does for ordinary loans and advances.

Guarantees	349,286	372,468
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Financial guarantees written are conditional commitments issued by the Credit Union to guarantee the performance of a Member to a third party. The Credit Union holds security over all guarantees issued.

23. Commitments

a) Operating lease expenditure commitments

Within one year	5,272	29,820
Between one and two years	-	4,970
Between two and five years	-	-
	5,272	34,790

The Credit Union leases its Picton branch premises under an operating lease. While the initial term of the lease has expired, lease payments are increased every year to reflect increases in the consumer price index (CPI).

During the financial year ended 30 June 2006, \$47,950 was recognised as an expense in the income statement in respect of operating leases (2005: \$44,159).

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
23. Commitments (continued)		
b) Outstanding loan commitments		
Loans approved but not yet funded	<u>669,735</u>	<u>608,750</u>
c) Loan redraw facilities		
Undrawn value of Redraw Facilities	<u>3,366,475</u>	<u>3,818,507</u>

Redraw facilities are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

d) Industry support contract

The Credit Union is a member of the Credit Union Financial Support System ("CUFSS"), a company limited by guarantee to provide member Credit Unions with financial support in the event of any of them experiencing liquidity or capital adequacy difficulties. The significant conditions of participation are:

- The Credit Union has executed an equitable charge in favour of CUSCAL; and
- The Credit Union has deposited 3.2% of its total assets as deposits with CUSCAL.

There is a cap on the amount a member Credit Union would be required to contribute to the provision of a loan facility in the event of a Credit Union requiring assistance. The cap is equal to 3.2% of the contributing Credit Union's total assets. At 30 June 2006 no such loans had been made by CUFSS.

NOTES TO THE FINANCIAL STATEMENTS

	2006 \$	2005 \$
24. Statement of cash flows		
a) Reconciliation of cash flows from operating activities		
Profit after tax	964,286	1,254,071
<i>Adjustments for:</i>		
(Profit)/loss on sale of property, plant & equipment	-	(6,364)
Depreciation and amortisation	483,362	467,139
Bad debts expense	16,924	(294,855)
Rental income	(62,727)	(62,727)
Net cash from operating activities before changes in assets and liabilities	1,401,845	1,357,264
Net loans funded	2,839,185	(1,034,568)
(Increase)/decrease in interest receivable	(138,246)	109,683
Decrease/(increase) in other receivables	126,311	(173,928)
(Increase) in prepayments	(22,145)	(18,753)
(Increase)/decrease in net deferred tax assets	(34,336)	128,192
Net increase/(decrease) in deposits	3,593,307	(5,460,400)
Increase in accrued interest payable	33,498	163,874
Increase/(decrease) in trade creditors	21,814	(1,478)
Increase in sundry creditors	82,724	224,099
(Decrease) in current tax liabilities	(116,477)	(82,244)
Increase in employee benefits	42,347	44,891
Net cash provided by operating activities	7,829,827	(4,743,368)
b) Reconciliation of cash		
<i>Cash comprises:</i>		
Cash on hand and at bank	900,991	2,375,211
Bank overdraft	(177,801)	
	723,190	2,375,211

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
24. Statement of cash flows (continued)		
c) Overdraft and standby borrowing facilities		
Financing facilities		
Overdraft Facility	2,000,000	2,000,000
Standby Borrowing Facility	1,000,000	1,000,000
	<u>3,000,000</u>	<u>3,000,000</u>
Facilities utilised at reporting date		
Overdraft Facility	177,801	-
Standby Borrowing Facility	-	-
	<u>177,801</u>	<u>-</u>
Facilities not utilised at reporting date		
Overdraft Facility	1,822,199	2,000,000
Standby Borrowing Facility	1,000,000	1,000,000
	<u>2,822,199</u>	<u>3,000,000</u>

The Credit Union's operating account held with CUSCAL was overdrawn by \$177,801 at 30 June 2006. This overdraft bears interest at the rate of 8.55% per annum, payable monthly.

CUSCAL holds an equitable charge over all the assets and undertakings of Macarthur Credit Union Ltd as security against the overdraft and other facilities.

NOTES TO THE FINANCIAL STATEMENTS

2006
\$

2005
\$

25. Related parties

The following were key management personnel of the Credit Union at any time during the reporting period, and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

- Greg Wright
- Phillip Rankin
- Kevin Delbridge (appointed 28 September 2005)
- Darryl Haigh
- Neville Hoskin
- Ralph Sharp
- Ronald Streater
- Michael Wales
- Vernon Wrightson
- Richard Drinnan (resigned 17 July 2005)

Executives

- Graham Holby (General Manager)
- Colleen Chittendon (Manager Operations)
- Paul Brooks (Manager Finance)
- Bruce Ballantyne (Manager Governance)
- Graham Portors (Manager Credit Control)

Remuneration of key management personnel (“KMP”)

The aggregate compensation of KMP comprises amounts paid, payable or provided for during the year. These amounts are as follows:

Short term employee benefits	729,159	717,968
Post employment benefits- Superannuation contributions	72,647	69,984
Other long term benefits	12,825	21,125
Total	814,631	809,077

Remuneration shown as “Short Term Employee Benefits” in the above table is defined as salaries, paid annual leave, movements in annual leave provision, bonuses and the value of fringe benefits received. All remuneration to Directors was approved by the members at the previous Annual General Meeting of the Credit Union.

NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	\$	\$
25. Related parties (continued)		
<i>Loans to key management personnel</i>		
The aggregate value of loans to KMP at balance date amounted to:	1,120,622	1,230,247
The aggregate value of loans disbursed to KMP during the year amounted to:	60,985	396,779
Interest earned on loans to KMP:	75,563	75,870
Repayments during the year	252,538	296,945

The Credit Union's policy for lending to KMP is that all loans are approved on the same terms and conditions that apply to members, with the exception of certain executive management members. These members receive a concessional rate of interest, equivalent to the Credit Union's cost of funds, on their loans. In cases where those loans with a concessional rate of interest are subject to fringe benefits tax, the concessional amount has been included in the remuneration table above.

There are no loans to KMP which are impaired as the balances are considered fully collectible.

There are no benefits or concessional terms and conditions applicable to related parties of KMP. There are no loans to related parties which are impaired.

Other transactions with directors and key management personnel

There are no service contracts to which KMP or their related parties are an interested party.

The Credit Union's General Manager, Mr Graham Holby is a Director of CFP Ltd "CFP". As such, Mr Holby has the capacity to exercise significant influence over the financial and operating policies of CFP.

The Credit Union has a management contract with CFP Ltd to supply computer bureau services. The terms and conditions of the transactions between CFP and the Credit Union were no more favourable than those available, or which might reasonably be expected to be available to other CFP users.

NOTES TO THE FINANCIAL STATEMENTS

26. Economic dependency

The Credit Union has an economic dependency on the following suppliers of services.

Credit Union Services Corporation (Australia) Limited (“CUSCAL”)

CUSCAL supplies the Credit Union with rights to Member Cheques, Redicards and Visa Cards and provides services in the form of settlement with Bankers for Member Cheques, EFT, Visa card transactions and the production of Visa and Redicards for use by members. It also provides central banking facilities to the Credit Union.

First Data International Limited (“FDI”)

FDI operates the switching computer used to link Redicards operated through Reditellers and other approved ATM and EFT suppliers to the Credit Union’s EDP systems.

Combined Financial Processing Ltd (“CFP”)

CFP provides computing services to the Credit Union. The Credit Union has a management contract with the bureau to supply computer support staff and services to meet the day to day needs of the Credit Union and compliance with relevant prudential standards.

Service Contracts

All service contracts are capable of being cancelled within 12 months except for the contract with FDI. The total amount paid to FDI during the year for the provision of services was \$190,192 (2005: \$183,182).

27. Subsequent events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Credit Union in subsequent financial years.

NOTES TO THE FINANCIAL STATEMENTS

28. Explanation of transition to AIFRS

As stated in significant accounting policies note 1(a), these are the Credit Union's first financial statements prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS).

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the Credit Union's date of transition).

In preparing its opening AIFRS balance sheet, the Credit Union has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous AGAAP). An explanation of how the transition from AGAAP to AIFRS has affected the Credit Union's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany those tables.

AASB 1 transitional exemptions

The Credit Union has elected to use the following transitional exemptions allowed by AASB 1 *First Time adoption of Australian Equivalents to International Financial Reporting Standards*.

The Credit Union has elected to apply the exemption available to restate financial instrument comparatives under AASB 132 and AASB 139. As such, the transition date for financial instruments becomes 1 July 2005 instead of 1 July 2004. On this basis, comparative figures for the 2004/05 period in respect of financial instruments have been reported in accordance with AGAAP.

NOTES TO THE FINANCIAL STATEMENTS

28. Explanation of transition to AIFRS (continued)

The impact of the adoption of AIFRS at 1 July 2004 is illustrated below:

	Note	AGAAP 1 July 2004 \$	Adjustments \$	AIFRS 1 July 2004 \$
Assets				
Cash and cash equivalents		2,267,039	-	2,267,039
Receivables due from other financial institutions		56,850,020	-	56,850,020
Receivables		1,169,757	-	1,169,757
Loans and advances		84,309,693	-	84,309,693
Other financial assets	c)	1,075,061	-	1,075,061
Property, plant and equipment	a) & b)	4,772,753	(516,320)	4,256,433
Investment properties	a)	-	510,611	510,611
Intangible assets	b)	-	5,709	5,709
Deferred tax assets	e)	994,063	10,775	1,004,838
Other assets		57,603	-	57,603
Total assets		151,495,989	10,775	151,506,764
Liabilities				
Deposits		135,616,671	-	135,616,671
Payables		1,031,394	-	1,031,394
Tax liabilities		261,114	-	261,114
Employee entitlements		769,016	-	769,016
Total liabilities		137,678,195	-	137,678,195
Net assets		13,817,794	10,775	13,828,569
Equity				
Reserves		33,640	-	33,640
Retained earnings		13,784,154	10,775	13,794,929
Total equity		13,817,794	10,775	13,828,569

NOTES TO THE FINANCIAL STATEMENTS

28. Explanation of transition to AIFRS (continued)

The impact of the adoption of AIFRS at 30 June 2005 is illustrated below:

	Note	AGAAP	Adjustments	AIFRS
		30 June 2005		30 June 2005
		\$	\$	\$
Assets				
Cash and cash equivalents		2,375,211	-	2,375,211
Receivables due from other financial institutions		51,500,030	-	51,500,030
Receivables		1,234,002	-	1,234,002
Loans and advances		85,639,116	-	85,639,116
Other financial assets	c)	808,873	-	808,873
Property, plant and equipment	a) & b)	5,139,343	(1,020,035)	4,119,308
Investment properties	a)	-	1,016,740	1,016,740
Intangible assets	b)	-	3,295	3,295
Deferred tax assets	e)	863,082	13,564	876,646
Other assets		76,356	-	76,356
Total assets		147,636,013	13,564	147,649,577
Liabilities				
Deposits		130,156,271	-	130,156,271
Payables		1,417,889	-	1,417,889
Tax liabilities		178,870	-	178,870
Employee entitlements		813,907	-	813,907
Total liabilities		132,566,937	-	132,566,937
Net assets		15,069,076	13,564	15,082,640
Equity				
Reserves		40,265	-	40,265
Retained earnings		15,028,811	13,564	15,042,375
Total equity		15,069,076	13,564	15,082,640

NOTES TO THE FINANCIAL STATEMENTS

28. Explanation of transition to AIFRS (continued)

The impact of the adoption of AASB 132 and 139 at 1 July 2005 is illustrated below:

	Note	IFRS 1 July 2005 \$	Adjustments AASB 132 and AASB 139 \$	AIFRS 1 July 2005 \$
Assets				
Cash and cash equivalents		2,375,211	-	2,375,211
Receivables due from other financial institutions		51,500,030	(51,500,030)	-
Loans and advances		85,639,116	(85,639,116)	-
Loans and receivables		-	138,242,827	138,242,827
Other financial assets	c)	808,873	90,274	899,147
Property, plant and equipment	a) & b)	4,119,308	-	4,119,308
Investment properties	a)	1,016,740	-	1,016,740
Intangible assets	b)	3,295	-	3,295
Deferred tax assets	e)	876,646	(331,104)	545,542
Other assets		1,310,358	-	1,310,358
Total assets		147,649,577	862,851	148,512,428
Liabilities				
Deposits		130,156,271	-	130,156,271
Payables		1,417,889	-	1,417,889
Current tax liabilities		178,870	-	178,870
Deferred tax liabilities		-	27,082	27,082
Provisions		813,907	-	813,907
Total liabilities		132,566,937	27,082	132,594,019
Net assets		15,082,640	835,769	15,918,409
Equity				
Reserves		40,265	485,552	525,817
Retained earnings		15,042,375	350,217	15,392,592
Total equity		15,082,640	835,769	15,918,409

NOTES TO THE FINANCIAL STATEMENTS

28. Explanation of transition to AIFRS (continued)

a) *Investment properties*

Under previous AGAAP, all freehold land and buildings were included as property, plant and equipment. In accordance with AIFRS, properties that are held for either rental income or for capital appreciation are classified as investment properties. The effect on the Credit Union is to decrease property, plant and equipment and increase investment properties by \$510,611 at 1 July 2004 and \$1,016,740 at 30 June 2005.

b) *Intangible assets*

Under previous AGAAP, all intangible assets were included as property, plant and equipment. In accordance with AIFRS, all computer software purchased that is not integral to a specific item of computer hardware is classified as an intangible asset. The effect on the Credit Union is to decrease property, plant and equipment and increase intangible assets by \$5,709 at 1 July 2004 and \$3,295 at 30 June 2005.

c) *Listed shares*

Under previous AGAAP, all listed shares were included at their cost price. In accordance with AIFRS, these listed shares have been included at their fair value. As the exemption from AASB 132/139 has been applied in respect of financial instruments, adjustments in respect of listed shares have been made effective only from 1 July 2005. The effect on the Credit Union is to increase the value of listed shares by \$90,274, increase the equity investments revaluation reserve by \$63,192 and increase deferred tax liabilities by \$27,082 at 1 July 2005.

d) *Provision for impairment*

Under previous AGAAP, impaired loans were provided for in the form of both a Specific and General provision for impairment. The specific calculation is undertaken in accordance with APRA prudential standards requirements, based on a sliding scale according to a loan's period in arrears. Additionally, the general provision calculation covers those loans where there is evidence of impairment, but the individual loans cannot be specifically identified.

As the exemption in respect of AASB 132/139 has been applied in respect of financial instruments, adjustments to the Provision for Impairment have been made effective only from 1 July 2005. The effect on the Credit Union at 1 July 2005 is to reduce the value of the Provision for Impairment by \$1,103,681

It is an APRA requirement that the Credit Union set aside General Provision amounts to cover unforeseen loan losses. In line with the adjustment to the Provision for Impairment, a general reserve for credit losses has been created. This adjustment, of \$422,360 has been made as at 1 July 2005.

NOTES TO THE FINANCIAL STATEMENTS

28. Explanation of transition to AIFRS (continued)

e) Deferred tax balances

In accordance with AIFRS, adjustments have been made to deferred tax balances in respect of the tax effect of depreciation on buildings. The effect on the Credit Union is to increase deferred tax assets by \$10,775 at 1 July 2004 and \$13,564 at 30 June 2005.

The tax effect of the adjustment to the Provision for Impairment has also been made at 1 July 2005. The tax effect of the write back of the Provision for Impairment (of \$1,103,681) is to reduce deferred tax balances by \$331,104.

f) Profit for the year ended 30 June 2005

Profit for the year ended 30 June 2005 increased by \$2,789 due to movement in tax balances associated with the tax effect of depreciation on buildings.

There is no other impact on the reported profit position of the Credit Union for the 2004/05 period when considering the transition to AIFRS.

29. Changes in accounting policy

In the current financial year, the Credit Union adopted AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139: Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for the financial statements within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in:

- Financial instruments classified as available for sale are restated at fair value. The fair value of these financial instruments is their quoted bid price at the balance sheet date. The effect of the restatement is to increase the value of other financial assets by \$90,274. Refer note 28(c).
- An assessment has been made of the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of impairment. On this basis, the provision for impairment is calculated on the basis of 100% of the outstanding balance of all loans with arrears balances of greater than 30 days. Additionally, a further provision (of 100% of the outstanding loan balances) is made where there is specific evidence of impairment, but the loan has an arrears balance of less than 30 days. The effect of the restatement is to reduce the provision for impairment by \$1,103,681. Refer note 28(d).

These adjustments have been made net of the associated tax adjustments.

NOTES TO THE FINANCIAL STATEMENTS

29. Changes in accounting policy (continued)

These changes have been accounted for by adjusting the opening balance of retained earnings at 1 July 2005.

The impact on the balance sheet in the comparative period is set out in note 28 as an adjustment to the opening balance sheet at 1 July 2005. The transitional provisions will not have any effect in future reporting periods.

DIRECTORS' DECLARATION

In the opinion of the directors of Macarthur Credit Union Ltd:

- a) the financial statements and notes set out on pages 14 to 57 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Credit Union as at 30 June 2006 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
 - (ii) complying with the Australian Accounting Standards and the Corporations Regulations 2001; and

- a) there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

Dated at Camden this 11th day of October 2006

Signed in accordance with a resolution of the directors:

Greg Wright
Chairman of the Board of Directors

Phillip Rankin
Chairman of the Audit Committee

Independent Audit Report to the members of Macarthur Credit Union Ltd

Scope

We have audited the financial report of Macarthur Credit Union Ltd ('the Credit Union') for the financial year ended 30 June 2006, consisting of the income statement, statement of changes in equity, balance sheet, statement of cash flows, accompanying notes 1 to 29 and the directors' declaration set out on page 58. The Credit Union's directors are responsible for the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Credit Union.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our 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 whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Credit Union's financial position, and performance as represented by the results of its operations and their cash flows.

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

Audit Opinion

1. In our opinion, the financial report of Macarthur Credit Union Ltd is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2006 and its performance for the financial year ended on that date, and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) other mandatory professional reporting requirements in Australia.

KPMG

Warwick Shanks
Camden
11 October 2006