



MELBOURNE UNIVERSITY
CREDIT UNION
LIMITED

39TH ANNUAL REPORT

2007/2008

39 Years of Service to the University Community

Registered Office:
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The University of Melbourne

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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	Professor K.T. Davis
	Mr P. McGrath
	Ms J.A. McQuillan
	Mr A. Naughton-Smith
	Ms B. Young
	Mr S. Young

ADMINISTRATION:

Secretary/Chief Operating Officer	Mr S. D. Neave
Member Services Co-ordinator	Ms T. Churchland
Senior Member Services Officer	Mr R. Ford
Member Services Officer	Mr A. Keane
Member Services Officer	Ms S. Woodgate
Personal Assistant	Mrs E.H. Mott

BANKERS

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

AUDITOR:

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

SOLICITORS:

Mahonys,
400 Collins Street,
Melbourne 3000.

INSURER:

CUNA Mutual Insurance Group

AFFILIATIONS:

Australian Credit Union Institute Ltd.
Abacus - Australian Mutuals
Cuscal Ltd.
Credit Union Financial Support System Ltd.
Melbourne Credit Union Forum Inc.
National Credit Union Association Inc.

INTERNAL AUDITOR:

Mr C.R. Norris

RETURNING OFFICER:

Mr S. Halliwell

MELBOURNE UNIVERSITY CREDIT UNION LIMITED

AIMS AND OBJECTIVES

The primary goal of 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.

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 IN THIS ANNUAL REPORT

ACR	Audit, Compliance & Risk Committee
AIFRS	Australian Equivalents to International Financial Reporting Standards
ADI	Approved Deposit-Taking Institution
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

	2007/2008		2006/2007	
	Number	Amount \$	Number	Amount \$
Motor Vehicles, Boats, Caravans	56	735,387	47	501,653
Home Improvements	27	933,724	21	679,802
Land/House	6	1,109,440	5	849,949
Miscellaneous Expenses	25	210,876	31	259,399
Debt Consolidation	36	336,452	31	269,280
Appliances/Furnishings	5	28,500	9	22,100
Travel/Holidays	31	117,058	23	176,360
	<u>186</u>	<u>3,471,437</u>	<u>167</u>	<u>2,758,543</u>
Shareholders	2,209		2,336	
Non-Member Depositors	157		423	

**Melbourne University Credit Union
Chairperson's report: 2007-2008**

I am pleased to report on a very successful and busy year for MUCU in 2007/2008. Our organisation with Stuart Neave as our Chief Operating Officer has been thriving. You will have noticed 'new-look' uniforms for staff and a happy and relaxed atmosphere in the banking chambers. The Board and management met for a strategic planning day in February ably facilitated by Stephen Young, one of our directors. We came away from the day with a renewed focus on remaining as an independent financial institution serving the university community. Our key objective for the coming years is to implement marketing strategies to increase the membership and to grow our balance sheet so that we can offer our members the desired range of products and services. We have engaged Jenny Clarke, who is a consultant in marketing for small business with experience in small credit unions, to assist us with our marketing endeavours. In addition, we have employed a marketing postgraduate student as part of the graduate internship program run by the Faculty of Economics and Commerce.

MUCU's size brings with it many business challenges, not the least of which is the cost of compliance with regulation. However, our small size and the relatively simple banking services we offer have meant that MUCU has been largely shielded from the recent global financial market turmoil which commenced with the sub-prime crisis in the US in August 2007. Australian banks' cost of funding has increased dramatically as global wholesale funding markets have been affected by the credit crunch. However MUCU, as a small financial institution which relies on deposits for our on-balance sheet loans, has kept loan rates low. In fact our variable rate mortgage rates have generally remained lower than those offered by the large banks. Despite the volatile financial environment MUCU made a profit of \$83,707 on a capital base of around \$1.2 million, after accounting for the cost of conversion to our new internet banking platform. MUCU made 186 loans worth almost \$3.5 million to members but has maintained a high level of liquidity and a risk weighted capital adequacy ratio which remains well above the regulatory minimum requirement.

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 (ABACUS), other credit unions and service providers (CUSCAL). We also appreciate the support of various members of the University community, both formally via serving as external members of Board committees Warwick Smith, Dick Norris (who is also our internal auditor), Matt Pinnuck plus many more informal helpers.

I thank Julia McQuillan who has served MUCU for 13 years as a director and will retire after the 2008 AGM, and Christine Jubb who retired as a director during the year. Christine and Julia have made significant contributions to MUCU. I welcome Brooke Young and Alex Naughton-Smith 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.

Finally, on behalf of all members I would like to thank Stuart Neave and his staff for continuing the high level of service and support to our members. Tracey-Lee Churchland, Richard Ford, Aaron Keane, Beth Mott and Samantha Woodgate have continued to provide friendly, efficient service to members and deserve our thanks for their untiring efforts.

Christine Brown - Chairperson

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, Professor K.T. Davis, Mr P. McGrath, Ms J.A. McQuillan, Mr A. Naughton-Smith, Ms B. Young 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 criterion 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, 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, and the Policy & Rules Committees, 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 2008. 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 Committees.
Mr John Michael Green (Deputy Chairman)	BEcon <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 Committee.
Mr John Arthur Crichton (Retired at AGM 30 October 2007)	DipIndRel Pit GradDipCareersEd <i>RMIT</i> Assistant Manager, Administration, Melbourne City Mission. A Director of MUCU since June 1987.
Professor Kevin Thomas Davis	BEc <i>Flin.</i> MEc <i>ANU.</i> Director – Melbourne Centre for Financial Studies. A Director of MUCU since July 1991. Member of Audit, Compliance & Risk, Executive & Finance Committees.
Professor C.A. Jubb (Retired at AGM 30 October 2007)	BBus (Accounting) <i>RMIT</i> MBA <i>Deakin</i> PhD <i>Melb.</i> GradDipEd <i>Monash</i> , GradDipScience <i>Swin.</i> CPA CA Professor, Deakin Business School, Deakin University. A Director of MUCU since July 2000. Convenor of Audit, Compliance & Risk Committee.
Mr Peter McGrath	BBus (Accounting) <i>RMIT</i> , GradDip Commercial Data Proc <i>RMIT</i> Director Internal Audit, The University of Melbourne. A Director of MUCU since November 2007. Convenor of Audit, Compliance & Risk Committee.
Ms J.A. McQuillan	GradDipIRHR <i>RMIT</i> . Director, Client Services, Human Resources, The University of Melbourne. A Director of MUCU since June 1995. Member of Audit, Compliance & Risk Committee.
Mr Alex Naughton-Smith	BA <i>Melb.</i> GradDip Soc.Science <i>Swin.</i> Support Coordinator, Common Equity Housing Ltd., A Director of MUCU since February 2008.
Ms B. Young	BA <i>La Trobe</i> PGradDip (Art Cur St) <i>Melb</i> MEnt (Exec) <i>Melb.</i> Executive Director, Melbourne Graduate School of Management, The University of Melbourne. A Director of MUCU since February 2008.
Mr S. Young	BSc <i>Adel.</i> MBA <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 Committees.

MELBOURNE UNIVERSITY CREDIT UNION LIMITED

BOARD AND COMMITTEE MEETINGS

Board Meetings

DIRECTORS	Meetings held*	Meetings attended
Associate Professor C.A. Brown	10	10
Mr J.A. Crichton	4	3
Professor K.T. Davis	10	10
Mr J.M. Green	10	7
Professor C.A. Jubb	4	4
Mr P. McGrath	7	3
Ms J.A. McQuillan	10	8
Mr A. Naughton-Smith	4	3
Ms B. Young	4	3
Mr S. Young	10	8

Committee Meetings

Directors	Audit, Compliance & Risk		Finance	
	Meetings held*	Meetings attended	Meetings held*	Meetings attended
Associate Professor C.A. Brown	3	3	6	6
Mr J.A. Crichton				
Professor K.T. Davis	3	3	6	5
Mr J.M. Green			6	4
Professor C.A. Jubb	2	2		
Mr P. McGrath	2	2		
Ms J.A. McQuillan	3	1		
Mr A. Naughton-Smith				
Ms B. Young				
Mr S. Young	3	3	6	4
CO-OPTED MEMBERS (NON-DIRECTORS)				
Mr C.R. Norris	3	2		
Associate Professor M. Pinnuck	3	2		

Non-Directors:

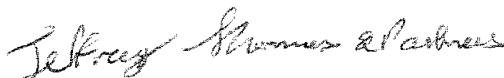
Mr C.R. Norris - Audit & Risk Management Consultant & Internal Auditor
 Assoc. Professor M. Pinnuck - Senior Lecturer, Dept. Accounting & Business Information Systems, The University of Melbourne.

* Meetings held where member was eligible to attend.
 Leave of absence granted where appropriate.

**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 2008 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



GRAEME S. DAY
Partner

Signed at Melbourne this *2* day of *October* 2008

MELBOURNE UNIVERSITY CREDIT UNION LIMITED

ABN 16 087 651 590

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	NOTE	2008 \$	2007 \$
Interest Income	6	1,214,943	1,030,556
Interest Expense	6	(330,297)	(263,778)
Net Interest Income		884,646	766,778
Other Revenue from Ordinary Activities	2	116,873	128,546
Bad and Doubtful Debts Expense	3	(42,462)	(15,670)
Employee Benefits Expense	3	(314,839)	(348,250)
Occupancy Expenses	3	(30,014)	(32,965)
Depreciation Expenses	3	(24,874)	(26,851)
Other Expenses from Ordinary Activities	3	(461,473)	(418,736)
Profit from Ordinary Activities before Income Tax		127,857	52,852
Income Tax (Expense) Relating to Ordinary Activities	16	(44,150)	(2,594)
Operating Profit after Income Tax	11	<u>83,707</u>	<u>50,258</u>

STATEMENT OF CHANGES IN MEMBER EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	Capital Reserve \$	General Reserve \$	Reserve for Credit Losses \$	Total \$
Total at 1 July 2006	-	1,147,164	15,540	1,162,704
Net Profit for the year	-	50,258	-	50,258
Transfers to/(from) Reserves	-	(18,542)	18,542	<u> </u>
Total at 30 June 2007	-	<u>1,178,880</u>	<u>34,082</u>	<u>1,212,962</u>
Net Profit for the year		83,707		83,707
Transfer to/(from) Reserves		(1,076)	1,076	<u> </u>
Total at 30 June 2008		<u>1,261,511</u>	<u>35,158</u>	<u>1,296,669</u>

The Accompanying Notes form part of these Financial Statements.

MELBOURNE UNIVERSITY CREDIT UNION LIMITED

ABN 16 087 651 590

BALANCE SHEET AS AT 30 JUNE 2008

ASSETS	NOTE	2008 \$	2007 \$
Cash and Liquid Assets	17	1,302,905	1,739,637
Advances to Other Financial Institutions	4	6,316,166	4,691,575
Receivables	5	137,248	205,923
Loans and Advances	10	7,600,423	8,029,911
Investments	15	48,727	69,474
Property, Plant and Equipment	14	<u>107,346</u>	<u>113,461</u>
TOTAL ASSETS		<u>15,512,815</u>	<u>14,849,981</u>
LIABILITIES			
Deposits and Short Term Borrowings	23	13,734,475	13,075,610
Creditor Accruals and Settlement Accounts	8	408,801	545,285
Tax Liabilities	9	40,798	239
Provisions	7	<u>32,072</u>	<u>15,885</u>
TOTAL LIABILITIES		<u>14,216,146</u>	<u>13,637,019</u>
NET ASSETS		<u>1,296,669</u>	<u>1,212,962</u>
EQUITY			
RESERVES	18	<u>1,296,669</u>	<u>1,212,962</u>
TOTAL EQUITY		<u>1,296,669</u>	<u>1,212,962</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 2008

	NOTE	2008 \$	2007 \$
OPERATING ACTIVITIES			
Revenue Inflows			
Interest received - loans		723,333	708,313
Interest received - investments		491,610	322,242
Fees, commissions & other non-interest income received		189,785	207,816
Revenue Outflows			
Interest paid		(320,288)	(264,230)
Suppliers & employees		(941,746)	(954,344)
Income taxes paid		<u>3,591</u>	<u>(1,659)</u>
Net Cash provided by/(used in) revenue activities	13(b)	<u>139,103</u>	<u>18,138</u>
Inflows from other operating activities			
Net movement in loans		387,906	194,828
Net movements in member deposits & shares		658,865	451,826
Net movement in receivables from other financial institutions		<u>(1,624,592)</u>	<u>(137,754)</u>
Net cash provided by/(used in) operating activities		<u>(577,821)</u>	<u>508,900</u>
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of investments in shares		20,748	-
Payment for property, plant & equipment			-
Less: Outflows			
Purchase of investments in shares			-
Purchase of property, plant & equipment		<u>(18,762)</u>	<u>(24,013)</u>
Net cash provided by/(used in) investing activities		<u>1,986</u>	<u>(24,013)</u>
Total net cash increase (decrease)		(436,732)	503,025
Cash at beginning of financial year		<u>1,739,637</u>	<u>1,236,612</u>
Cash at end of financial year	13(a)	<u><u>1,302,905</u></u>	<u><u>1,739,637</u></u>

The Accompanying Notes form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 1. STATEMENT OF ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards (AIFRS), interpretations of the Australian Accounting Standards Board, and the requirements of the Corporations Act 2001. In accordance with Accounting Standard AASB 101 Presentation of Financial Statements, compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Reporting Standards.

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.

(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 3 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 member's account on the last day of each month.

Overdraft - The loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member's 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.

(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 provision for impairment 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 & ATM	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 a ready market and are not capable of being reliably valued are recorded at the lower 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 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 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.

(ii) Interest Rate Risk

The Credit Union is exposed to interest rate risk arising from changes in market interest rates. Interest rate risk assessment is measured within the limitations of simulated models which anticipate size and mix of products, growth and market acceptability and the anticipated interest margin target. The Credit Union has modelled the impact of an across-the-board interest rate shock of 200 basis points up and down and determined the impact to be manageable.

(iii) Liquidity Risk

The Credit Union is required to maintain at least 9% of total adjusted liabilities as qualifying High Quality Liquid Assets (HQLA) capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Union's policy is to apply a minimum of 14% of funds as HQLA to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily.

Should the HQLA ratio fall below a level of 20% the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available. The borrowing facilities as of balance date are detailed in Note 24.

The maturity profiles of the financial assets and financial liabilities, based on contractual repayment terms are detailed in Notes 10 & 23.

(iv) 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. The majority of the Credit Union's investments are placed as HQLA with CUSCAL, a company set up to support the member credit unions. All investments must be with financial institutions regulated by APRA or State and Federal Government Guaranteed Securities.

(v) Credit Risk - Loans

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The Credit Union has a concentration in the lending to members who comprise Melbourne University's employees, students and family. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave Melbourne University, the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographic and industry concentrations are set out in Note 10.

(vi) Credit Risk - Equity Investments

All investments in the equity instruments are solely for the benefit of service to the Credit Union. The Credit Union invests in entities set up for the provision of services such as IT solutions treasury services etc. where specialisation demands quality staff which is best secured by one entity. Further details of the investments are set out in Note 15.

Note 2. REVENUE FROM OTHER ACTIVITIES	2008	2007
	\$	\$
Included in the operating profit is the following operating revenue:		
Interest revenue (Note 6)	1,214,943	1,030,556
Non Interest Revenues:		
~Fees and Commissions	110,621	116,422
~Bad Debts recovered	161	772
~Dividends on shares	<u>6,091</u>	<u>11,352</u>
Total Non Interest Income	<u>116,873</u>	<u>128,546</u>
Operating Revenue	<u><u>1,331,816</u></u>	<u><u>1,159,102</u></u>
Note 3. PROFIT FROM ORDINARY ACTIVITIES		
Profit from ordinary activities before income tax expenses has been determined after:		-
Bad debts written off - unsecured	32,733	
Depreciation of non-current assets:		
Office Equipment	4,471	4,414
~Computer Equipment	15,713	17,747
~ATM	<u>4,690</u>	<u>4,690</u>
	<u>24,874</u>	<u>26,851</u>
Transfers to/(from) provisions for:		
~Doubtful debts	8,850	15,670
~Employee entitlements	<u>16,187</u>	<u>(460)</u>
General Administrative expenses:		
~Personnel costs	314,839	348,250
Auditor's remuneration:		
~Audit fees	19,500	18,000
~Other services - taxation	2,500	2,660
~Other services - compliance	3,000	-
Internal Audit fees	7,400	
Directors' fees	-	-
Insurance	23,136	21,576
Note 4. ADVANCES TO OTHER FINANCIAL INSTITUTIONS		
Interest Earning Deposits	<u><u>6,316,166</u></u>	<u><u>4,691,575</u></u>
Maturity Analysis:		
~ at call	-	268,742
~ no longer than 3 months	5,541,485	3,950,573
~ longer than 3 and less than 12 months	<u>774,681</u>	<u>472,260</u>
	<u><u>6,316,166</u></u>	<u><u>4,691,575</u></u>

Note 5. RECEIVABLES	2008	2007
	\$	\$
Interest Receivable	66,382	60,697
Prepayments	27,373	23,136
Other assets	43,493	122,090
	<u>137,248</u>	<u>205,923</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 MUCU's operations during the year.

	Average Balance	Interest	Average Interest
	\$	\$	%
Interest Revenue 2008			
Advances to other financial institutions	5,950,854	491,610	8.26%
Loans and advances to members	<u>7,859,380</u>	<u>723,333</u>	<u>9.20%</u>
	<u>13,810,234</u>	<u>1,214,943</u>	<u>8.80%</u>
Borrowing Costs 2008			
Members' deposits	13,484,879	326,949	2.42%
Short term borrowings	<u>29,498</u>	<u>3,348</u>	<u>11.35%</u>
	<u>13,514,377</u>	<u>330,297</u>	<u>2.44%</u>
Net Interest Income 2008		<u>884,646</u>	
Interest Revenue 2007			
Advances to other financial institutions	5,777,523	322,243	5.58%
Loans and advances to members	<u>8,119,440</u>	<u>708,313</u>	<u>8.72%</u>
	<u>13,896,963</u>	<u>1,030,556</u>	<u>7.42%</u>
Borrowing Costs 2007			
Members' deposits	12,586,454	261,049	2.07%
Short term borrowings	<u>26,357</u>	<u>2,729</u>	<u>10.35%</u>
	<u>12,612,811</u>	<u>263,778</u>	<u>2.10%</u>
Net Interest Income 2007		<u>766,778</u>	

Note 7. PROVISIONS	2008	2007
	\$	\$
Employee entitlements	<u>32,072</u>	<u>15,885</u>
Number of employees at year end	6	4

Note 8. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

Trade Creditors	58,273	48,593
Other Creditors	296,282	449,107
Accrued Interest Payable	<u>54,246</u>	<u>47,585</u>
	<u>408,801</u>	<u>545,285</u>

Note 9. TAX LIABILITIES

Provision for Income Tax	<u>40,798</u>	<u>239</u>
	<u>40,798</u>	<u>239</u>

Note 10. LOANS AND ADVANCES	2008	2007
	\$	\$
Term Loans:		
Personal Loans	1,603,348	1,355,866
Secured Motor Vehicle Loans	664,115	501,219
Student Loans	52,729	48,631
First Mortgage Loans	5,208,431	5,897,531
Commercial/Investment Loans	<u>-</u>	<u>142,408</u>
	<u>7,528,623</u>	<u>7,945,655</u>
Continuing Credit Arrangement	99,445	105,342
Director and Director Related Entities	<u>19,164</u>	<u>16,873</u>
Gross Loans and Advances	7,647,232	8,067,870
Provision for impairment	<u>(46,809)</u>	<u>(37,959)</u>
Net Loans and Advances	<u>7,600,423</u>	<u>8,029,911</u>
(a) Aggregate Amounts Receivable from Related Parties		
Director and Director related entities	19,164	16,873
Provision for impairment	<u>-</u>	<u>-</u>
	<u>19,164</u>	<u>16,873</u>
(b) Maturity Analysis		
Continuing Credit Arrangement	99,445	105,342
Up to 3 months	702	1,821
From 3 months to 12 months	32,644	44,855
Later than 1 year but not later than 5 years	2,253,850	1,888,366
Later than 5 years	<u>5,260,590</u>	<u>6,027,486</u>
Total Loans	<u>7,647,231</u>	<u>8,067,870</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		
The Credit Union has exposures to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:		
- Victorian Residents	7,592,660	8,050,119
- Other	<u>54,571</u>	<u>17,751</u>
	<u>7,647,231</u>	<u>8,067,870</u>

The loan portfolio of the Credit Union includes 12 loans totalling \$2,049,896 (2007 - 42 loans totalling \$5,444,591) which each represent 10% or more of capital.

(d) Provision for Impairment	2008	2007
	\$	\$
Specific Provision		
Opening balance	37,959	22,289
Bad debts previously provided for written off during the year	(879)	-
Bad and doubtful debts provided for during the year	<u>9,729</u>	<u>15,670</u>
Closing balance	<u>46,809</u>	<u>37,959</u>
Total Provision for Impairment		
Charge to Profit and Loss for Bad and Doubtful Debts comprises:		
- Bad debts recognised directly	<u>32,733</u>	<u>-</u>
The specific loans provision consists of:		
Prescribed provision required under the APRA Prudential Standards	46,809	37,959

Note 11. RETAINED PROFITS

Retained profits at the beginning of the financial year		-
Net operating profit	83,707	50,258
Transfer to general reserve	<u>(83,707)</u>	<u>(50,258)</u>
Retained profits at the end of the financial year.	<u>-</u>	<u>-</u>

Note 12. RELATED PARTY TRANSACTIONS

The names of each person holding the position of Director of Melbourne University Credit Union Limited during the year are: CA. Brown, J.A. Crichton, K.T. Davis, J.M. Green, C.A. Jubb, P. McGrath, J.A. McQuillan, A. Naughton-Smith, B. Young & S. Young.

The other Key Management Personnel was the Secretary/Chief Operating Officer S.D. Neave.

Key Management Personnel 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 Key Management Personnel during the year comprising of amounts paid or payable or provided for was as follows:

(i) short term employee benefits	80,000	71,640
(ii) post employment benefits - superannuation contributions	7,200	6,126
(iii) other long term benefits - increase/(decrease) in long service leave provision	-	(32,221)
(iv) termination benefits	-	79,055

(a) Loans to Directors

At 30 June 2008, 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:

Key Management Personnel and Directors concerned with the above disbursements were:	<u>12,141</u>	<u>16,873</u>
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Associate Professor C.A. Brown, Professor K.T. Davis, and Ms 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 10.)

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

Directors and related parties concerned with the above repayments were:
Associate Professor C.A. Brown, Professor K.T. Davis and Ms J.A. McQuillan.

2008	2007
\$	\$
<u>7,575</u>	<u>32,655</u>

(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.

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 on hand and at bank	452,905	739,637
- CUSCAL deposit at call	<u>850,000</u>	<u>1,000,000</u>
	<u><u>1,302,905</u></u>	<u><u>1,739,637</u></u>

(b) Reconciliation of cash flow from operations with profit from ordinary activities after income tax.

Profit from ordinary activities after income tax	83,707	50,258
Non-cash flows in profit from ordinary activities:		
- Depreciation	24,874	26,851
- Bad debts written off	32,733	-
Increase in provision for doubtful debts	8,850	15,670
Changes in assets and liabilities		
(Increase)/decrease in receivables	64,438	79,270
(Increase)/decrease in prepayments	4,237	(23,136)
Increase/(decrease) in payables	(143,143)	(87,411)
Increase/(decrease) in income tax payable	40,559	274
Increase/(decrease) in provisions	16,187	(43,185)
Increase/(decrease) in accrued interest payable	<u>6,661</u>	<u>(453)</u>
Net Cash Provided by (Used In) Operating Activities	<u><u>139,103</u></u>	<u><u>18,138</u></u>

Note 14. PROPERTY, PLANT AND EQUIPMENT	2008	2007
	\$	\$
Office equipment		
At cost	107,849	106,266
Less: accumulated depreciation	<u>(88,879)</u>	<u>(84,408)</u>
	<u>18,970</u>	<u>21,858</u>
Computer equipment (hardware and software)		
At cost	208,338	191,163
Less: accumulated depreciation	<u>(141,756)</u>	<u>(126,044)</u>
	<u>66,582</u>	<u>65,119</u>
ATM		
At cost	37,521	37,521
Less: accumulated depreciation	<u>(15,727)</u>	<u>(11,037)</u>
	<u>21,794</u>	<u>26,484</u>
Total Property, Plant and Equipment at Cost	<u>353,708</u>	<u>334,950</u>
Provision for depreciation	<u>(246,362)</u>	<u>(221,489)</u>
Total Property, Plant and Equipment	<u>107,346</u>	<u>113,461</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
	\$	\$	\$	\$
2008				
Balance at the beginning of the year	21,858	65,119	26,484	113,461
Additions/(Disposables)	1,583	17,176	-	18,759
Depreciation expense	<u>(4,471)</u>	<u>(15,713)</u>	<u>(4,690)</u>	<u>(24,874)</u>
Carrying amount at end of year	<u>18,970</u>	<u>66,582</u>	<u>21,794</u>	<u>107,346</u>
2007				
Balance at the beginning of the year	12,023	72,469	31,853	116,345
Additions/(Disposables)	14,249	9,039	-	23,288
Depreciation expense	<u>(4,414)</u>	<u>(17,747)</u>	<u>(5,369)</u>	<u>(26,851)</u>
Carrying amount at end of year	<u>21,858</u>	<u>65,119</u>	<u>26,484</u>	<u>113,461</u>

Note 15. INVESTMENTS	2008	2007
	\$	\$
Shares in listed companies (at market value)	-	20,747
Unlisted shares (at cost)	<u>48,727</u>	<u>48,727</u>
	<u>48,727</u>	<u>69,474</u>

The unlisted shareholding in CUSCAL 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 record the net tangible asset backing of these shares exceeding their cost value. Based on the net value of CUSCAL, 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	2008	2007
	\$	\$
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% (2007 - 30%).	38,357	15,856
Add: Tax effect of:		
- Timing differences	7,387	(3,635)
- Permanent differences	(1,594)	(9,231)
- Under provision prior year	<u>-</u>	<u>(396)</u>
Net income tax expense/(revenue) relating to ordinary activities.	<u>44,150</u>	<u>2,594</u>
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>25,074</u>	<u>26,785</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>46,100</u>	<u>62,499</u>
Note 17. CASH AND LIQUID ASSETS		
Cash on hand and at bank	452,905	739,637
CUSCAL Deposits at call	<u>850,000</u>	<u>1,000,000</u>
	<u>1,302,905</u>	<u>1,739,637</u>
Note 18. RESERVES		
General reserve (a)	1,261,511	1,178,880
Reserve for credit losses (b)	<u>35,158</u>	<u>34,082</u>
	<u>1,296,669</u>	<u>1,212,962</u>
(a) General Reserve		
Movements during the financial year:		
- Opening balance	1,178,880	1,147,164
- Transfer to capital redemption reserve	-	-
- Transfer from retained profits	83,707	50,258
- Transfer from asset revaluation reserve account	-	-
- Transfer from credit losses reserve	<u>(1,076)</u>	<u>(18,542)</u>
Closing balance	<u>1,261,511</u>	<u>1,178,880</u>
(b) Reserve for Credit Losses		
Movements during the financial year:		
- Opening balance	34,082	15,540
- Transfer (to)/from general reserve	<u>1,076</u>	<u>18,542</u>
Closing balance	<u>35,158</u>	<u>34,082</u>

Note 19. CONTINGENT LIABILITIES

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.

	2008	2007
	\$	\$
Credit Commitments:		
- Undrawn member credit facilities	331,821	287,547
- Loans approved but not yet advanced	<u>10,000</u>	<u>60,000</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), CUFSS 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 2008 was nil (2007: nil).

As a member of CUFSS, the Credit Union is committed to maintaining 9% of the total liabilities as deposits with 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

	2008	2007
	\$	\$
Lease Expenditure Commitments		
Operating lease (non-cancellable)		
- not later than one year	33,165	34,314
- later than one year and not later than five years	132,660	61,752
- later than 5 years	<u>33,165</u>	<u>-</u>
Total	<u>198,990</u>	<u>96,066</u>

This commitment represents payments due for office premises and 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) Data Action 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

	2008	2007
	\$	\$
Withdrawable shares	2,209	2,336
Member at call deposits	8,626,777	8,501,739
Non interest bearing deposits	30,406	16,459
Term deposits	<u>5,075,083</u>	<u>4,555,076</u>
	<u>13,734,475</u>	<u>13,075,610</u>
(a) Maturity Analysis		
At call	8,657,182	8,504,075
Not longer than 3 months	3,966,249	3,193,400
Longer than 3 and not longer than 12 months	<u>1,111,044</u>	<u>1,378,135</u>
	<u>13,734,475</u>	<u>13,075,610</u>
(b) Concentration of Deposits		
Victorian residents	13,597,130	12,955,981
Others	<u>137,345</u>	<u>119,629</u>
	<u>13,734,475</u>	<u>13,075,610</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	500,000
Standby facility	-	-
Committed Loans Facility	-	-
Unused portion of Overdraft Facility	<u>500,000</u>	<u>500,000</u>

CUSCAL 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.

Note 26. 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 Ordinary Shares is recognised on an accrual basis based on dividend return estimates provided.	Dividends on Cuscal Ordinary 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 26. 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	
	2008	2007	In 1 year or less		Over 1 to 5 years		2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
(i) Financial Assets												
Cash & Liquid Assets	1,302,905	1,739,637	-	-	-	-	-	-	1,302,905	1,739,637	5.62	3.20
Due from Other Financial Institutions		-	6,316,166	4,691,575	-	-	-	-	6,316,166	4,691,575	6.62	5.87
Loans and Advances: related Parties/Entities	19,164	16,873		-	-	-	-	-	19,164	16,873	9.54	8.71
Unlisted Shares		-		-	-	-	48,727	48,727	48,727	48,727	N/A	N/A
Listed Shares							-	20,748		20,748		
Loans and Advances:	7,581,259	8,013,038		-	-	-	-	-	7,581,259	8,013,038	9.54	8.71
Total Financial Assets	8,903,328	9,769,548	6,316,166	4,691,575	-	-	48,727	69,475	15,268,221	14,530,598		-
(ii) Liabilities & Equity												
Bank Overdraft	-	-		-	-	-	-	-		-	N/A	N/A
Deposits	8,626,777	8,501,739	5,075,083	4,555,076		-	32,615	18,795	13,734,475	13,075,610	2.40	2.05
Trade Creditors and Accruals	54,246	47,585		-	-	-	354,557	493,699	408,803	541,285	N/A	N/A
Total Liabilities and Equity	8,681,023	8,549,324	5,075,083	4,555,076	-	-	387,172	512,494	14,143,278	13,616,895		

(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 Balance Sheet		Aggregate Net Fair Value	
	2008 \$	2007 \$	2008 \$	2007 \$
(i) Financial Assets				
Cash & Liquid Assets	1,302,905	1,739,637	1,302,905	1,739,637
Due from other Financial Institutions	6,316,166	4,691,575	6,316,166	4,691,575
Loans & Advances: Related Parties/Entities	19,164	16,873	19,164	16,873
Listed & Unlisted Shares	48,727	69,474	48,727	69,474
Loans & Advances	7,581,259	8,013,038	7,581,259	8,013,038
Total Financial Assets	15,268,221	14,530,597	15,268,221	14,530,597
(ii) Financial Liabilities				
Deposits	13,734,475	13,075,610	13,734,475	13,075,610
Trade Creditors & Accruals	408,803	541,285	408,803	541,285
Total Financial Liabilities	14,143,278	13,616,895	14,143,278	13,616,895

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 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 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) Sensitivity Analysis

An analysis of financial assets and financial liabilities for interest rate sensitivity and its impact upon the income statement and equity of the Credit Union was used to assist with the management of financial risk. The analysis assumed an extreme case of a single impact of plus or minus 200 basis points on the average interest rates in the market and the probable reaction of the Credit Union. The analysis considered the impact upon the carrying amounts in the balance sheet and the contractual maturity of the financial instruments.

Interest Revenue 2008	Carrying Amount	Interest		
		Actual	200 Basis Points	200 Basis Points
	\$	\$	\$	\$
Cash and Liquid Assets	7,619,071	491,610	643,991	339,229
Loans and Advances	7,588,282	723,333	875,099	571,567
	15,207,353	1,214,943	1,519,090	910,796
Interest Expense 2008				
Members Deposits	13,734,475	326,949	601,639	52,260
Short Term Borrowings	0	3,348	3,643	2,463
	13,734,475	330,297	605,282	54,723
Net Interest Income 2008		884,646	913,808	856,073
After-tax impact upon the Equity of the Credit Union				
Equity	1,296,669		1,325,831	1,268,096

(e) 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 Balance Sheet.

(f) 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).

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

	Percentage of Total Loans Receivable		Carrying Amount of Total Loans Receivable	
	2008 %	2007 %	2008 \$	2007 \$
Victorian Residents	99.30	99.90	7,592,660	8,050,119
Other	0.70	0.10	54,571	17,751
Total	100.00	100.00	7,647,231	8,067,870

The loan portfolio of the Credit Union includes 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 27. CAPITAL MANAGEMENT

Capital is managed by a monthly analysis by the Board of:

- ~ The 2 year Capital Management plan that contains assessments of trends and future growth plans in key business areas of loans, deposits and investments.
- ~ The Internal Capital Adequacy Assessment which monitors current capital adequacy against potential significant adverse movements in interest rates, the value of Credit Union's investment in real estate, credit risk and operations risk.

Capital Adequacy is derived in accordance with APRA prescribed formulae by risk weighting assets for Credit Risk and applying a charge for Operational Risk.

As at 30 June 2008 Capital Adequacy was 16.90%. In January 2008 significant changes occurred in the method of measuring Capital Adequacy as a result of the adoption of Basel II protocols by APRA, accordingly a meaningful comparison with Capital Adequacy for previous years cannot be made.

Note 28. CREDIT UNION DETAILS

The registered office of the Credit Union is:

Old Geology South Building,
The University of Melbourne,
Victoria 3010.

AFSL: No. 245565

DIRECTORS' DECLARATION

The Directors of the Credit Union declare that:

1. The financial statements and notes, as set out on pages 9 to 30 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 2008 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 30th day of September 2008.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
MELBOURNE UNIVERSITY CREDIT UNION LTD**

Report on the Financial Report

We have audited the accompanying financial report of Melbourne University Credit Union Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in members' equity, and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

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. In Note 1, the directors also state, in accordance with Accounting Standard AASB101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of Melbourne University 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 2008 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,
- (b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.


JEFFREY THOMAS & PARTNERS
Chartered Accountants


GRAEME S. DAY
Partner

Signed at Melbourne this 2 day of October 2008