



MELBOURNE UNIVERSITY
CREDIT UNION
LIMITED

38TH ANNUAL REPORT

2006/2007

38 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	Mr J.A. Crichton
	Professor K.T. Davis
	Professor C.A. Jubb
	Ms J.A. McQuillan
	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 J.N. Davey
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.

INTERNAL AUDITOR:

Mr C.R. Norris

SOLICITORS:

Mahonys,
400 Collins Street,
Melbourne 3000.

RETURNING OFFICER:

Mr S. Halliwell

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.

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 IN THIS ANNUAL REPORT

ACR	Audit, Compliance & Risk Committee
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

	2006/2007		2005/2006	
	Number	Amount \$	Number	Amount \$
Motor Vehicles, Boats, Caravans	47	501 653	52	805 484
Home Improvements	21	679 802	32	875 155
Land/House	5	849 949	13	1 222 794
Miscellaneous Expenses	31	259 399	39	227 110
Debt Consolidation	31	269 280	32	265 408
Appliances/Furnishings	9	22 100	5	9 050
Travel/Holidays	<u>23</u>	<u>176 360</u>	26	<u>159 850</u>
	<u>167</u>	<u>2 758 542</u>	<u>199</u>	<u>3 564 851</u>
Shareholders	2 336		2 283	
Non-Member Depositors	423		446	

Melbourne University Credit Union Chairman's Report: 2006-2007

The Credit Union has had another successful year recording a sound operating surplus as well as overseeing a successful transition of its leadership. Since our last annual report John Cullen, who was appointed to the position of Secretary/Manager of Melbourne University Credit Union in October 1982, retired in April 2007. We farewelled John at a function attended by members, supporters of the Credit Union and the broader credit union movement. Speeches, toasts and stories all testified to John's steady stewardship of the Credit Union and his philosophy of putting members first. The Board consulted widely in its search for a replacement for John and were fortunate to be able to attract Stuart Neave to fill the position of Chief Operating Officer. Stuart was previously employed as the Deputy Manager of Melbourne University Credit Union. More recently he worked as Manager of Amcor Credit Union and Company Accountant for WPB Property Group. Stuart comes to us with a wealth of knowledge and experience in the sector and has great enthusiasm and energy to work for the future of our Credit Union.

The balance sheet of MUCU has grown by around \$400,000 since the last reporting date. We are very pleased to report that despite a year with some unanticipated staffing expenses, the surplus for the year is over \$50,000. 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. Our new banking platform has been in operation now for over 12 months and provides an up-to-date windows environment to manage core banking services. Members continue to use electronic banking with on average 1150 BPay transactions totalling \$520,000 per month. We now have 1075 members using internet banking. Our mortgage securitisation product which was introduced in 2004/5 now has around \$1.7 million in off-balance sheet loans to members.

MUCU 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, Alex Naughton-Smith, Dick Norris (who is also our internal auditor), Matt Pinnuck, Brooke Young) plus many more informal helpers.

I thank John Crichton, who will be retiring as a Director at this AGM. John has 21 years of loyal service as a director of MUCU. I welcome Peter McGrath as a co-opted member 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 (now retired) Secretary/Manager John Cullen, and our new Chief Operating Officer Stuart Neave and the staff for continuing the high level of service and support to our members. I would also like to make special mention of the contributions made by Tracey-Lee Churchland and Richard Ford who rose to significant challenges during the year. The hard work and loyalty to the Credit Union of Tracey-Lee and Richard, along with that of Beth Mott and James Davey is gratefully acknowledged. Also, thanks are due to Edwina Wickramasingha and Nitin Sidaya for their work for the Credit Union during the past financial year.

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, Marketing 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 2007. 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)	<i>BSc Melb. MSc Melb. PhD Melb. DipEd 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 & Marketing Committees.
Mr John Michael Green (Deputy Chairman)	<i>BEcon Tas. LLB Deakin FCSA FCPA FIAA FICD.</i> 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.
Mr John Arthur Crichton	<i>DipIndRel PIT GradDipCareersEd RMIT.</i> Assistant Manager, Administration, Melbourne City Mission. A Director of MUCU since June 1987. (Previously a Director of MUCU from 1976 to 1977.) Convenor of Marketing Committee.
Professor Kevin Thomas Davis	<i>BEc Flin. MEc 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 Committees.
Professor Christine Ann Jubb	<i>BBus (Accounting) RMIT MBA Deakin PhD Melb.</i> <i>Grad Dip Ed Monash, GradDipScience Applied Statistics Swin. CPA CA</i> Professor, Deakin Business School, Deakin University. A Director of MUCU since July 2000. Convenor of Audit, Compliance & Risk Committee.
Ms Julia Anne McQuillan	<i>GradDipIRHR 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 Stephen Young	<i>BSc Adel. MBA 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	Number of meetings eligible to attend	Number of regular meetings attended
Associate Professor C.A. Brown	11	10
Mr J.A. Crichton	11	9
Professor K.T. Davis	11	9
Mr J.M. Green	11	10
Professor C.A. Jubb	11	7
Ms J.A. McQuillan	11	11
Mr S. Young	11	9

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	5	10	9	3	3
Mr J.A. Crichton					3	3
Professor K.T. Davis	6	5	10	8	3	2
Mr J.M. Green			10	10		
Professor C.A. Jubb	6	6				
Ms J.A. McQuillan	6	0				
Mr S. Young	6	3	10	6		
CO-OPTED MEMBERS (NON-DIRECTORS)						
Dr E.C. Macknight					3	1
Mr A. Naughton-Smith					2	2
Mr C.R. Norris	6	0				
Associate Professor M. Pinnuck	6	5				
Mr W. Smith					3	1
Ms B.M. Young					3	2

Non-Directors:

- | | |
|--------------------------------|--|
| Dr E.C. Macknight | - Historian, The University of Melbourne |
| Mr C.R. Norris | - Audit and Risk Management Consultant and Internal Auditor. |
| Associate Professor M. Pinnuck | - Senior Lecturer, Department of Accounting & Business Information Systems, The University of Melbourne. |
| Mr W. Smith | - General Manager, FutureStaff Limited |
| Ms B.M. Young | - Manager (Marketing & Development), Faculty of Economics & Commerce, The University of Melbourne. |

* Meetings held where member was eligible to attend

Notes : Leave of absence granted where appropriate.

Principal Activities

The principal activities of MUCU are to raise funds by subscription or otherwise, to apply those funds in providing financial accommodation to members, to encourage savings among members and 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 MUCU for the financial year ended 30 June 2007 after providing for income tax amounted to \$50,258.00 (2006: \$26,848.00).

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 MUCU'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 3%. Deposits increased 4% reflecting continuing member support.

Profitability - Operating profit for the year after income tax and core banking platform conversion expenses was \$50,258.00.

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 MUCU, the results of those operations or the state of affairs of MUCU'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 MUCU and the expected results of those operations in financial years subsequent to the year ended 30 June 2007.

Environmental Issues

MUCU'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 MUCU 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 MUCU against liability. The Officers of MUCU covered by the insurance contract include the Directors, Secretary Mr S. D. Neave 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 MUCU.

Proceedings on Behalf of the Credit Union

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307c of the Corporations Act 2001 is set out on page 8.

Signed at Melbourne this

2007 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 2007, 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 DAY
Partner

Signed at Melbourne this .

MELBOURNE UNIVERSITY CREDIT UNION LIMITED

ABN 16 087 651 590

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$	2006 \$
Interest Income	6	1 030 556	954 358
Interest Expense	6	<u>(263 778)</u>	<u>(249 634)</u>
Net Interest Income		766 778	704 724
Other Revenue from Ordinary Activities	2	128 546	136 965
Bad and Doubtful Debts Expense	3	(15 670)	-
Core Banking Platform Conversion Expense	3	-	(47 279)
Employee Benefits Expense	3	(348 250)	(297 931)
Occupancy Expenses	3	(32 965)	(33 167)
Depreciation Expenses	3	(26 851)	(16 094)
Other Expenses from Ordinary Activities	3	<u>(418 736)</u>	<u>(417 500)</u>
Profit from Ordinary Activities before Income Tax		52 852	29 718
Income Tax (Expense) Relating to Ordinary Activities	16	<u>(2 594)</u>	<u>(2 870)</u>
Operating Profit after Income Tax	11	<u>50 258</u>	<u>26 848</u>

STATEMENT OF CHANGES IN MEMBER EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	Capital Reserve \$	General Reserve \$	Reserve for Credit Losses \$	Total \$
Total at 1 July 2005	1 218	1 110 800	23 838	1 135 856
Net Profit for the year	-	26 848	-	26 848
Transfers to/(from)				
Reserves	(1 218)	9 516	(8 298)	-
Total at 30 June 2006	<u>-</u>	<u>1 147 164</u>	<u>15 540</u>	<u>1 162 704</u>
Net Profit for the year	-	50 258	-	50 258
Transfers to/(from)				
Reserves	-	(18 542)	18 542	-
Total at 30 June 2007	<u>-</u>	<u>1 178 880</u>	<u>34 082</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

BALANCE SHEET AS AT 30 JUNE 2007

		2007	2006
		\$	\$
ASSETS	Note		
Cash and Liquid Assets	17	1 739 637	1 236 612
Advances to Other Financial Institutions	4	4 691 575	4 555 584
Receivables	5	205 923	262 057
Loans and Advances	10	8 029 911	8 236 363
Investments	15	69 474	67 711
Property, Plant and Equipment	14	<u>113 461</u>	<u>116 345</u>
TOTAL ASSETS		<u>14 849 981</u>	<u>14 474 672</u>
LIABILITIES			
Deposits and Short Term Borrowings	23	13 075 610	12 623 784
Creditor Accruals and Settlement Accounts	8	545 285	629 149
Tax Liabilities	9	239	(35)
Provisions	7	<u>15 885</u>	<u>59 070</u>
TOTAL LIABILITIES		<u>13 637 019</u>	<u>13 311 968</u>
NET ASSETS		<u>1 212 962</u>	<u>1 162 704</u>
EQUITY			
Reserves	18	<u>1 212 962</u>	<u>1 162 704</u>
TOTAL EQUITY		<u>1 212 962</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

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$	2006 \$
OPERATING ACTIVITIES			
Revenue Inflows			
Interest received - loans		708 313	697 758
Interest received – investments		322 242	256 600
Fees, commissions and other non-interest income received		207 816	136 965
Revenue Outflows			
Interest paid		(264 230)	(250 434)
Suppliers and employees		(954 344)	(1 025 801)
Income taxes paid		<u>(1 659)</u>	<u>(2 905)</u>
Net Cash provided by/(used in) revenue activities	13(b)	<u>18 138</u>	<u>(187 817)</u>
Inflows from other operating activities			
Net movement in loans		194 828	482 293
Net movements in member deposits and shares		451 826	921 212
Net movement in receivables from other financial institutions		(137 754)	(1710 584)
Net cash provided by/(used in) operating activities		<u>508 900</u>	<u>(307 079)</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>(24 013)</u>	<u>(66 573)</u>
Net cash provided by/ (used in) investing activities		<u>(24 013)</u>	<u>(54 391)</u>
Total net cash increase(decrease)		503 025	(549 287)
Cash at beginning of financial year		<u>1 236 612</u>	<u>1 785 899</u>
Cash at the end of financial year	13(a)	<u>1 739 637</u>	<u>1 236 612</u>

The Accompanying Notes form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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 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.

(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.

(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:

	2007	2006
	\$	\$
Interest Revenue (Note 6)	1 030 556	954 358
Non Interest Revenues:		
- Fees and commissions	116 422	124 073
- Bad debts recovered	772	1 953
- Dividend on shares	<u>11 352</u>	<u>10 938</u>
Total Non Interest Income	<u>128 546</u>	<u>136 965</u>
Operating Revenue	<u>1 159 102</u>	<u>1 091 323</u>

Note 3: PROFIT FROM ORDINARY ACTIVITIES

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

Bad debts written off - unsecured	=	=
Depreciation of non-current assets:		
- Office Equipment	4 414	3 143
- Computer Equipment	17 747	8 941
- ATM	<u>4 690</u>	<u>4 010</u>
	<u>26 851</u>	<u>16 094</u>
Transfers to/(from) provisions for :		
- Doubtful debts	15 670	10 618
- Employee entitlements	<u>(460)</u>	<u>(5 298)</u>
General Administrative expenses:		
- Personnel Costs	348 250	297 931
Auditor's remuneration:		
- Audit fees	18 000	17 000
- Other services - taxation	2 660	4 600
- Other services - compliance	-	5 600
Directors' fees	-	-
Insurance	21 576	20 044
Core Banking Software Platform Conversion Costs	-	47 279
Other	380 678	398 103

Note 4: ADVANCES TO OTHER FINANCIAL INSTITUTIONS

	2007	2006
	\$	\$
Interest Earning Deposits	<u>4 691 575</u>	<u>4 555 584</u>
Maturity Analysis:		
- at call	268 742	-
- no longer than 3 months	3 950 573	3 188 010
- longer than 3 and less than 12 months	<u>472 260</u>	<u>1 367 574</u>
	<u>4 691 575</u>	<u>4 555 584</u>

Note 5: RECEIVABLES

Interest Receivable	60 697	42 511
Prepayments	23 136	-
Other assets	<u>122 090</u>	<u>219 546</u>
	<u>205 923</u>	<u>262 057</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 2007			
Advances from other financial institutions	5 777 523	322 242	5.58%
Loans and advances to members	<u>8 119 440</u>	<u>708 313</u>	<u>8.72%</u>
	<u>13 896 964</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>12 586 454</u>	<u>263 778</u>	<u>2.10%</u>
Net Interest Income 2007		<u>766 778</u>	
Interest Revenue 2006			
Advances to 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>	

Note 7: PROVISIONS

	2007	2006
	\$	\$
Employee entitlements	<u>15 885</u>	<u>59 070</u>
Number of employees at year end	<u>4</u>	<u>6</u>

Note 8: CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS	2007	2006
	\$	\$
Trade Creditors	48 593	74 781
Other Creditors	449 107	506 330
Accrued Interest Payable	<u>47 585</u>	<u>48 038</u>
	<u>545 285</u>	<u>629 149</u>
Note 9: TAX LIABILITIES		
Provision for Income Tax	<u>239</u>	<u>(35)</u>
	<u>239</u>	<u>(35)</u>
Note 10: LOANS AND ADVANCES		
Term Loans:		
Personal Loans	1 355 866	1 192 892
Secured Motor Vehicle Loans	501 219	443 973
Student Loans	48 631	47 032
First Mortgage Loans	5 897 531	6 279 906
Commercial/Investment Loans	<u>142 408</u>	<u>200 922</u>
	<u>7 945 655</u>	<u>8 164 725</u>
Continuing Credit Arrangement	105 342	89 112
Director and Director Related Entities	<u>16 873</u>	<u>4 815</u>
Gross Loans and Advances	8 067 870	8 258 652
Provision for impairment	<u>(37 959)</u>	<u>(22 289)</u>
Net Loans and Advances	<u>8 029 911</u>	<u>8 236 363</u>
(a) Aggregate Amounts Receivable from Related Parties		
Director and Director related entities	16 873	4 815
Provision for impairment	<u>-</u>	<u>-</u>
	<u>16 873</u>	<u>4 815</u>
(b) Maturity Analysis		
Continuing Credit Arrangement	105 342	89 112
Up to 3 months	1 821	5 024
From 3 months to 12 months	44 855	53 728
Later than 1 year but not later than 5 years	1 888 366	1 975 337
Later than 5 years	<u>6 027 486</u>	<u>6 135 451</u>
Total Loans	<u>8 067 870</u>	<u>8 258 652</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	2007	2006
	\$	\$
The Credit Union has exposures to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:		
- Victorian Residents	8 050 119	8 093 925
- Other	<u>17 751</u>	<u>164 727</u>
	<u>8 067 870</u>	<u>8 258 652</u>

The loan portfolio of the Credit Union includes 42 loans totalling \$5 444 591 (2006– 24 loans totalling \$3,707,323) which represents 10% or more of capital.

(d) Provision for Impairment

General Provision

Opening balance	-	-
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	-	-
Closing balance	-	-

Specific Provision

Opening balance	22 289	11 671
Bad debts previously provided for written off during the year	-	-
Bad and doubtful debts provided for during the year	<u>15 670</u>	<u>10 618</u>
Closing balance	<u>37 959</u>	<u>22 289</u>

Total Provision for Impairment

Charge to Profit and Loss for Bad and Doubtful Debts comprises:

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

(i) Prescribed provision required under the APRA Prudential Standards	37 959	22 289
(ii) Additional specific provision	<u> -</u>	<u> -</u>

(e) Impairment of Loans and Advances

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

	2007 \$	2006 \$
Note 11: RETAINED PROFITS		
Retained profits at the beginning of the financial year	-	-
Net operating profit	50 258	26 848
Transfer to general reserve	<u>(50 258)</u>	<u>(26 848)</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 financial year are: C.A. Brown, J.A. Crichton, K.T. Davis, J.M. Green, C.A. Jubb, J. A. McQuillan and S. Young. The other Key Management Personnel (KMP) were the current Secretary/Chief Operating Officer Mr S. D. Neave and the previous 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	71 640	68 807
(ii) post employment benefits – superannuation contributions	6 126	6 193
(iii) other long term benefits – increase/(decrease) in long service leave provision	(32 221)	(5 298)
(iv) Termination Benefits	79 055	-

(a) Loans to Directors

At 30 June 2007, 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>16 873</u>	<u>4 815</u>
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KMP and Directors concerned with the above disbursements were: J.A. Crichton & 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:

<u>32 655</u>	<u>179 175</u>
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Directors and related parties concerned with the above repayments were: J.A. Crichton & 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.

	2007 \$	2006 \$
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	739 637	936 612
- CUSCAL deposit at call	<u>1 000 000</u>	<u>300 000</u>
	<u>1 739 637</u>	<u>1 236 612</u>
(b) Reconciliation of cash flow from operations with profit from ordinary activities after income tax		
Profit from ordinary activities after income tax	50 258	26 848
Non-cash flows in profit from ordinary activities:		
- Depreciation	26 851	16 094
- Bad debts written off	-	-
Increase in provision for Doubtful Debts	15 670	-
Changes in assets and liabilities		
(Increase)/decrease in receivables	79 270	(206 013)
(Increase)/decrease in prepayments	(23 136)	20 046
Increase/(decrease) in payables	(87 411)	(47 143)
Increase/(decrease) in income tax payable	274	(1 251)
Increase/(decrease) in provisions	(43 185)	4 402
Increase/(decrease) in accrued interest payable	<u>(453)</u>	<u>(800)</u>
Net Cash Provided by (Used In) Operating Activities	<u>18 138</u>	<u>(187 817)</u>
Note 14: PROPERTY, PLANT AND EQUIPMENT		
Office equipment		
At cost	106 266	92 017
Less: accumulated depreciation	<u>(84 408)</u>	<u>(79 994)</u>
	<u>21 858</u>	<u>12 023</u>
Computer equipment (hardware and software)		
At cost	191 163	181 445
Less: accumulated depreciation	<u>(126 044)</u>	<u>(108 976)</u>
	<u>65 119</u>	<u>72 469</u>
ATM		
At cost	37 521	37 521
Less: accumulated depreciation	<u>(11 037)</u>	<u>(5 668)</u>
	<u>26 484</u>	<u>31 853</u>
Total Property, Plant and Equipment at Cost	<u>334 950</u>	<u>310 983</u>
Provision for depreciation	<u>(221 489)</u>	<u>(194 638)</u>
Total Property, Plant and Equipment	<u>113 461</u>	<u>116 345</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
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	(4 414)	(17 747)	(5 369)	(26 851)
Carrying amount at end of year	<u>21 858</u>	<u>65 119</u>	<u>26 484</u>	<u>113 461</u>
2006				
Balance at the beginning of the year	15 166	14 837	35 863	65 866
Additions/(Disposables)	-	66 573	-	66 573
Depreciation expense	(3 143)	(8 941)	(4 010)	(16 094)
Carrying amount at end of year	<u>12 023</u>	<u>72 469</u>	<u>31 853</u>	<u>116 345</u>
		2007		2006
		\$		\$

Note 15: OTHER INVESTMENTS

Shares in listed companies (at market value)	20 748	18 974
Unlisted shares (at cost)	<u>48 727</u>	<u>48 737</u>
	<u>69 474</u>	<u>67 711</u>

The 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

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% (2006-30%)	15 856	8 915
Add: Tax effect of:		
- Timing differences	(3 635)	2 165
- Permanent differences	(9 231)	(8 210)
- Underprovision prior year	<u>(396)</u>	<u>-</u>
Net income tax expense/(revenue) relating to ordinary activities	<u>2 594</u>	<u>2 870</u>

	2007	2006
	\$	\$
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>26 785</u>	<u>19 205</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>62 499</u>	<u>50 132</u>
Note 17: CASH ASSETS		
Cash on hand and at bank	739 637	936 612
CUSCAL Deposits at call	<u>1 000 000</u>	<u>300 000</u>
	<u>1 739 637</u>	<u>1 236 612</u>
Note 18: RESERVES		
Asset revaluation reserve (a)	-	-
Capital redemption reserve (b)	-	-
General reserve (c)	1 178 880	1 147 164
Reserve for credit losses (d)	<u>34 082</u>	<u>15 540</u>
	<u>1 212 962</u>	<u>1 162 704</u>
(a) Asset Revaluation Reserve		
The Asset Revaluation Reserve previously recorded revaluations of non-current assets.		
Movements during the financial year:		
Opening balance	-	-
Movement for year	=	=
Closing balance	=	=
(b) Capital Redemption Reserve		
Movements during the financial year:		
Opening balance	-	1 218
Transfer to General Reserve	=	<u>1 218</u>
Closing balance	=	=
(c) General Reserve		
Movements during the financial year:		
- Opening balance	1 147 164	1 110 800
- Transfer to capital redemption reserve	-	-
- Transfer from retained profits	50 258	26 848
- Transfer from asset revaluation reserve account	-	1 218
- Transfer from credit losses reserve	<u>(18 542)</u>	<u>8 298</u>
Closing balance	<u>1 178 880</u>	<u>1 147 164</u>
(d) Reserve for Credit Losses		
Movements during the financial year:		
- Opening balance	15 540	23 838
- Transfer (to)/from general reserve	<u>18 542</u>	<u>(8 298)</u>
Closing balance	<u>34 082</u>	<u>15 540</u>

Note 19: CONTINGENT LIABILITIES**2007**
\$**2006**
\$

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.

Credit Commitments:

- Undrawn member credit facilities	<u>287 547</u>	<u>263 667</u>
- Loans approved but not yet advanced	<u>60 000</u>	<u>-</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 2007 was nil (2006: 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**2007**
\$**2006**
\$

Lease Expenditure Commitments

Operating lease (non-cancellable)

- not later than one year	34 314	33 165
- later than one year and not later than five years	<u>61 752</u>	<u>66 330</u>
Total	<u>96 066</u>	<u>99 495</u>

This commitment represents payments due for office premises and photocopier 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

	2007	2006
	\$	\$
Withdrawal shares	2 336	2 283
Member at call deposits	8 501 739	8 109 365
Non interest bearing deposits	16 459	25 965
Term deposits	<u>4 555 076</u>	<u>4 486 171</u>
	<u>13 075 610</u>	<u>12 623 784</u>
(a) Maturity Analysis		
At call	8 504 075	7 460 843
Not longer than 3 months	3 193 400	2 497 670
Longer than 3 and not longer than 12 months	<u>1 378 135</u>	<u>266 271</u>
	<u>13 075 610</u>	<u>12 623 784</u>
(b) Concentration of Deposits		
Victorian residents	12 955 981	12 585 912
Others	<u>119 629</u>	<u>37 872</u>
	<u>13 075 610</u>	<u>12 623 784</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>

The Credit Union Services Corporation (Australia) Limited 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: 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>	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	2007 %	2006 %
Cash and liquid assets	1 739 637	1 236 612	-	-	-	-	-	-	1 739 637	1 236 612	3.20	2.60
Due from other financial institutions	-	-	4 691 575	4 555 584	-	-	-	-	4 691 575	4 555 584	5.79	5.87
Loans and advances: related parties/entities	16 873	4 815	-	-	-	-	-	-	16 873	4 815	8.71	8.44
Unlisted Shares	-	-	-	-	-	-	48 727	48 737	48 727	48 737	N/A	N/A
Listed Shares	-	-	-	-	-	-	20 748	18 974	20 748	18 974	-	-
Loans and advances	8 013 038	8 231 548	-	-	-	-	-	-	8 013 038	8 231 548	8.71	8.44
Total financial assets	9 769 548	9 472 975	4 691 575	4 555 584	-	-	-	67 711	14 530 597	14 096 270	-	-
<i>(ii) Liabilities and Equity</i>												
Bank overdraft	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Deposits	8 501 739	8 109 365	4 555 076	4 486 171	-	-	18 795	28 248	13 075 610	12 623 784	2.05	2.00
Trade creditors and accruals	47 585	48 038	-	-	-	-	493 699	581 111	541 285	629 149	N/A	N/A
Total liabilities and Equity	8 549 324	8 157 403	4 555 076	4 486 171	-	-	512 494	609 359	13 616 895	13 252 933		

(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	
	2007 \$	2006 \$	2007 \$	2006 \$
(i) Financial Assets				
Cash and liquid assets	1 739 637	1 236 612	1 739 637	1 236 612
Due from other financial institutions	4 691 575	4 555 584	4 691 575	4 555 584
Loans and advances: related parties/entities	16 873	4 815	16 873	4 815
Listed and unlisted shares	69 474	67 711	69 474	67 711
Loans and advances	8 013 038	8 231 548	8 013 038	8 231 548
Total financial assets	14 530 597	14 096 270	14 530 597	14 096 270
(ii) Financial Liabilities				
Deposits	13 075 610	12 623 784	13 075 610	12 623 784
Trade creditors and accruals	541 285	629 149	541 285	629 149
Total financial liabilities	13 616 895	13 252 933	13 616 895	13 252 933

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	
	2007 %	2006 %	2007 \$	2006 \$
Victorian Residents	99.9	98.5	8 012 160	8 112 818
Other	0.01	1.5	17 751	123 545
Total	100.0	100.0	8 029 911	8 236 363

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 3010.
AFSL No.: 245565

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

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 2007, 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.

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.

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 2007 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

JEFFREY THOMAS & PARTNERS
Chartered Accountants

GRAEME DAY
Partner

Signed at Melbourne this day of 2007.