

37TH ANNUAL REPORT

2005/2006

37 Years of Service to the University Community

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MELBOURNE UNIVERSITY CREDIT UNION LIMITED

CORPORATE INFORMATION

BOARD OF DIRECTORS:

Chairman	Associate Professor C.A. Brown
Deputy Chairman	Mr J.M. Green
Directors	Mr J.A. Crichton
	Professor K.T. Davis
	Professor C.A. Jubb
	Ms J.A. McQuillan
	Mr S. Young

ADMINISTRATION:

Secretary/Manager	Mr J.F. Cullen
Personal Assistant	Mrs E.H. Mott
Member Services Support Officer	Ms T. Churchland
Senior Member Services Officer	Mr R. Ford
Finance/IT Officer	Mr N. Sidaya
Member Services Officer	Mrs E.U. Wickramasingha
Member Services Officer	Mr J.N. Davey

BANKERS:

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

AUDITOR:

Jeffrey Thomas & Partners,
446 Collins Street,
Melbourne 3000.

INTERNAL AUDITOR:

Mr C.R. Norris

RETURNING OFFICER:

Dr G. Duke

SOLICITORS:

Mahonys,
400 Collins Street,
Melbourne 3000.

AFFILIATIONS:

Australian Credit Union Institute Ltd.
Cuscal Ltd.
Credit Union Financial Support System Ltd.
Greater Melbourne Chapter of Credit Unions Inc.
National Credit Union Association Inc.

INSURER:

CUNA Mutual Insurance Group

MELBOURNE UNIVERSITY CREDIT UNION LIMITED

AIMS AND OBJECTIVES

The primary goal of the Melbourne University Credit Union Limited is facilitating the economic health and financial success of members and their families as one component of members' personal well-being and development. MUCU is not profit oriented and benefits will be returned to members through the rates and services offered.

The Credit Union aims to:

- (i) be financially strong;
- (ii) involve its members in the operations of the Credit Union; and
- (iii) provide a better and more personal service than available elsewhere.

The Melbourne University Credit Union Limited is concerned about the particular needs of the University Community and aims to meet those needs by developing a closer union with members.

GLOSSARY OF ACRONYMS USED WITHIN THIS ANNUAL REPORT

ACUI	Australasian Credit Union Institute Ltd.
AIFRS	Australian Equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
CUFSS	Credit Union Financial Support System Limited
CUSCAL	Credit Union Services Corporation (Australia) Limited
MUCU	Melbourne University Credit Union Limited

THE YEAR AT A GLANCE

Loan Funding Statistics

	2005/2006		2004/2005	
	Number	Amount \$	Number	Amount \$
Motor Vehicles, Boats, Caravans	52	805 484	44	521 738
Home Improvements	32	875 155	15	224 626
Land/House	13	1 222 794	4	292 999
Miscellaneous Expenses	39	227 110	73	581 966
Debt Consolidation	32	265 408	21	156 880
Appliances/Furnishings	5	9 050	3	6 200
Travel/Holidays	26	<u>159 850</u>	<u>11</u>	<u>39 443</u>
	<u>199</u>	<u>3 564 851</u>	<u>171</u>	<u>1 823 852</u>
Shareholders	2 283		2 365	
Non-Member Depositors	446		278	

CHAIRMAN'S REPORT: 2005 –2006

I am pleased to report on a successful and busy year for MUCU in 2005/2006. There have been several key developments that have necessitated a great deal of work by staff and the Board during the year. Some of the developments are due to changes in the regulatory requirements for all approved deposit taking institutions. Others are the result of decisions made by the Board to facilitate MUCU to provide better services to members.

In the past MUCU has used a core banking system (Corvis) which recorded all of the transactional and loan activity in the credit union. Ownership of the software changed and MUCU was advised that the old system was only to be supported for a limited period. The board thus resolved to move to a new system in 2006. The change to the Phoenix Software system occurred in April of 2006 and its implementation has been a rewarding learning curve for all of the staff of MUCU. The new software allows us to get an “instant snapshot” of our members without going through countless screens and remembering program numbers to achieve our ultimate goal. What this means to our members is that the credit union staff are now able to provide comprehensive information to our members at the member services counter.

Although the exercise has been costly (both financially and in terms of staff time) we are confident that this new system will bring about efficiencies in the service we are able to offer our members. The change-over to the new software, with Tracey-Lee Churchland as project leader, involved a large time commitment from MUCU staff, often out-of-hours. We thank Tracey-Lee and all the staff for what turned out to be a comparatively smooth change-over.

The costs of compliance with regulatory changes remain an issue for small credit unions, and this year there has been dedicated effort by the Board on a number of policies required under new regulatory standards. We have made significant progress on our corporate governance agenda: a Fit and Proper Policy and a Corporate Governance Policy have been completed and are posted on our web-site. The Fit and Proper Policy outlines a number of criteria that existing and potential directors of MUCU must meet to ensure that they are properly equipped to carry out their duties. Senior management are also assessed annually. These policies incorporate effective procedures for Board renewal and ensure proper custodianship of the organisation. I am pleased to inform members that the on-site inspection conducted by APRA during the year resulted in a positive review.

Mortgage securitisation was introduced in 2004/5 and we now have around \$1.3 million in off-balance sheet loans to members. This product enables MUCU to provide members with access to home loans up to \$750,000 and at much higher loan to valuation ratios than previously possible. Internet Banking has proven very popular with members and in particular BPay usage has grown to approximately 1000 transactions per month totalling \$536,000 per month.

Overall the balance sheet of MUCU has grown by almost \$1 million since the last reporting date. Most of this growth is in liquid assets. While there has been some growth in our securitised lending, on-balance sheet loan funding has decreased from last year. The costs associated with the conversion to the new Phoenix banking platform totalled around \$116,000 and after taking into consideration the economic life of the asset and the future outlook we have expensed \$47,279 of this amount, with the remainder to be depreciated over the next 3 to 10 years. After taking these software conversion costs into the profit and loss, MUCU made a modest profit (before tax) of almost \$27,000. The Board is satisfied with this result and MUCU's risk weighted capital ratio remains well above the regulatory minimum requirement and well above the average of the major banks.

In a continuation of our record of low losses from bad debts this year MUCU has a zero bad debt write-off. This result is a testament to the continuing careful loan selection and management by MUCU staff.

This year we were fortunate to receive a grant from the History of the University Unit to help us in completion of a history of the credit union. Elizabeth Macknight undertook the task of researching the evolution of MUCU, and she has produced an engaging and entertaining account of the credit union and the people closely associated with it from its founding in 1970 through to the present. A copy of “Melbourne University Credit Union: Past, Present and Future” is available on the credit union web-site.

Your credit union relies heavily upon a number of service providers. We are grateful for the support of our Auditors (Jeffrey Thomas & Partners), our Solicitors (Mahonys), industry associations (CUSCAL Ltd and National Credit Union Association) other credit unions and other service providers. We also appreciate the support of various members of the University community, both formally via serving as external members of Board committees (Warwick Smith, Peter Hawting, Richard Norris (who is also our internal auditor), Elizabeth Macknight, Matt Pinnuck, Brooke Young) plus many more informal helpers.

I thank Jim Colebatch who retired as a director during the year, and Alison Currie who resigned from the Board due to work commitments. Jim and Alison made significant contributions to MUCU. I welcome Stephen Young to the Board and extend sincere thanks to all my fellow directors for their work and support. We are one of the few credit unions with honorary directors, and the responsibilities and duties are significant and increasing. I would like to make particular note of the work performed by the Audit, Compliance and Risk Committee chaired by Christine Jubb, and the Finance Committee chaired by John Green.

Finally, on behalf of all members I would like to thank the Secretary/Manager John Cullen and his staff for continuing the high level of service and support to our members. Richard Ford, Tracey-Lee Churchland, Nitin Sidaya, Edwina Utami, Beth Mott, Luke Martin and James Davey have continued to provide friendly, efficient service to members and deserve our thanks for their untiring efforts.

Christine Brown
Chairman

CORPORATE GOVERNANCE STATEMENT

The Board is comprised of non-executive directors being the Chairman Associate Professor C.A. Brown, the Deputy Chairman Mr J.M. Green, Mr J.A. Crichton, Professor K.T. Davis, Professor C.A. Jubb, Ms J.A. McQuillan and Mr S. Young.

The Board of Directors is responsible for the Corporate Governance of the Credit Union. It establishes and monitors the committees of the Board and Management, the Corporate Governance strategies and financial objectives to ensure prudential risk management.

The Credit Union is regulated by the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC). These organisations govern the prudential standards and corporate law for all Australian Financial Institutions – Approved Deposit-taking Institutions (ADIs).

Elections to the Board

The Constitution of the Credit Union specifies the number of Directors. At each Annual General Meeting, the Directors must retire in rotation from office, but may stand for re-election.

A declaration that meets the requirements of the APRA Prudential Standard APS 520 (Fit & Proper Policy) is the criteria required for potential Directors and is required for election of Directors and is available on the web site (www.mucu.com.au). The Corporate Governance Policy - under APS 510 can be reviewed on the web site (www.mucu.com.au).

Directors' Transactions

Transactions between the Directors and the Credit Union are on the same terms and conditions as applicable to all shareholding members.

Member Participation

Members are encouraged to participate in the activities of the Credit Union, including nominations for the Board of Directors, participating in committees, attending general meetings and voting on resolutions.

Board Committees

The Board has established committees to facilitate the identification of significant areas of business risk, to implement procedures to manage such risks and to develop policies regarding the establishment and maintenance of appropriate ethical standards. These committees are the Executive, Finance, Audit, Compliance & Risk Committee, and Loans Advisory and Marketing Committee, which:

- Assist in ensuring compliance in legal, statutory and ethical matters;
- Monitor the business environment;
- Identify business risk areas;
- Identify business opportunities; and
- Monitor systems established to ensure prompt and appropriate responses to enquiries.

DIRECTORS' REPORT

Your Directors present their report together with the financial report as at 30 June 2006.

The names of the Directors (non-executive) of the Credit Union in office during the financial year, and until the date of this report, together with their qualifications, experience and special responsibilities are as follows:

Associate Professor Christine Ann Brown (Chairman)	BSc <i>Melb.</i> MSc <i>Melb.</i> PhD <i>Melb.</i> DipEd <i>Melb.</i> Associate Professor, Department of Finance, The University of Melbourne. A Director of MUCU since July 1990. Convenor of Executive Committee. Member of Audit Compliance & Risk, Executive, Finance, Loans Advisory & Marketing Committees.
Mr John Michael Green (Deputy Chairman)	B Econ <i>Tas.</i> LLB <i>Deakin</i> FCSA FCPA FIAA FICD. Assistant University Secretary, The University of Melbourne. A Director of MUCU since November 2004. Convenor of the Finance and Policy & Rules Committees. Member of Executive & Loans Advisory Committee.
Professor Kevin Thomas Davis	B E c <i>Flin.</i> M E c <i>ANU.</i> Director – Melbourne Centre for Financial Studies. A Director of MUCU since July 1991. Convenor of Marketing Committee. Member of Audit Compliance & Risk, Executive, Finance, Loans Advisory & Policy & Rules Committees.
Mr James Walter Colebatch (Retired 8.11.2005)	B E <i>Tas.</i> M S c <i>Stanford.</i> GradDip Bus Admin <i>Swinburne</i> FIE Aust. Deputy Director (Planning and Capital Projects), Buildings and Grounds Division, La Trobe University. A Director of MUCU since March 1998. Member of Finance, Executive, Loans Advisory & Marketing Committees.
Mr John Arthur Crichton	DipIndRel <i>PIT</i> GradDipCareersEd <i>RMIT.</i> Assistant Manager, Administration, Melbourne City Mission. A Director of MUCU since June 1987. (Previously a Director of MUCU from 1976 to 1977.) Co-Convenor of Loans Advisory Committee, Member of Marketing Committee.
Miss Alison Marie Currie (Resigned 17.5.2006)	B A <i>Melb.</i> B Com(Hons) <i>Melb.</i> Economist, Strategic Policy Group, Department of Treasury & Finance, Victoria. A Director of MUCU since 2002. Member of Finance, Marketing & Loans Advisory Committees.
Professor Christine Ann Jubb	B Bus (Accounting) <i>RMIT</i> MBA <i>Deakin</i> PhD <i>Melb.</i> Grad Dip Ed <i>Monash,</i> GradDipScience in Applied Statistics <i>Swin.</i> CPA CA Professor, Deakin Business School, Deakin University. A Director of MUCU since July 2000. Convenor of Audit, Compliance & Risk Committee. Member of Loans Advisory Committee.
Ms Julia Anne McQuillan	GradDipIRHR <i>RMIT.</i> Director, Client Services, Human Resources, The University of Melbourne. A Director of MUCU since June 1995. Co-Convenor of Loans Advisory Committee, Member of Audit, Compliance & Risk Committee.
Mr Stephen Young	B S c <i>Adel.</i> M B A <i>Melb.</i> Research and Policy Officer, Information Services, The University of Melbourne. A Director of MUCU since November 2005. Member of Audit Compliance & Risk, Finance & Loans Advisory Committees.

MELBOURNE UNIVERSITY CREDIT UNION LIMITED

BOARD AND COMMITTEE MEETINGS

Board Meetings

DIRECTORS	Number of meetings eligible to attend	Number of regular meetings attended
Associate Professor C.A. Brown	12	11
Mr J.W. Colebatch***	4	3
Mr J.A. Crichton	12	11
Miss A.M. Currie**	10	4
Professor K.T. Davis	12	11
Mr J.M. Green	12	10
Professor C.A. Jubb	11	9
Ms J.A. McQuillan	12	10
Mr S. Young	8	8

Committee Meetings

DIRECTORS	ACR		Finance Committee		Marketing Committee	
	Meetings held*	Meetings attended	Meetings held*	Meetings attended	Meetings held*	Meetings attended
Associate Professor C.A. Brown	6	6	11	10	5	3
Mr J.W. Colebatch***						
Mr J.A. Crichton					5	4
Miss A.M. Currie**			5	1	2	2
Professor K.T. Davis	6	5	11	10	5	3
Mr J.M. Green			11	11		
Professor C.A. Jubb	6	5				
Ms J.A. McQuillan	6	2	6	3		
Mr S. Young	6	6	5	4		
CO-OPTED MEMBERS (NON-DIRECTORS)						
Mr P.A. Hawting					2	2
Dr E.C. Macknight					4	3
Mr C.R. Norris	6	2				
Dr M. Pinnuck	6	2				
Mr W. Smith					5	5
Ms B.M. Young					3	2

Non-Directors:

- Mr P.A. Hawting - Co-ordinator of Financial Systems, Training & Development, The University of Melbourne.
- Dr E.C. Macknight - Historian, The University of Melbourne
- Mr C.R. Norris - Audit and Risk Management Consultant and Internal Auditor.
- Dr M. Pinnuck - Senior Lecturer, Department of Accounting & Business Information Systems, The University of Melbourne.
- Mr W. Smith - General Manager, Future Staff Limited
- Ms B.M. Young - Manager (Marketing & Development), Faculty of Economics & Commerce, The University of Melbourne.

* Meetings held where member was eligible to attend

** Miss A.M. Currie re-appointed a Director by the Board and subsequently resigned 17 May, 2006.

*** Mr J.W. Colebatch retired 8 November 2005 after the Annual General Meeting.

Notes : Leave of absence granted where appropriate.
: Loans Advisory Committee meets on an ad hoc basis to consider loans as and when required.

Principal Activities

The principal activities of the Credit Union are:

- (i) to raise funds by subscription or otherwise;
- (ii) to apply those funds in providing financial accommodation to members;
- (iii) to encourage savings among members; and
- (iv) to promote co-operation and provide programs and services to assist members to meet their financial needs.

There have been no significant changes in the nature of these activities during the year.

Operating Results

The net profit of the Credit Union for the financial year ended 30 June 2006 after providing for income tax amounted to \$26,848. (2005: \$65,355).

Material and Unusual Items and Events

At the date of the Report, the Directors are not aware of any circumstances not otherwise dealt with in this report or accounts which would render any amount stated in the accounts misleading. The results of the Credit Union's operations during the financial year have not, in the opinion of the Directors, been substantially affected by any item, transaction or event of a material and unusual nature.

Significant Changes in State of Affairs

No significant changes in the state of affairs of the company occurred during the financial year.

Review of Operations*Growth*

Over the past (12) months assets increased by 6.65%. Deposits increased 7.87% reflecting continuing member support.

Profitability

Operating profit for the year after income tax and core banking platform conversion expenses was \$26,848.00.

After Balance Date Events

Since the end of the financial year end and to the date of this report, in the opinion of the Directors, no matters, transactions or circumstances of a material and unusual nature have arisen, which significantly affected or may significantly affect the operations of the Credit Union, the results of those operations or the state of affairs of the Credit Union's operation in future financial years.

Dividends Paid or Recommended

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Future Developments

There are no developments likely to change the operations of the Credit Union and the expected results of those operations in financial years subsequent to the year ended 30 June 2006.

Environmental Issues

The Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Options

No options over issued shares or interests in the Credit Union were granted during or since the end of the financial year and there were no options outstanding at the end of the financial year.

Indemnification of Directors, Officer or Auditor

During the year, a premium was paid in respect of a contract insuring Directors and Officers of the Credit Union against liability. The Officers of the Credit Union covered by the insurance contract include the Directors, Secretary Mr J.F. Cullen and employees. In accordance with normal commercial practice, disclosure of the total amount of the premium payable under, and nature of liabilities covered by the insurance contract is prohibited by a confidentiality clause in the contract. No indemnities have been given or insurance premiums paid during or since the end of the financial year for any person who is or has been an Auditor of the Credit Union.

Proceedings on Behalf of the Credit Union

No person has applied for leave of Court to bring proceedings on behalf of the Credit Union, or intervene in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or any part of those proceedings. The Credit Union was not a party to any such proceedings during the year.

Signed at Melbourne this 31st day of October 2006 in accordance with a resolution of the Board of Directors.

C.A. Brown
Director

J.M. Green
Director

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF
MELBOURNE UNIVERSITY CREDIT UNION LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

JEFFREY THOMAS & PARTNERS
Chartered Accountants

NEIL A.W. ANGUS
Partner

Signed at Melbourne this .

MELBOURNE UNIVERSITY CREDIT UNION LIMITED

ABN 16 087 651 590

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
Interest Income	2	954 358	884 878
Interest Expense	6	(249 634)	(210 352)
Net Interest Income		704 724	674 526
Other Revenue from Ordinary Activities	2	136 965	124 003
Bad and Doubtful Debts Expense	3	-	(850)
Core Banking Platform Conversion Expense	3	(47 279)	-
Employee Benefits Expense	3	(297 931)	(281 595)
Occupancy Expenses	3	(33 167)	(33 165)
Depreciation Expenses	3	(16 094)	(13 024)
Other Expenses from Ordinary Activities		(417 500)	(400 921)
Profit from Ordinary Activities before Income Tax		29 718	68 974
Income Tax (Expense) Relating to Ordinary Activities	16	(2 870)	(3 619)
Operating Profit after Income Tax	11	<u>26 848</u>	<u>65 355</u>

STATEMENT OF CHANGES IN MEMBER EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

	Capital Reserve \$	General Reserve \$	Reserve for Credit Losses \$	Asset Revaluation \$	Total \$
Total at 1 July 2004	1 090	1 028 313	-	17 260	1 046 663
Net Profit for the year	-	65 355	-	-	65 355
Transfers to/(from)					
Reserves	<u>128</u>	<u>17 132</u>	<u>23 838</u>	<u>(17 260)</u>	<u>23 838</u>
Total at 30 June 2005	<u>1 218</u>	<u>1 110 800</u>	<u>23 838</u>	<u>-</u>	<u>1 135 856</u>
Net Profit for the year	-	26 848	-	-	26 848
Transfers to/(from)					
Reserves	<u>(1 218)</u>	<u>9 516</u>	<u>(8 298)</u>	<u>-</u>	<u>-</u>
Total at 30 June 2006	<u>-</u>	<u>1 147 164</u>	<u>15 540</u>	<u>-</u>	<u>1 162 704</u>

The Accompanying Notes form part of these Financial Statements.

MELBOURNE UNIVERSITY CREDIT UNION LIMITED

ABN 16 087 651 590

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2006

	Note	2006 \$	2005 \$
ASSETS			
Cash and Liquid Assets	17	1 236 612	1 785 899
Advances to Other Financial Institutions	4	4 555 584	2 845 000
Receivables	5	262 057	76 090
Loans and Advances	10	8 236 363	8 719 720
Investments	15	67 711	78 829
Property, Plant and Equipment	14	<u>116 345</u>	<u>65 866</u>
TOTAL ASSETS		<u>14 474 672</u>	<u>13 571 404</u>
LIABILITIES			
Deposits and Short Term Borrowings	23	12 623 784	11 702 572
Creditor Accruals and Settlement Accounts	8	629 149	677 092
Tax Liabilities	9	(35)	1 216
Provisions	7	<u>59 070</u>	<u>54 668</u>
TOTAL LIABILITIES		<u>13 311 968</u>	<u>12 435 548</u>
NET ASSETS		<u>1 162 704</u>	<u>1 135 856</u>
EQUITY			
Reserves	18	<u>1 162 704</u>	<u>1 135 856</u>
TOTAL EQUITY		<u>1 162 704</u>	<u>1 135 856</u>

The Accompanying Notes form part of these Financial Statements.

MELBOURNE UNIVERSITY CREDIT UNION LIMITED

ABN 16 087 651 590

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$	2005 \$
OPERATING ACTIVITIES			
Revenue Inflows			
Interest received - loans		697 758	715 312
Interest received – investments		256 600	142 742
Fees, commissions and other non-interest income received		136 965	124 003
Revenue Outflows			
Interest paid		(250 434)	(194 003)
Suppliers and employees		(1 025 801)	(276 976)
Income taxes paid		<u>(2 905)</u>	<u>1 222</u>
Net Cash provided by/(used in) revenue activities	13(b)	<u>(187 817)</u>	<u>512 300</u>
Inflows from other operating activities			
Net movement in loans		482 293	467 237
Net movements in member deposits and shares		921 212	1 978 642
Net movement in receivables from other financial institutions		(1710 584)	(1 968 997)
Net cash provided by/(used in) operating activities		<u>(307 079)</u>	<u>476 882</u>
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of investments in shares		12 182	-
Payment for property, plant and equipment		-	-
Less: Outflows			
Purchase of investments in shares		-	-
Purchase of property, plant and equipment		<u>(66 573)</u>	(18 544)
Net cash provided by/ (used in) investing activities		<u>(54 391)</u>	<u>(18 544)</u>
Total net cash increase(decrease)		(549 287)	970 638
Cash at beginning of financial year		<u>1 785 899</u>	<u>815 261</u>
Cash at the end of financial year	13(a)	<u>1 236 612</u>	<u>1 785 899</u>

The Accompanying Notes form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Note 1. STATEMENT OF ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

The financial report is for the entity Melbourne University Credit Union Limited as an individual entity. Melbourne University Credit Union Limited is a credit union, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs, except for certain assets which, as noted, are at valuation. It does not take into account changing monetary values or, except where stated, current valuations of non-current assets. Costs are based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the Credit Union in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated. The effects of changes in accounting policies arising from the adoption of Australian equivalents to International Financial Reporting Standards are shown at Note 29.

(a) Cash and Liquid Assets

For the purposes of the Cash Flow Statement, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than three months and net of bank overdrafts.

(b) Loans to Members

(i) Basis of inclusion

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the loans using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against debts considered doubtful.

(ii) Interest Earned

Term Loans – The loan interest is calculated on the basis of daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Overdraft – The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the last day of each month.

Non-Accrual Loan Interest – While still legally recoverable, interest is not brought to account as income where a loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

(c) Loan Impairment**(i) Specific Provision**

Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The specific provision for doubtful debts is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.

Irrespective of the determination a minimum provision is maintained, based on specific percentages of the loan balance which are contingent upon the length of time the repayments are in arrears.

(ii) Reserve for Credit Losses (formerly held as a General Provision)

In addition to the above specific provision, the Board has recognised the need to make an allocation from General Reserves to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The reserve is based on an estimation of the potential risk in the loan portfolio.

As a result of changes to Accounting Standards prescribed by AIFRS, the General Provision is no longer eligible for recognition as a provision to be offset against the gross balance of loans. The provision for general credit risk in the loan portfolio is now recognised as the Reserve for Credit Losses.

(d) Bad Debts Written Off

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the reserve for credit losses if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the Income Statement.

(e) Deposits with other Financial Institutions

Term deposits are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for Interest Receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest Receivable is included in the amount of receivables in the Balance Sheet.

(f) Property, Plant and Equipment

Property, plant and equipment are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to the Credit Union. Estimated useful lives are as follows:

Class of fixed asset	Estimated Useful Life
Office & Computer Equipment	3 to 10 years

Items costing less than \$300 are expensed at the time of purchase.

(g) Equity Investments and Other Securities

Investments in shares where a market value is readily available are revalued to market value, with the gains and losses reflected in Equity through the Asset Revaluation Reserve. Investments in shares which do not have ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount. Investments in shares where no market value is readily available are carried at cost less any provision for impairment. All investments are in Australian currency.

(h) Member Savings**(i) Basis for Determination**

Member savings and term investments are quoted at the aggregate amount of money owing to depositors.

(ii) Interest Payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

(i) Income Tax

Income Tax has been calculated in accordance with the provisions of the Income Tax Assessment Act applicable to credit unions. The Credit Union is a designated small size credit union, which in essence provides that Income Tax is payable on the size of the operating profit which is derived from sources other than members.

The Credit Union adopts the liability method of tax-effect accounting whereby the income tax expense shown in the Income Statement is based on the profit from ordinary activities adjusted for any permanent differences between accounting profit and taxable income. Timing differences which arise due to the different periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account either as provision for deferred income tax or as a deferred tax asset, at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. Timing differences are currently assessed at 30%.

Deferred tax assets are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Deferred tax assets in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account, or which may be realised in the future, is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Credit Union will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(j) Employee Entitlements

Provision is made for the Credit Union's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year, together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements. Provision for long service leave is on a pro-rata basis after 5 years anniversary of employment with the Credit Union based on the present value of its estimated future cash flows. Annual leave is accrued in respect of all employees on pro-rata entitlement for part year of service and leave entitlement due but not taken at balance date. Contributions are made by the Credit Union to an employee superannuation fund and are charged as expenses when incurred.

(k) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables are stated with the amount of GST included where applicable GST is collected.

(l) Securitisation

The Credit Union conducts a loan securitisation program whereby housing mortgage loans are sold as securities to an unrelated entity, thus removing the asset from the Credit Union's Balance Sheet. The Credit Union receives various fee income for services provided to the securitisation program. Fee income is recognised on an accrual basis in relation to the reporting period in which the costs of providing the services are incurred.

The Trustee of the securitisation program has funded the purchase of housing mortgage loans through the issue of securities. The securities issued by this entity do not represent deposits or liabilities of the Credit Union. The Credit Union does not guarantee the capital value or performance of the securities, or the assets of that entity. The Credit Union does not guarantee the payment of the interest or the repayment of principal due on the securities. The Credit Union is not obliged to support any losses incurred by investors in that entity and does not intend to provide such support.

(m) Risk Management Objectives and Policies

The credit union has undertaken the following strategies to minimise the risks arising from financial Instruments.

(i) Market risk and Hedging policy

The credit union is not exposed to currency risk, and other price risk. The credit union does not trade in the financial Instruments it holds on its books. The credit union is exposed to interest rate risk arising from changes in market interest rates. The policy of the credit union is to maintain a balanced 'on book' hedging strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. Details of the interest rate risk profile are set out in Note 27(b).

(ii) Credit risk – loans

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board closely monitors lending activity and delinquency reports on a monthly basis to ensure that lending policy is receiving compliance and to provide early detection of deterioration in lending quality.

(iii) Credit risk – Liquid Investments

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity. All investment must be with financial institutions with a rating in excess of BBB.

(iv) Liquidity Risk

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The credit union policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily.

Note 2: REVENUE FROM OTHER ACTIVITIES

Included in the operating profit is the following operating revenue:

	2006	2005
	\$	\$
Interest Revenue (Note 6)	954 358	884 878
Non Interest Revenues:		
- Fees and commissions	124 073	118 123
- Bad debts recovered	1 953	1 058
- Dividend on shares	<u>10 938</u>	<u>4 822</u>
Total Non Interest Income	<u>136 965</u>	<u>124 003</u>
Operating Revenue	<u>1 091 323</u>	<u>1 008 881</u>

Note 3: PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax expenses has been determined after:

Bad debts written off - unsecured	<u>-</u>	<u>850</u>
Depreciation of non-current assets:		
- Office Equipment	3 143	3 507
- Computer Equipment	8 941	7 859
- ATM	<u>4 010</u>	<u>1 658</u>
	<u>16 094</u>	<u>13 024</u>
Transfers to/(from) provisions for :		
- Doubtful debts	10 618	(3 182)
- Employee entitlements	<u>(5 298)</u>	<u>2 600</u>
General Administrative expenses:		
- Personnel Costs	297 931	281 595
Auditor's remuneration:		
- Audit fees	17 000	17 537
- Other services - taxation	4 600	3 560
- Other services - compliance	5 600	
- Previous auditor's fees	-	27 341
Directors fees	-	-
Insurance	20 044	25 365
Core Banking Software Platform Conversion Costs	47 279	-
Other	<u>398 103</u>	<u>360 283</u>
Total Expenses	<u>811 971</u>	<u>729 555</u>

Note 4: ADVANCES TO OTHER FINANCIAL INSTITUTIONS	2006	2005
	\$	\$
Interest Earning Deposits	<u>4 555 584</u>	<u>2 845 000</u>
Maturity Analysis:		
- at call	-	-
- no longer than 3 months	3 188 010	2 845 000
- longer than 3 and less than 12 months	<u>1 367 574</u>	-
	<u>4 555 584</u>	<u>2 845 000</u>

Note 5: RECEIVABLES

Interest Receivable	42 511	37 674
Prepayments	-	20 046
Other assets	<u>219 546</u>	<u>18 370</u>
	<u>262 057</u>	<u>76 090</u>

Note 6: INTEREST REVENUE AND INTEREST 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. The averages are month-end averages and are representative of the Credit Union's operations during the year.

	Average Balance	Interest	Average Interest
Interest Revenue 2006			
Advances from other financial institutions	5 003 823	256 600	5.13
Loans and advances to members	<u>8 457 005</u>	<u>697 758</u>	<u>8.25</u>
	<u>13 460 828</u>	<u>954 358</u>	<u>7.09</u>
Borrowing Costs 2006			
Members' deposits	12 358 947	249 161	1.99
Short term borrowings	<u>4 690</u>	<u>473</u>	<u>10.10</u>
	<u>12 363 637</u>	<u>249 634</u>	<u>2.02</u>
Net Interest Income 2006		<u>704 724</u>	
Interest Revenue 2005			
Advances to other financial institutions	2 690 215	169 566	6.30
Loans and advances to members	<u>8 827 119</u>	<u>715 312</u>	<u>8.10</u>
	<u>11 517 334</u>	<u>884 878</u>	<u>7.20</u>
Borrowing Costs 2005			
Members' deposits	11 126 528	209 927	1.89
Short term borrowings	<u>4 670</u>	<u>425</u>	<u>9.10</u>
	<u>11 131 198</u>	<u>210 352</u>	<u>1.89</u>
Net Interest Income 2005		<u>674 526</u>	

Note 7: PROVISIONS	2006	2005
	\$	\$
Employee entitlements	<u>59 070</u>	<u>54 668</u>
Number of employees at year end	<u>6</u>	<u>6</u>

Note 8: CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS	2006	2005
	\$	\$
Trade Creditors	74 781	80 751
Other Creditors	506 330	547 503
Accrued Interest Payable	<u>48 038</u>	<u>48 838</u>
	<u>629 149</u>	<u>677 092</u>
Note 9: TAX LIABILITIES		
Provision for Income Tax	<u>(35)</u>	<u>1 216</u>
	<u>(35)</u>	<u>1 216</u>
Note 10: LOANS AND ADVANCES		
Term Loans:		
Unsecured Loans	-	-
Personal Loans	1 192 892	1 253 146
Secured Motor Vehicle Loans	443 973	516 581
Student Loans	47 032	42 136
First Mortgage Loans	6 279 906	6 551 765
Commercial/Investment Loans	<u>200 922</u>	<u>239 570</u>
	<u>8 164 725</u>	<u>8 603 198</u>
Continuing Credit Arrangement	89 112	103 829
Director and Director Related Entities	<u>4 815</u>	<u>24 364</u>
Gross Loans and Advances	8 258 652	8 731 391
Provision for impairment	<u>(22 289)</u>	<u>(11 671)</u>
Net Loans and Advances	<u>8 236 363</u>	<u>8 719 720</u>
The 2005 comparative balances are different to the reported amounts shown in the 2005 annual report. The changes relate to the AIFRS adjustments and are explained in Note 10 (d) with respect to the general provisions.		
(a) Aggregate Amounts Receivable from Related Parties		
Director and Director related entities	4 815	24 364
Provision for impairment	<u>-</u>	<u>-</u>
	<u>4 815</u>	<u>24 364</u>
(b) Maturity Analysis		
Continuing Credit Arrangement	89 112	108 926
Up to 3 months	5 024	8 263
From 3 months to 12 months	53 728	65 132
Later than 1 year but not later than 5 years	1 975 337	2 028 753
Later than 5 years	<u>6 135 451</u>	<u>6 520 317</u>
Total Loans	<u>8 258 652</u>	<u>8 731 391</u>

The above dissection is based upon contracted repayment arrangements and will vary if loan interest and repayment conditions are varied.

(c) Concentration of Risk	2006	2005
	\$	\$
The Credit Union has exposures to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:		
- Victorian Residents	8 093 925	8 546 502
- Other	<u>164 727</u>	<u>184 890</u>
	<u>8 258 652</u>	<u>8 731 392</u>

The loan portfolio of the Credit Union includes 24 loans totalling \$3,707,323 (2005– 25 loans totalling \$3,861,455) which represents 10% or more of capital.

(d) Provision for Impairment

General Provision

Opening balance	-	23 838
Bad debts previously provided for written off during the year	-	-
Bad and doubtful debts provided for during the year	-	-
Transfer to Reserve for Credit Losses	<u>-</u>	<u>(23 838)</u>
Closing balance	<u>-</u>	<u>-</u>

Specific Provision

Opening balance	11 671	11 671
Bad debts previously provided for written off during the year	-	-
Bad and doubtful debts provided for during the year	<u>10 618</u>	<u>-</u>
Closing balance	<u>22 289</u>	<u>11 671</u>

Total Provision for Impairment

	<u>22 289</u>	<u>11 671</u>
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Charge to Profit and Loss for Bad and Doubtful Debts comprises:

- Bad debts recognised directly	<u>-</u>	<u>(3 182)</u>
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The specific loans provision consists of:

(i) Prescribed provision required under the APRA Prudential Standards	22 289	11 671
(ii) Additional specific provision	<u>-</u>	<u>-</u>

(e) Impairment of Loans and Advances

Non accrual loans	-	15 482
Specific provision for impairment	<u>-</u>	<u>-</u>
Net non accrual loans	<u>-</u>	<u>15 482</u>

2006
\$2005
\$**Note 11: RETAINED PROFITS**

Retained profits at the beginning of the financial year	-	-
Net operating profit	26 848	65 355
Transfer to general reserve	<u>(26 848)</u>	<u>(65 355)</u>
Retained profits at the end of the financial year	-	-

Note 12: RELATED PARTY TRANSACTIONS

The names of each person holding the position of Director of Melbourne University Credit Union Limited during the financial year are: C.A. Brown, J.W. Colebatch, J.A. Crichton, A.M. Currie, K.T. Davis, J.M. Green, C.A. Jubb and J. A. McQuillan and S. Young. The other Key Management Personnel (KMP) was the Secretary/Manager Mr J.F. Cullen. KMP has been taken to comprise the Directors and the members of the executive management responsible for the day to day management of the credit union..

The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:

(i) short term employee benefits	68 807	68 807
(ii) post employment benefits – superannuation contributions	6 193	6 193
(iii) other long term benefits – increase/(decrease) in long service leave provision	(5 298)	10 792

(a) Loans to Directors

At 30 June 2006, the relevant directors and related parties had loans with the Credit Union as follows:
The aggregate value of loans and credit facilities made and disbursed to Directors and related parties at balance date amounted to:

	<u>4 815</u>	<u>24 364</u>
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KMP and Directors concerned with the above disbursements were: J.A. Crichton, A.M. Currie and J. A. McQuillan.

Loans made to KMP and related parties are made in the ordinary course of business, are on the same terms and conditions as those offered to all members of the Credit Union and are within the limits approved by the members at the last Annual General Meeting. The terms and conditions of these loans have not been breached. (Refer to Note 9.)

The aggregate value of repayments against loans and credit facilities to Directors and related parties amounted to:

	<u>179 175</u>	<u>77 678</u>
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Directors and related parties concerned with the above repayments were: J.A. Crichton, A.M. Currie and J. A. McQuillan.

(b) Other Transactions of Directors

The Directors have received interest on deposits with the Credit Union during the financial year, on terms and conditions no more favourable than those available, on similar transactions, to other members of the Credit Union.

(c) Transactions with Other Related Parties

There were no transactions with other related parties other than those disclosed elsewhere in this note.

	2006	2005
	\$	\$
Note 13: CASH FLOW INFORMATION		
(a) Reconciliation of cash held		
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial position as follows:		
- Cash	936 612	335 899
- CUSCAL deposit at call	<u>300 000</u>	<u>1 450 000</u>
	<u>1 236 612</u>	<u>1 785 899</u>
(b) Reconciliation of cash flow from operations with profit from ordinary activities after income tax		
Profit from ordinary activities after income tax	26 848	65 355
Non-cash flows in profit from ordinary activities:		
- Depreciation	16 094	13 024
- Bad debts written off	-	850
Changes in assets and liabilities		
(Increase)/decrease in receivables	(206 013)	(36 311)
(Increase)/decrease in prepayments	20 046	(18 896)
Increase/(decrease) in payables	(47 143)	461 593
Increase/(decrease) in income tax payable	(1 251)	5 852
Increase/(decrease) in provisions	4 402	2 600
Increase/(decrease) in accrued interest payable	<u>(800)</u>	<u>18 233</u>
Net Cash Provided by (Used In) Operating Activities	<u>(187 817)</u>	<u>512 300</u>
Note 14: PROPERTY, PLANT AND EQUIPMENT		
Office equipment		
At cost	92 017	94 167
Less: accumulated depreciation	<u>(79 994)</u>	<u>(79 001)</u>
	<u>12 023</u>	<u>15 166</u>
Computer equipment (hardware and software)		
At cost	181 445	114 662
Less: accumulated depreciation	<u>(108 976)</u>	<u>(99 825)</u>
	<u>72 469</u>	<u>14 837</u>
ATM		
At cost	37 521	37 521
Less: accumulated depreciation	<u>(5 668)</u>	<u>(1 658)</u>
	<u>31 853</u>	<u>35 863</u>
Total Property, Plant and Equipment at Cost	<u>310 983</u>	246 350
Provision for depreciation	<u>(194 638)</u>	<u>(180 484)</u>
Total Property, Plant and Equipment	<u>116 345</u>	<u>65 866</u>

Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Office Equipment	Computer Equipment	ATM	Total
2006				
Balance at the beginning of the year	15 166	14 837	35 863	65 866
Additions/(Disposables)	-	66 573	-	66 573
Depreciation expense	<u>(3 143)</u>	<u>(8 941)</u>	<u>(4 010)</u>	<u>(16 094)</u>
Carrying amount at end of year	<u>12 023</u>	<u>72 469</u>	<u>31 853</u>	<u>116 345</u>
2005				
Balance at the beginning of the year	18 673	11 923	-	30 596
Additions/(Disposables)	-	10 773	37 521	48 294
Depreciation expense	<u>(3 507)</u>	<u>(7 859)</u>	<u>(1 658)</u>	<u>(13 024)</u>
Carrying amount at end of year	<u>15 166</u>	<u>14 837</u>	<u>35 863</u>	<u>65 866</u>
		2006		2005
		\$		\$

Note 15: OTHER INVESTMENTS

Shares in listed companies (at market value)	18 974	17 910
Unlisted shares (at cost)	<u>48 737</u>	<u>60 919</u>
	<u>67 711</u>	<u>78 829</u>

The shareholding in Cuscal Ltd is measured reliably. This company was created to supply services to the member credit unions. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 22. The shares are not able to be traded and are not redeemable.

The financial reports of Cuscal Ltd record the net tangible asset backing of these shares exceeding their cost value. Based on the net value of Cuscal Ltd, any fair value determination on those shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

Note 16: INCOME TAX EXPENSE

The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

Prima facie income tax payable on profit from ordinary activities before income tax at 30% (2005-30%)	8 915	20 693
Add: Tax effect of:		
- Timing differences	2 165	(17 074)
- Permanent differences	<u>(8 210)</u>	<u>-</u>
		3 619
Net income tax expense/(revenue) relating to ordinary activities	<u>2 870</u>	<u>3 619</u>

	2006 \$	2005 \$
Balance of the franking account at year end, adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables and franking credits that may be prevented from distribution in the subsequent financial year.	<u>19 205</u>	<u>10 550</u>
Deferred tax assets not brought to account, the benefits of which will only be realised under the conditions for deductibility set out in Note 1(i) Income Tax – Timing differences.	<u>50 132</u>	<u>46 515</u>
Note 17: CASH ASSETS		
Cash on hand and at bank	936 612	335 899
CUSCAL Deposits at call	<u>300 000</u>	<u>1 450 000</u>
	<u>1 236 612</u>	<u>1 785 899</u>
Note 18: RESERVES		
Asset revaluation reserve (a)	-	-
Capital redemption reserve (b)	-	1 218
General reserve (c)	1 147 164	<u>1 110 800</u>
Reserve for credit losses (d)	<u>15 540</u>	<u>23 838</u>
	<u>1 162 704</u>	<u>1 135 856</u>
(a) Asset Revaluation Reserve		
The Asset Revaluation Reserve previously recorded revaluations of non-current assets.		
Movements during the financial year:		
Opening balance	-	17 260
Movement for year	<u>-</u>	<u>(17 260)</u>
Closing balance	<u>-</u>	<u>-</u>
(b) Capital Redemption Reserve		
Movements during the financial year:		
Opening balance	1 218	1 090
Transfer to General Reserve	<u>1 218</u>	<u>128</u>
Closing balance	<u>-</u>	<u>1 218</u>
(c) General Reserve		
Movements during the financial year:		
- Opening balance	1 110 800	1 028 313
- Transfer to capital redemption reserve	-	(128)
- Transfer from retained profits	26 848	65 355
- Transfer from asset revaluation reserve account	1 218	17 260
- Transfer from credit losses reserve	<u>8 298</u>	<u>-</u>
Closing balance	<u>1 147 164</u>	<u>1 110 800</u>
(d) Reserve for Credit Losses		
Movements during the financial year:		
- Opening balance	23 838	
- Transfer (to)/from general reserve	<u>(8 298)</u>	<u>23 838</u>
Closing balance	<u>15 540</u>	<u>23 838</u>

Note 19: CONTINGENT LIABILITIES	2006	25
	\$	2005
		\$
<p>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 holds collateral supporting these commitments where it is deemed necessary.</p>		
<p>Credit Commitments:</p>		
- Undrawn member credit facilities	<u>263 667</u>	<u>436 741</u>
- Loans approved but not yet advanced	<u>-</u>	<u>475 458</u>

There are generally no restrictions to withdrawal of funds under undrawn credit commitments. These commitments are however cancellable at the discretion of the Credit Union.

The Credit Union is a participant in the Credit Union Financial Support System (CUFSS). CUFSS is a company limited by guarantee, each Credit Union's guarantee being \$1. The purpose of the scheme is to protect the interests of Credit Union members, increase stability in the industry and to provide emergency liquidity support. A contract entered into and amended on 14 April 2004 between Credit Union Services Corporation (Australia) Limited (CUSCAL), Credit Union Financial Support System Limited and participating credit unions, required the Credit Union to execute an equitable charge, in favour of CUSCAL. The charge is a fixed and floating charge over the assets and undertakings of the Credit Union to secure any advances made to the Credit Union under the scheme. The balance of drawings by the Credit Union at the end of the financial year ended 30 June 2006 was nil (2005: nil).

As a member of CUFSS, the Credit Union is committed to maintaining 9% of the total liabilities as deposits with Credit Union Services Corporation (Australia) Limited (CUSCAL) of which up to 3% may be used by CUFSS to provide financial support by way of secured loans.

Note 20: EVENTS SUBSEQUENT TO REPORTING DATE

No reportable event has occurred since year end.

Note 21: EXPENDITURE COMMITMENTS

Lease Expenditure Commitments		
Operating lease (non-cancellable)		
- not later than one year	33 165	33 165
- later than one year and not later than five years	<u>66 330</u>	<u>99 495</u>
Total	<u>99 495</u>	<u>132 660</u>

This commitment represents payments due for office premises under non-cancellable operating leases.

Note 22: ECONOMIC DEPENDENCY

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

- (a) Credit Union Services Corporation (Australia) Limited (CUSCAL) is an Approved Deposit-taking Institution registered under the *Corporations Act 2001* and the *Banking Act 1959*. This entity:
- (i) supplies the Credit Union's rights to Member Cheque and Redicard in Australia and provides services in the form of settlement with Bankers and Member Cheques, EFT and the production of Redicards for use by members; and
 - (ii) provides treasury and money market facilities to the Credit Union.
- (b) Ultradata Australia Pty Ltd provides software and software support necessary for processing of members' data in electronic format.
- (c) First Data Resources Australia Limited supplies the Credit Union with services relating to the computer switch used to process transactions arising from the use of the Credit Union's Redicards through approved ATM and EFTPOS networks. The Credit Union has a service contract with First Data Resources Australia Limited.
- (d) Data Action Pty Ltd., an integrated data processing centre, provides ongoing data support systems necessary for processing members' data in conjunction with other credit unions.

Note 23: DEPOSITS AND SHORT TERM BORROWINGS

	2006	2005
	\$	\$
Withdrawal shares	2 283	2 365
Member at call deposits	8 109 365	7 786 205
Non interest bearing deposits	25 965	19 556
Term deposits	<u>4 486 171</u>	<u>3 894 446</u>
	<u>12 623 784</u>	<u>11 702 572</u>
(a) Maturity Analysis		
At call	7 460 843	7 286 993
Not longer than 3 months	2 497 670	1 327 441
Longer than 3 and not longer than 12 months	<u>266 271</u>	<u>3 088 138</u>
	<u>12 623 784</u>	<u>11 702 572</u>
(b) Concentration of Deposits		
Victorian residents	12 585 912	11 652 936
Others	<u>37 872</u>	<u>49 636</u>
	<u>12 623 784</u>	<u>11 702 572</u>

The Credit Union's deposit portfolio does not include any Depositors or groups of associated depositors which represent 10% or more of the Credit Union's total liabilities (less capital).

Note 24: DIRECT STANDBY FACILITY

Credit Union Services Corporation (Australia) Limited		
Overdraft facility	500 000	200 000
Standby facility	-	-
Committed Loans Facility	-	<u>400 000</u>
Unused portion of Overdraft Facility	<u>500 000</u>	<u>600 000</u>

The Credit Union Services Corporation (Australia) holds an equitable mortgage over the assets of the Credit Union for the provision of overdraft facilities.

Note 25: SUPERANNUATION COMMITMENT

Melbourne University Credit Union Limited is a participating employer in an “accumulation fund” which qualifies as a “complying” superannuation fund under the *Superannuation Industry Supervision Act (1993)* and Regulations. The fund provides for separate accounts for each member. Retirement benefits are the growth provided by total contributions to the fund at whatever age retirement takes place.

The Credit Union has a legal obligation to contribute as set out in the trust deed, but has the right to vary the rate of, or terminate, contributions upon giving notice as prescribed in the deed. For the staff employed by Melbourne University Credit Union Limited, the Credit Union contributes to the plan at a rate set by the Trustees of the plan but not less than the minimum 9% required under the *Superannuation Guarantee Act 1992*, and the *Superannuation Guarantee Charge Act (1992)* for each employee member.

A further employee contribution is made according to each employee’s contract. The contributions are paid monthly and are placed in their Investment Portfolio.

Note 26: SEGMENT INFORMATION

The Credit Union operates predominately in the finance industry within Victoria. The operations comprise the acceptance of deposits and the making of loans to members. Specific segmentation of deposits and loans are set out in Notes 10(c), 23(b) and 27(e).

Note 27: FINANCIAL INSTRUMENTS**(a) Terms, Conditions and Accounting Policies**

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

<i>Recognised Financial Instrument</i>	<i>Balance Sheet Note</i>	<i>Accounting Policy</i>	<i>Terms and Conditions</i>
(i) Financial assets			
Loans & Advances	1, 10	The loan interest is calculated on the daily balance outstanding and is charged in arrears to members' loan accounts on the last day of each month.	All housing loans and property investment loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.
Receivables: related parties/entities	10, 12	Amounts receivable from related parties are carried at nominal amounts due.	Details of terms and conditions are set out in Note 12.
Advances to Other Financial Institutions	4	Advances to other financial institutions are stated at the lower of cost and net realisable value. Interest is recognised in the Statement of Financial Performance when earned.	Advances to other financial institutions have an average maturity of 90 days.
Unlisted Shares	15	Unlisted shares are carried at the lower of cost and recoverable amount. Dividend income on Cuscal Commercial Shares is recognised on an accrual basis based on dividend return estimates provided.	No dividend is payable on Cuscal Primary Membership Shares. Dividends on Cuscal Commercial Shares are subject to that corporation's profitability.
(ii) Financial Liabilities			
Direct Standby Facility	24	The direct standby facility is carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate. Details of the security over the direct standby facility are set out in Note 24.
Trade creditors and accruals	8	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Credit Union.	Trade liabilities are normally settled on receipt of accounts.
Deposits and Short term Borrowings	23	All deposits and short term borrowings are recorded at the principal amount.	Details of maturity terms are set out in Note 23. Interest is calculated on the daily balance.

Note 27: FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest Rate Risk

The Credit Union's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in 1 year or less				Non-interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
			In 1 year or less		Over 1 to 5 years							
<i>(i) Financial Assets</i>	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 %	2005 %
Cash and liquid assets	1 236 612	1 785 899	-	-	-	-	-	-	1 236 612	1 785 899	2.60	2.62
Due from other financial institutions	-	-	4 555 584	2 845 000	-	-	-	-	4 555 584	2 845 000	5.87	5.63
Loans and advances: related parties/entities	4 815	24 364	-	-	-	-	-	-	4 815	24 364	8.44	8.01
Unlisted Shares	-	-	-	-	-	-	48 737	60 919	48 737	60 919	N/A	N/A
Listed Shares	-	-	-	-	-	-	18 974	17 910	18 974	17 910	N/A	N/A
Loans and advances	8 231 548	8 671 518	-	-	-	-	-	-	8 231 548	8 671 518	8.44	8.01
Total financial assets	9 472 975	10 481 781	4 555 584	2 845 000	-	-	67 711	78 829	14 096 270	13 405 610	-	-
<i>(ii) Liabilities and Equity</i>												
Bank overdraft	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Deposits	8 109 365	7 786 205	4 486 171	3 894 446	-	-	28 248	21 921	12 623 784	11 702 572	2.00	1.98
Trade creditors and accruals	48 038	48 838	-	-	-	-	581 111	628 285	629 149	677 123	N/A	N/A
Total liabilities and Equity	8 157 403	7 835 043	4 486 171	3 894 446	-	-	609 359	650 206	13 252 933	12 379 695		

(c) Net Fair Values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised at the reporting date are as follows:

	Total carrying amount as per the Statement of Financial Position		Aggregate net fair value	
	2006 \$	2005 \$	2006 \$	2005 \$
(i) Financial Assets				
Cash and liquid assets	1 236 612	1 785 899	1 236 612	1 785 899
Due from other financial institutions	4 555 584	2 845 000	4 555 584	2 845 000
Loans and advances: related parties/entities	4 815	24 364	4 815	24 364
Listed and unlisted shares	67 711	78 829	67 711	78 829
Loans and advances	8 231 548	8 671 518	8 231 548	8 671 518
Total financial assets	14 096 270	13 405 610	14 096 270	13 405 610
(ii) Financial Liabilities				
Deposits	12 623 784	11 702 572	12 623 784	11 702 572
Trade creditors and accruals	629 149	677 123	629 149	677 123
Total financial liabilities	13 252 933	12 379 675	13 252 933	12 379 675

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

Recognised financial instruments

Cash and liquid assets and due from other financial institutions:

The carrying amount approximates fair value because of their short-term to maturity or are receivable on demand.

Unlisted shares are carried at net market/net fair value.

Loans and advances:

The carrying amount of loans receivable, excluding impaired loans, approximates fair value. This was estimated after considering discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The net fair value of impaired loans was estimated after considering discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Short-term borrowings:

The carrying amount approximates fair value because of its short-term to maturity.

Long-term borrowings:

The fair values of long-term borrowings are estimated after considering discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

Trade creditors and accruals:

The carrying amount approximates fair value as it is short-term in nature. This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value. For liabilities which are long-term, net fair values have been estimated after considering the rates currently offered for similar liabilities with remaining maturities.

(d) Maximum Credit Risk Exposures

The Credit Union's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets indicated in the Statement of Financial Position.

(e) Concentration of Credit Risk

The Credit Union minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of members within the specified categories. However, the majority of members are concentrated in Victoria. (Refer also to Note 10(c) – Concentration of Risk, and Note 26 – Segment Information.)

Concentrations of credit risk on loans receivable arise in the following categories:

	Percentage of total loans receivable		Carrying amount of total loans receivable	
	2006 %	2005 %	2006 \$	2005 \$
Victorian Residents	98.5	97.9	8 112 818	8 536 606
Other	1.5	2.1	123 545	183 114
Total	100.0	100.0	8 236 363	8 719 720

The loan portfolio of the Credit Union does include loans which represent 10% or more of capital.

Credit risk in loans receivable is managed with a comprehensive risk assessment process and review.

The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

Note 28: CREDIT UNION DETAILS

The registered office of the Credit Union is:
 Old Geology South Building
 The University of Melbourne
 Victoria 3052. AFSL No.: 245565

Note 29: TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL ACCOUNTING STANDARDS

29a Background Information

As stated in Note 1, this is the first time that the financial statements of the credit union have been prepared using Australian equivalent to IFRS. The following information summarises the impact of the transition from previous GAAP at transition date (1 July 2004) and at the end of the previous financial year. As a result of adopting the new standards, there have been some areas where the balances reported in the 2005 financial report have been changed to enable the 2005 comparative figures for this financial report to be calculated on a consistent basis to the 2006 reported balances.

Changes to the 2005 comparative balances have been made as follows:

- (i) ***Provision for Doubtful Debts*** – The portion of this provision identified as a general provision is not able to be taken up as a provision under AASB 139 Measurement of Financial Instruments, and has been written back and transferred to the Reserve for Credit Losses. Refer Note 18.
- (ii) ***Investments*** – Under the new standards all investments in equity instruments where a market value can be determined is required to be measured at fair value in the Balance Sheet, with all changes in values being recognised in the Equity. Refer Note 11.
- (iii) ***Taxation Assets and Liabilities*** – this standard requires the recognition of the deferred tax liabilities and tax assets to be related to the reported balance sheet assets and liabilities. The previous standard assessed the deferred tax liabilities and tax assets according to the impact on the taxable income of the credit union. The impact is related to revaluations of the property and investments which do not impact on the profit and loss reported. Refer Note 2.

29b AASB 1 Transition Exemptions

The Credit Union has elected to use the following transitional exemption allowed by AASB 1 – First Time Adoption of Australian Equivalents to International Financial Reporting Standards:

Exemption from requirement to restate financial instrument comparatives under AASB 132 – Financial Instruments: Presentation and AASB 130 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions.

The Credit Union has elected to apply the exemption available in AASB 1 to restate comparatives for financial instruments. This means that the transition date for financial instruments becomes 30 June 2005 instead of 30 June 2004. Under previous GAAP, non-current investments were previously recognised at their cost until 30 June 2005.

DIRECTORS' DECLARATION

The Directors of the Credit Union declare that:

1. The financial statements and notes, as set out on pages 9 to 31 inclusive, are in accordance with the *Corporations Act 2001*, and
 - (a) comply with Accounting Standards and the Corporations Regulations 2001;
 - (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance of the Credit Union for the financial year ended on that date.
2. In the Directors' opinion, 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.

This declaration is made in accordance with a resolution of the Directors.

C.A. Brown
Director

J.M. Green
Director

Dated this 31st day of October 2006.

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF MELBOURNE UNIVERSITY CREDIT UNION LIMITED**

Scope

We have audited the financial report of Melbourne University Credit Union Limited for the financial year ended 30 June 2006 comprising the Directors' Declaration, Income Statement, Balance Sheet, Statement of Changes in Members Equity, Cash Flow Statement and Notes to the financial statements.

The Credit Union's Directors are responsible for the financial report. 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 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 its cash flows.

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

Audit Opinion

In our opinion, the financial report of Melbourne University Credit Union Limited 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 of its performance for the financial year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

JEFFREY THOMAS & PARTNERS
Chartered Accountants

NEIL A.W. ANGUS
Partner

Dated this 31 day of October 2006.

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