

# **MACARTHUR CREDIT UNION LTD**

ABN: 83 087 650 244

## **36<sup>TH</sup> ANNUAL REPORT 2007**



**MACARTHUR CREDIT UNION LTD**  
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**DIRECTORS**

Greg Wright (Chairman)	Ralph Sharp
Phillip Rankin (Vice Chairman)	Ronald Streater
Kevin Delbridge	Michael Wales
Neville Hoskin	Vernon Wrightson

**GENERAL MANAGER**

Graham Holby

**REGISTERED OFFICE**

52 Argyle Street  
CAMDEN NSW 2570  
(02) 4640 9999

**BRANCHES**

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

**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 and Michael Wales.

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 (CONTINUED)**

**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 Kevin Delbridge (Chairman), Phillip Rankin and Michael Wales.

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 (CONTINUED)**

The members of the Governance Committee are Neville Hoskin (Chairman), Ronald Streater and Vernon Wrightson.

**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**

It falls to the Chairman of an organisation such as ours to report in each Annual Report on the significant issues of the year in review.

Let me say initially that the 36<sup>th</sup> year of operations for Macarthur Credit Union has been another great success – continuing financial strength and sustainability, continuing excellence in customer service and positive feedback from our members on products, services and support. Our staff members are the greatest asset in our business and the Board is particularly grateful for their efforts.

However at the time of writing, which is after the close of the year in review, there are some very significant changes to report.

Graham Holby who has been the General Manager of the Credit Union since 1976 retires on 30 September 2007. It will be the end of an era for Macarthur as Graham has been the driving force and public face of the Credit Union for more than thirty years. Graham has been largely responsible for the success and security of your Credit Union over all of those years. Although he has been well supported by a terrific staff and able Boards of Directors during that time, it has to be acknowledged that the Chief Executive of an organisation like ours is significantly responsible for its ultimate success.

Macarthur Credit Union has some of the strongest financial indicators in the industry and delivers excellent service to its members and Graham must take the credit for that success.

I am sure that you, as members, will join with me in wishing Graham great health and happiness in his retirement – he has every right to look back with pride on his achievements.

As I write this, the Board has appointed a fine candidate in David Cadden to replace Graham as Chief Executive Officer. We are confident that the new executive will take Macarthur Credit Union on to even greater heights of service and security as he works with the Board to build our brand in the growing Macarthur region. We have enormous potential with the region's growing population and it is important to us that we grow along with that population.

The Board of your Credit Union has great ambitions for the organisation and the members that it serves. We want to be part of building great prosperity in the Macarthur region. We want to provide a better range of products and services to our existing members and we want to introduce our great values to even more people so that they, too, might realise that at Macarthur Credit Union we do indeed provide – a different kind of banking.

**Greg Wright**  
**Chairman**

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**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 2007 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 Member Audit Committee Executive Committee Member Board Member since 1995
Kevin Delbridge FCA, MACUI, MAICD	Chairman Audit Committee Board Member since 2005
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	Governance Committee Member Board Member since 2001

**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' REPORT (CONTINUED)**

**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:

	<b>Directors' meetings</b>	<b>Audit committee meetings</b>	<b>Executive committee meetings</b>	<b>Governance committee meetings</b>
<b>Number of meetings held:</b>	17	4	3	5
<b>Number of meetings attended:</b>				
Greg Wright	16	-	3	-
Phillip Rankin	15	4	2	-
Kevin Delbridge	15	4	-	-
Neville Hoskin	16	-	-	5
Ralph Sharp	16	-	-	-
Ronald Streater	17	-	-	5
Michael Wales	15	4	3	-
Vernon Wrightson	17	-	-	5

**DIRECTORS' INTERESTS AND BENEFITS**

During or since the financial year ended 30 June 2007, 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 at Note 27, 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

except for loans disbursed to directors.

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

**INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS**

**Indemnification**

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.

**DIRECTORS' REPORT (CONTINUED)**

**INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS  
(CONTINUED)**

**Insurance**

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 2007.

**OPERATING AND FINANCIAL REVIEW**

The amount of profit for the Credit Union for the financial year, after providing for income tax, was \$741,231 (2006 \$964,286).

It is acknowledged that the annual profit is reduced from previous years. This is due to the retirement benefit paid to the General Manager. The underlying profit after tax from operating performance of \$1,196,528 represents a substantial increase on 2005/06.

The directors are extremely pleased with the operating performance of the Credit Union. 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 minimal fees to all Members despite continuing cost pressures associated with

**DIRECTORS' REPORT (CONTINUED)**

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

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**

The Credit Union's General Manager, Mr Graham Holby, is scheduled to retire on 30 September 2007. Mr David Cadden has been appointed as the new General Manager.

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 future financial years.

**LIKELY DEVELOPMENTS**

The Credit Union's main strategy will continue to be the sustaining of service excellence and encouraging members to use the Credit Union as their main financial institution. However, it is envisaged that this strategy will be projected to a wider audience. This will reflect the growth in the region's population in the coming years.

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.

The Credit Union will continue with planning and preparatory work for the replacement of its core banking software in the coming year. The bulk of the testing, training and preparatory work will be undertaken in the 2007/08 year. The migration to the new software is scheduled to take place in September 2008.

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.

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**DIRECTORS' REPORT (CONTINUED)**

**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 2007.

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 18<sup>th</sup> day of September 2007.



**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 2007 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 18<sup>th</sup> day of September 2007.

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**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

		<b>2007</b>	<b>2006</b>
		<b>\$</b>	<b>\$</b>
	<b>Note</b>		
Interest revenue	4	10,890,082	9,916,782
Interest expense	4	(5,143,949)	(4,567,793)
<b>Net interest income</b>		<hr/> 5,746,133	<hr/> 5,348,989
Other income	5	2,075,038	2,031,021
Net impairment gain/ (loss) on financial assets	11	16,393	(16,924)
Personnel expense	6	(3,339,696)	(2,546,539)
ATM expenses	6	(1,073,065)	(1,100,170)
General administration expenses		(732,870)	(769,729)
Other operating expenses		(557,458)	(529,486)
Depreciation and amortisation expenses	6	(484,461)	(483,362)
Information technology expenses		(402,578)	(399,662)
Office occupancy expense	6	<hr/> (222,643)	<hr/> (242,442)
<b>Profit before tax</b>		<hr/> <b>1,024,793</b>	<hr/> <b>1,291,696</b>
Income tax expense	8	<hr/> (283,562)	<hr/> (327,410)
<b>Profit for the year</b>		<hr/> <b>741,231</b>	<hr/> <b>964,286</b>

The income statement is to be read in conjunction with the notes to the financial statements as set out on pages 18 to 52.

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**STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE YEAR ENDED 30 JUNE 2007**

	<b>Note</b>	<b>2007</b>	<b>2006</b>
		<b>\$</b>	<b>\$</b>
Movement in equity investments revaluation reserve net of tax	21(b)(iii)	34,061	3,358
Adjustment on adoption of AASB 132/139	21(a)	-	835,769
Net income recognised directly in equity		<u>34,061</u>	<u>839,127</u>
Profit for the year		<u>741,231</u>	<u>964,286</u>
Total recognised income and expense for the year		<u>775,292</u>	<u>1,803,413</u>

The statement of recognised income and expense is to be read in conjunction with the notes to the financial statements set out on pages 18 to 52.

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**BALANCE SHEET AS AT 30 JUNE 2007**

	Note	2007 \$	2006 \$
<b>Assets</b>			
Cash and cash equivalents	9	2,358,933	900,991
Loans and receivables	10	148,707,394	144,900,332
Other financial assets	12	1,099,132	768,110
Property, plant and equipment	14	3,425,380	3,789,884
Investment property	15	975,279	996,009
Intangibles	16	65,831	36,886
Deferred tax assets	13	746,150	551,354
Other assets	17	1,621,157	1,344,438
<b>Total assets</b>		<b>158,999,256</b>	<b>153,288,004</b>
<b>Liabilities</b>			
Deposits	18	137,695,331	133,749,578
Interest bearing liabilities	26	-	177,801
Payables	19	1,911,193	1,555,925
Current tax liabilities	13	141,870	62,393
Provisions	20	1,589,517	856,254
<b>Total liabilities</b>		<b>141,337,911</b>	<b>136,401,951</b>
<b>Net assets</b>		<b>17,661,345</b>	<b>16,886,053</b>
<b>Equity</b>			
Reserves	21(b)	572,231	533,790
Retained earnings	21(a)	17,089,114	16,352,263
<b>Total equity</b>		<b>17,661,345</b>	<b>16,886,053</b>

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 18 to 52.

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**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2007**

	Note	2007 \$	2006 \$
<b>Cash flows from operating activities</b>			
Interest received		10,638,915	9,778,536
Dividends received		97,214	86,584
Other cash receipts from members		1,859,309	2,008,021
Interest paid		(5,045,285)	(4,534,295)
Income taxes paid		(413,478)	(478,220)
Net loans (funded)/repaid		(2,304,261)	2,839,185
Net increase in deposits		3,945,753	3,593,307
Cash paid to suppliers and employees		(5,318,659)	(5,463,291)
<b>Net cash flows from operating activities</b>	<b>26 a)</b>	<b>3,459,508</b>	<b>(7,829,827)</b>
<b>Cash flows from investing activities</b>			
(Payments for) loans to other ADI's		(1,486,408)	(9,377,781)
Proceeds on sale of property, plant and equipment		2,250	-
Rental income from investment properties		73,091	62,727
Acquisitions of property, plant and equipment		(87,439)	(128,114)
Acquisition of available for sale investments		(373,276)	-
Proceeds on disposal of available for sale investments		90,909	-
Acquisition of intangible assets		(42,892)	(38,680)
<b>Net cash flows used in investing activities</b>		<b>(1,823,765)</b>	<b>(9,481,848)</b>
<b>Net increase/(decrease) in cash held</b>		<b>1,635,743</b>	<b>(1,652,021)</b>
Cash at the beginning of the year		723,190	2,375,211
<b>Cash at the end of the year</b>	<b>26 b)</b>	<b>2,358,933</b>	<b>723,190</b>

The cash flow statement is to be read in conjunction with the notes to the financial statements set out on pages 18 to 52.

**NOTES TO THE FINANCIAL STATEMENTS**

**1. Reporting entity**

Macarthur Credit Union Ltd (“the Credit Union”) is a company incorporated and domiciled in Australia. The address of the Credit Union’s registered office is 52 Argyle St, Camden.

The financial report was approved for issue by the directors on 18 September 2007.

**2. Basis of preparation**

**a) Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (“AASB’s”) (including Australian accounting interpretations) adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001.

**b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for available for sale investment securities which are measured at fair value.

**c) Functional and presentation currency**

The financial report is presented in Australian dollars.

**d) Use of estimates and judgements**

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. 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 and in any future periods.

**NOTES TO THE FINANCIAL STATEMENTS**

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**a) Property, plant and equipment**

**(i) Recognition and measurement**

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

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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.

**(ii) Subsequent costs**

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 item will flow to the Credit Union and the cost of the item can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

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 3 years

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

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Significant accounting policies (continued)

#### b) Investment property

Investment property is property which is held either to earn rental income or for capital appreciation or for both. Investment property is 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 property in the current and comparative periods is 40 years.

#### c) Intangibles

*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.

#### d) Other financial assets

Financial Instruments that are classified by the Credit Union as available for sale are stated at fair value, plus incremental direct transaction costs with any fair value changes recognised directly in equity. The fair value of financial instruments classified as available for sale is their quoted bid price at the balance sheet date.

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

NOTES TO THE FINANCIAL STATEMENTS

**3. Significant accounting policies (continued)**

**d) Other financial assets (continued)**

of an active market and restrictions on the ability to transfer the shares, a market value is not able to be readily determined.

**e) Loans and receivables**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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 3(h).

**f) Trade and other receivables**

Trade and other receivables are stated at amortised cost.

**g) 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 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.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

**h) Impairment**

**i) Financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Significant accounting policies (continued)

#### h) Impairment (continued)

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.

#### (ii) Non-financial assets

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 profit and loss, 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

h) Impairment (continued)

(ii) Non-financial assets (continued)

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) 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. 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.

*Retirement benefits:* Retirement benefits are recognised as an expense when the Credit Union is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

NOTES TO THE FINANCIAL STATEMENTS

**3. Significant accounting policies (continued)**

**j) 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.

**k) 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.

**l) Revenue from financial assets**

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. Usually this is the ex-dividend date for equity securities.

**m) Fees and commission**

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income is recognised as the related services are performed. Other fees and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

**n) Rental income**

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

NOTES TO THE FINANCIAL STATEMENTS

**3. Significant accounting policies (continued)**

**o) Expenses**

Interest payable is calculated using the effective interest rate method.

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

**p) 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.

**q) 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

**3. Significant accounting policies (continued)**

**r) Member deposits**

**i) Basis of measurement**

Member savings and term deposits are stated at the aggregate amount of monies owing to depositors. These are reported at the principal amount lodged.

**ii) Interest payable**

Interest on savings and term deposits is calculated on the daily balance and is posted to the members accounts monthly or at maturity. Such interest is accrued on the basis of the interest rate, the terms and the conditions applicable to each savings and term deposit account as varied from time to time.

**s) Deposits with other financial institutions**

Term deposits with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment.

**t) Other assets**

Other assets include prepayments to suppliers, accrued income from deposits with other financial institutions and clearing accounts at balance date.

**u) 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.

**v) New standards and interpretations not yet adopted**

AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Credit Union's financial instruments.

AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 117 *Leases*, AASB 139 *Financial Instruments: Recognition and*

NOTES TO THE FINANCIAL STATEMENTS

- 3. Significant accounting policies (continued)**
- v) **New standards and interpretations not yet adopted (continued)**  
*Measurement and AASB 1 First-time adoption of Australian Equivalents to International Financial Reporting Standards* arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the financial report.

**NOTES TO THE FINANCIAL STATEMENTS**

**4. 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.

	<b>Average Balance \$</b>	<b>2007 Interest \$</b>	<b>Average Interest Rate</b>	<b>Average Balance \$</b>	<b>2006 Interest \$</b>	<b>Average Interest Rate</b>
<b>Interest revenue</b>						
Loans to:						
Other ADI's	65,264,133	4,088,285	6.41%	61,127,281	3,463,753	5.67%
Members	86,653,765	6,801,797	7.85%	84,594,893	6,453,029	7.63%
	<u>151,917,898</u>	<u>10,890,082</u>	<u>7.23%</u>	<u>145,722,174</u>	<u>9,916,782</u>	<u>6.81%</u>
<b>Interest expense</b>						
Deposits	139,823,651	5,133,007	3.67%	134,840,653	4,562,855	3.38%
Interest bearing liabilities	120,906	10,942	9.05%	57,751	4,938	8.55%
	<u>139,944,557</u>	<u>5,143,949</u>	<u>3.68%</u>	<u>134,898,404</u>	<u>4,567,793</u>	<u>3.39%</u>
<b>Net interest income</b>	<b><u>11,973,341</u></b>	<b><u>5,746,133</u></b>		<b><u>10,823,770</u></b>	<b><u>5,348,989</u></b>	

	<b>2007 \$</b>	<b>2006 \$</b>
<b>5. Other income</b>		
Other income comprises the following:		
Fees and commissions	1,868,398	1,819,491
Bad debts recovered	25,822	19,381
Rental income from property	73,091	62,727
Other revenue	10,422	42,838
Net gain on disposal of property, plant and equipment	91	-
Dividend on available for sale equity securities	97,214	86,584
	<u>2,075,038</u>	<u>2,031,021</u>

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>6. Other expenses</b>		
<b>Personnel expenses</b>		
Personnel costs	2,399,400	2,309,190
Superannuation contributions	207,033	195,002
Provision for employee entitlements	82,838	42,347
Provision for retirement-General Manager (including on-costs)	650,425	-
	<u>3,339,696</u>	<u>2,546,539</u>
<b>ATM expenses</b>		
Foreign ATM fees	741,124	802,425
ATM running expenses	274,795	220,921
ATM card issue	57,146	76,824
	<u>1,073,065</u>	<u>1,100,170</u>
<b>Office occupancy expenses</b>		
Occupancy	190,372	211,180
Rental-operating leases	32,271	31,262
	<u>222,643</u>	<u>242,442</u>
<b>Depreciation &amp; amortisation expenses</b>		
Plant and Equipment	346,987	357,052
Buildings	100,245	99,949
Leasehold Improvements	2,552	541
Investment Properties	20,730	20,731
Intangible Assets	13,947	5,089
	<u>484,461</u>	<u>483,362</u>

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>7. Auditors' remuneration</b>		
<b>Audit services:</b>		
<b>KPMG</b>		
Audit of financial report and other regulatory audit services	42,500	46,000
<b>Other services:</b>		
<b>KPMG</b>		
Other assurance services	19,196	9,270
Taxation services	1,950	7,570
Accounting services-AIFRS implementation (2005/06)	16,950	-
	<u>38,096</u>	<u>16,840</u>
	<u>80,596</u>	<u>62,840</u>
<b>8. Income tax expense</b>		
<b>a) Recognised in the income statement</b>		
<b>Current tax expense</b>		
Current year	492,551	502,618
Adjustments for prior years	403	(37,203)
	<u>492,954</u>	<u>465,415</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(209,392)	(134,583)
Adjustments for prior years	-	(3,422)
	<u>(209,392)</u>	<u>(138,005)</u>
Total income tax expense in income statement	<u>283,562</u>	<u>327,410</u>

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>8. Income tax expense (continued)</b>		
<b>b) Numerical reconciliation between tax expense and pre-tax net profit</b>		
Profit before tax	1,024,793	1,291,696
Income tax using the domestic corporation tax rate of 30% (2006: 30%)	307,438	387,509
Increase in income tax expense due to:		
Imputation gross-up on dividends received	10,963	9,281
Non-deductible expenses	1,301	2,181
Decrease in income tax expense due to:		
Franking credits on dividends received	(36,543)	(30,936)
	<u>283,159</u>	<u>368,035</u>
Over provided in prior years	<u>403</u>	<u>(40,625)</u>
Income tax expense on pre-tax net profit	<u>283,562</u>	<u>327,410</u>
<b>9. Cash and cash equivalents</b>		
Cash on hand and at bank	<u><u>2,358,933</u></u>	<u><u>900,991</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

	Note	2007 \$	2006 \$
<b>10. Loans and receivables</b>			
Amounts due comprise the following:			
Loans to other ADI's:			
Interest earning deposits		62,500,052	61,013,644
Loans to members:			
Overdrafts		25,241	18,093
Term loans		84,956,997	83,333,370
Loans to related parties		1,626,122	1,120,622
Provision for impairment	11	(401,018)	(585,397)
Total loans to members		86,207,342	83,886,688
Total loans and receivables		<u>148,707,394</u>	<u>144,900,332</u>

An analysis of the maturity profile of loans and receivables is included at Note 22.

Details of loans to related parties are included at Note 27.

**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.

NOTES TO THE FINANCIAL STATEMENTS

	2007 \$	2006 \$
<b>11. Provision for impairment</b>		
<b>a) The Provision for impairment comprises:</b>		
<i>Collective provision</i>		
Opening balance	585,397	-
Adjustment on adoption of AASB 132/AASB 139	-	644,056
Bad debts written off directly against Provision	(74,104)	
Movement in provision	(110,275)	(58,659)
Closing balance	<u>401,018</u>	<u>585,397</u>
<i>Specific provision</i>		
Opening balance	-	298,994
Movement in provision	-	-
Adjustment on adoption of AASB 132/AASB 139	-	(298,994)
Closing balance	<u>-</u>	<u>-</u>
<i>General provision</i>		
Opening balance	-	1,448,743
Movement in provision	-	-
Adjustment on adoption of AASB 132/AASB 139	-	(1,448,743)
Closing balance	<u>-</u>	<u>-</u>
Total provision for impairment	<u>401,018</u>	<u>585,397</u>

Analysis of net impairment loss on loans and receivables:

Movement in collective provision	(110,275)	(58,659)
Impairment written off directly against income	93,882	75,583
	<u>(16,393)</u>	<u>16,924</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 21 for details of this reserve.

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>11. Provision for impairment (continued)</b>		
<b>b) Other impaired loan disclosures</b>		
Restructured loans	80,455	110,309
Past due loans	-	-
Net fair value of assets acquired through the enforcement of security	-	-
Interest revenue on non-accrual and restructured loans	15,470	35,249
Interest foregone on non-accrual and restructured loans	26,630	62,873
Non-accrual loans:		
-with specific provision	266,813	330,165
-without specific provision	-	3,357
Specific provision	(266,813)	(322,858)
	<u>-</u>	<u>10,664</u>

**12. Other financial assets**

**Available for sale investment securities**

Listed shares-at fair value	517,501	95,570
Unlisted shares-at cost	581,631	672,540
	<u>1,099,132</u>	<u>768,110</u>

During the year, the Credit Union purchased a portfolio of listed shares. The objective of the portfolio is to generate additional revenue streams and to diversify the Credit Union's asset base.

NOTES TO THE FINANCIAL STATEMENTS

	2007 \$	2006 \$
<b>13. Tax assets and liabilities</b>		
<b>Deferred tax assets and liabilities</b>		
Deferred tax assets and liabilities are attributable to the following:		
<b>Deferred tax assets</b>		
Property, plant & equipment	178,045	141,872
Provisions	597,162	432,495
Accruals	12,967	5,196
Other	1,094	312
Total Deferred tax assets	<u>789,268</u>	<u>579,875</u>
<b>Deferred tax liabilities</b>		
Shares in listed companies	(43,118)	(28,521)
Total deferred tax liabilities	<u>(43,118)</u>	<u>(28,521)</u>
<b>Net deferred tax assets</b>	<b><u>746,150</u></b>	<b><u>551,354</u></b>

**Current tax liabilities**

The current tax liability for the Credit Union of \$141,870 (2006: \$62,393) represents the amount of income tax payable in respect of the current and prior financial periods and that arise from the payments of tax in deficit of the amounts due to the Australian Tax Office.

**14. Property, plant and equipment**

*Freehold land and buildings*

Freehold Land-at cost	207,650	207,650
Buildings on freehold land-at cost	4,010,587	4,007,727
Provision for depreciation	(1,153,931)	(1,053,686)
	<u>3,064,306</u>	<u>3,161,691</u>

*Leasehold improvements*

At cost	38,076	23,814
Provision for depreciation	(14,987)	(12,434)
	<u>23,089</u>	<u>11,380</u>

*Plant and equipment*

At cost	2,746,881	2,678,803
Provision for depreciation	(2,408,896)	(2,061,990)
	<u>337,985</u>	<u>616,813</u>

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>14. Property, plant and equipment (continued)</b>		
<i>Total property, plant and equipment</i>		
At cost	7,003,194	6,917,994
Provision for depreciation	(3,577,814)	(3,128,110)
	<u>3,425,380</u>	<u>3,789,884</u>

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

2007	Freehold land and buildings	Leasehold improvements	Plant and equipment	Total
Carrying amount at the beginning of the year	3,161,691	11,380	616,813	3,789,884
Additions	2,860	14,261	70,318	87,439
Disposals	-	-	(2,159)	(2,159)
Depreciation	(100,245)	(2,552)	(346,987)	(449,784)
Carrying amount at the end of the year	<u>3,064,306</u>	<u>23,089</u>	<u>337,985</u>	<u>3,425,380</u>
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	<u>3,161,691</u>	<u>11,380</u>	<u>616,813</u>	<u>3,789,884</u>
		<b>2007</b>		<b>2006</b>
		\$		\$

**15. Investment property**

Investment property at cost	1,048,699	1,048,699
Provision for depreciation	(73,420)	(52,690)
	<u>975,279</u>	<u>996,009</u>

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

Carrying amount at the beginning of the year	996,009	1,016,740
Additions	-	-
Depreciation	(20,730)	(20,731)
Carrying amount at the end of the year	<u>975,279</u>	<u>996,009</u>

NOTES TO THE FINANCIAL STATEMENTS

**15. Investment property (continued)**

Investment property comprises 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. The carrying amount of investment property is cost less accumulated depreciation and any impairment losses.

	2007	2006
	\$	\$

**16. Intangibles**

Computer software at cost	88,836	45,944
Provision for amortisation	(23,005)	(9,058)
	65,831	36,886

A reconciliation of the carrying amount of intangible assets is set out below:

Carrying amount at the beginning of the year	36,886	3,295
Additions	42,892	38,680
Amortisation charge	(13,947)	(5,089)
Carrying amount at year end	65,831	36,886

**17. Other assets**

Interest & fees receivable	1,333,317	1,082,150
Other	209,120	163,787
Prepayments	78,720	98,501
	1,621,157	1,344,438

**18. Deposits**

Call deposits	60,130,392	61,258,634
Term deposits	77,564,939	72,490,944
	137,695,331	133,749,578

An analysis of the maturity profile of deposits is included in Note 22.

**Concentration of deposits**

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

**NOTES TO THE FINANCIAL STATEMENTS**

**18. Deposits (continued)**

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

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.

**2007**                      **2006**  
**\$**                                      **\$**

**19. Payables**

Trade creditors	163,973	159,902
Accrued interest payable	1,044,385	945,721
Sundry creditors	702,835	450,302
	<u>1,911,193</u>	<u>1,555,925</u>

**20. Provisions**

*Employee benefits*

Annual leave	471,019	436,966
Long service leave-current liability	153,591	143,026
Long service leave-non current liability	314,482	276,262
Provision for retirement-General Manager (including on-costs)	650,425	-
	<u>1,589,517</u>	<u>856,254</u>

**21. Equity**

Total equity	<u>17,661,345</u>	<u>16,886,053</u>
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**a) Retained earnings**

Balance at the beginning of the year	16,352,263	15,042,375
Profit for year attributable to members of the Credit Union	741,231	964,286
Adjustments on adoption of AASB 132 and AASB 139	-	772,577
Transfer to general reserve for credit losses	-	(422,360)
Redeemed share capital account	(4,380)	(4,615)
Balance at the end of the year	<u>17,089,114</u>	<u>16,352,263</u>

**NOTES TO THE FINANCIAL STATEMENTS**

		<b>2007</b>	<b>2006</b>
		<b>\$</b>	<b>\$</b>
<b>21. Equity (continued)</b>			
<b>b) Reserves</b>			
Redeemed share capital account	21(b)(i)	49,260	44,880
General reserve for credit losses	21(b)(ii)	422,360	422,360
Equity investments revaluation reserve	21(b)(iii)	100,611	66,550
		<u>572,231</u>	<u>533,790</u>

**i) Redeemed Share Capital Account**

Balance at the beginning of the year		44,880	40,265
Member shares redeemed during year		4,380	4,615
Balance at the end of the year		<u>49,260</u>	<u>44,880</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.

**ii) General reserve for credit losses**

Balance at the beginning of the year		422,360	-
Transfer from retained earnings		-	422,360
Balance at the end of the year		<u>422,360</u>	<u>422,360</u>

The General Reserve for Credit Losses contains an additional allowance for impairment, above that calculated in accordance with Note 11. The general reserve for credit losses together with the amounts calculated in accordance with Note 11 must be adequate to comply with prudential requirements.

**iii) Equity investment revaluation reserve**

Balance at the beginning of the year		66,550	-
Adjustment on adoption of AASB 132 and AASB 139		-	63,192
Net increase in reserve		34,061	3,358
Balance at the end of the year		<u>100,611</u>	<u>66,550</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.

**NOTES TO THE FINANCIAL STATEMENTS**

**22. 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**

**22. Financial instruments (continued)**

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

<b>2007</b>	<b>At Call</b>	<b>Within 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>After 5 years</b>	<b>No Maturity</b>	<b>Total</b>
<i>Financial instrument</i>								
<i>Financial assets</i>								
Cash and cash equivalents	1,497,441	-	-	-	-	-	861,492	2,358,933
Receivables-other ADI's	-	12,500,052	18,500,000	31,500,000	-	-	-	62,500,052
Receivables-loans to members	-	1,401,390	2,765,645	11,786,391	42,120,000	28,133,916	-	86,207,342
Other financial assets	-	-	-	-	-	-	1,099,132	1,099,132
<i>Total financial assets</i>	<u>1,497,441</u>	<u>13,901,442</u>	<u>21,265,645</u>	<u>43,286,391</u>	<u>42,120,000</u>	<u>28,133,916</u>	<u>1,960,624</u>	<u>152,165,459</u>
<i>Financial liabilities</i>								
Deposits	60,130,392	19,276,252	17,400,808	40,887,879	-	-	-	137,695,331
Interest bearing liabilities	-	-	-	-	-	-	-	-
<i>Total financial liabilities</i>	<u>60,130,392</u>	<u>19,276,252</u>	<u>17,400,808</u>	<u>40,887,879</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,695,331</u>

NOTES TO THE FINANCIAL STATEMENTS

**22. 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
<b>Total financial assets</b>	<b>-</b>	<b>14,389,572</b>	<b>19,671,030</b>	<b>42,409,473</b>	<b>39,893,527</b>	<b>28,536,678</b>	<b>1,669,101</b>	<b>146,569,381</b>
<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
<b>Total financial liabilities</b>	<b>61,436,435</b>	<b>15,301,437</b>	<b>17,378,637</b>	<b>39,810,870</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>133,927,379</b>

**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

22. 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:

2007	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	1,497,441	-	-	861,492	2,358,933	1.09%
Receivables-other ADI's	52	62,500,000	-	-	62,500,052	6.41%
Receivables-loans to members	68,386,424	6,515,302	11,305,616	-	86,207,342	7.85%
Other financial assets	-	-	-	1,099,132	1,099,132	N/A
<i>Total financial assets</i>	<b>69,883,917</b>	<b>69,015,302</b>	<b>11,305,616</b>	<b>1,960,624</b>	<b>152,165,459</b>	<b>7.10%</b>
<i>Financial liabilities</i>						
Deposits	60,130,392	77,564,939	-	-	137,695,331	3.67%
Interest bearing liabilities	-	-	-	-	-	N/A
<i>Total financial liabilities</i>	<b>60,130,392</b>	<b>77,564,939</b>	<b>-</b>	<b>-</b>	<b>137,695,331</b>	<b>3.67%</b>

NOTES TO THE FINANCIAL STATEMENTS

**22. 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	3.24%
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

	2007	2006
	\$	\$

**22. 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.

**23. 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	444,501	349,286
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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.

**24. Operating leases**

**a) Leases as lessee**

**Operating lease rentals are payable as follows:**

Within one year	32,580	5,272
Between one and two years	33,557	-
Between two and five years	8,641	-
	74,778	5,272

The Credit Union leases its Picton branch premises under an operating lease. Lease payments are increased every year to reflect increases in the consumer price index (CPI).

During the financial year ended 30 June 2007, \$48,800 was recognised as an expense in the income statement in respect of operating leases (2006: \$47,950).

NOTES TO THE FINANCIAL STATEMENTS

	2007	2006
	\$	\$

**24. Operating leases (continued)**

**b) Leases as lessor**

The Credit Union leases out its investment property held under operating leases. While the initial terms of these leases have expired, lease payments are increased every year to reflect increases in the consumer price index (CPI).

During the financial year ended 30 June 2007, \$73,091 was recognised as rental income in the income statement (2006: \$62,727) and \$1,268 in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment property (2006: \$18,603).

**25. Commitments**

**a) Outstanding loan commitments**

Loans approved but not yet funded	500,100	669,735
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**b) Loan redraw facilities**

Undrawn value of redraw facilities	3,987,606	3,366,475
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Redraw facilities are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

**c) Conversion to new core banking system**

Contracted for but not provided for and payable	155,900	-
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**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.

**NOTES TO THE FINANCIAL STATEMENTS**

**25. Commitments (continued)**

**d) Industry support contract (continued)**

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 2007 no such loans had been made by CUFSS.

	<b>2007</b>	<b>2006</b>
	\$	\$
<b>26. Statement of cash flows</b>		
<b>a) Reconciliation of cash flows from operating activities</b>		
Profit after tax	741,231	964,286
<i>Adjustments for:</i>		
(Profit)/loss on sale of property, plant & equipment	(91)	-
Depreciation and amortisation	484,461	483,362
Net (gain)/impairment loss on financial assets	(16,393)	16,924
Rental income	(73,091)	(62,727)
<b>Net cash from operating activities before changes in assets and liabilities</b>	<b>1,136,117</b>	<b>1,401,845</b>
Net loans funded	(2,304,261)	2,839,185
(Increase) in interest receivable	(251,167)	(138,246)
(Increase)/decrease in other receivables	(45,333)	126,311
Decrease/(increase) in prepayments	19,781	(22,145)
(Increase) in net deferred tax assets	(209,393)	(34,336)
Net increase in deposits	3,945,753	3,593,307
Increase in accrued interest payable	98,664	33,498
Increase in trade creditors	4,071	21,814
Increase in sundry creditors	252,536	82,724
Increase/(decrease) in current tax liabilities	79,477	(116,477)
Increase in employee benefits	733,263	42,347
<b>Net cash provided by operating activities</b>	<b>3,459,508</b>	<b>7,829,827</b>

NOTES TO THE FINANCIAL STATEMENTS

26. Statement of cash flows (continued)

b) Reconciliation of cash

	2007	2006
	\$	\$
<i>Cash comprises:</i>		
Cash on hand and at bank	2,358,933	900,991
Bank overdraft	-	(177,801)
	<u>2,358,933</u>	<u>723,190</u>

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>-</u>	<u>177,801</u>

**Facilities not utilised at reporting date**

Overdraft facility	2,000,000	1,822,199
Standby borrowing facility	1,000,000	1,000,000
	<u>3,000,000</u>	<u>2,822,199</u>

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

2007  
\$

2006  
\$

**27. 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
- Neville Hoskin
- Ralph Sharp
- Ronald Streater
- Michael Wales
- Vernon Wrightson

*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	770,438	729,159
Post employment benefits- Superannuation contributions	83,109	72,647
Other long term benefits	50,972	12,825
Termination benefit-General Manager (including on-costs)	650,425	-
<b>Total</b>	<b>1,554,944</b>	<b>814,631</b>

During the year, the Board of Directors resolved to make an offer of retirement to the General Manager. Mr Holby has accepted the terms of the offer and is due to retire on 30 September 2007. In accordance with the accounting standards, this is required to be disclosed as a termination benefit.

**NOTES TO THE FINANCIAL STATEMENTS**

	2007	2006
	\$	\$

**27. Related parties (continued)**

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.

***Loans to key management personnel***

The aggregate value of loans to KMP at balance date amounted to:	1,626,122	1,120,622
The aggregate value of loans disbursed to KMP during the year amounted to:	820,950	60,985
Interest earned on loans to KMP:	97,473	75,563
Repayments during the year	410,582	252,538

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. The concessional rate of interest is not available for new loan fundings.

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.

**NOTES TO THE FINANCIAL STATEMENTS**

**27. Related parties (continued)**

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.

**28. 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 \$209,196 (2006: \$190,192).

**29. Subsequent events**

During June the Credit Union opted to participate in the Scheme of Arrangement to facilitate the sale of its shares in Veda Advantage Limited. The sale was completed on 2 July 2007. The proceeds from the sale amounted to \$101,081.

**NOTES TO THE FINANCIAL STATEMENTS**

**29. Subsequent events (continued)**

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.

**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 52 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the Credit Unions' financial position as at 30 June 2007 and of its performance for the financial year ended on that date; and
  - (ii) complying with the Australian Accounting Standards (including the Australian Accounting interpretations) and the Corporations Regulations ; and
- b) 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 18<sup>th</sup> day of September 2007

Signed in accordance with a resolution of the directors:

Greg Wright  
Chairman of the Board of Directors

Kevin Delbridge  
Chairman of the Audit Committee



## **Independent auditor's report to the members of Macarthur Credit Union Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Macarthur Credit Union Limited (the Credit Union), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a description of significant accounting policies and other explanatory notes and the directors' declaration, set out on pages 14 to 53.

### ***Directors' responsibility for the financial report***

The directors of the Credit Union are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Credit Union financial position and of its performance.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Auditor's opinion*

In our opinion the financial report of Macarthur Credit Union Limited is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

KPMG

Warwick Shanks

*Partner*

Camden

18 September 2007