

2006



RTA **staff credit union**  
your road to financial success

# 2006 ANNUAL FINANCIAL REPORT

**RTA Staff Credit Union Ltd**  
**ABN 78 087 650 600**  
**AFSL 240718**

Registered Office:

Level 2 KMS Building  
8-24 Kippax Street  
SURRY HILLS NSW 2010

## **Notice of 42<sup>nd</sup> Annual General Meeting**

The 42<sup>nd</sup> Annual General Meeting of R.T.A Staff Credit Union Limited (ABN 78 087 650 600 – AFSL 240718) will be held in the Circular Quay Room at the Mecure Sydney Hotel , 818-820 George Street Sydney, on Monday 27<sup>th</sup> November 2006 at 1.00pm

### **Members of the Board of Directors**

Noel Hancock	Chairman and Audit Committee Member
Vince Taranto	Deputy Chairman
Anthony Dann	Audit Committee Chairman
Max DeBoos	Audit Committee Member
Glen Morgan	
Warwick Fairweather	
Meredyth-Ann Williams	

### **Administration**

John Kavalieros	General Manager
Ashley Overton	Finance and Administration Manager
Joanne Badenoch	Loans Supervisor
Helen Portelli	Member Service Supervisor
Michael Blackmore	Member Service - Loans and Business Development
Jenna Ridgeway	Member Service - Loans
Julie Hackett	Accounts Support

### **External Auditors**

BDO Kendalls , Chartered Accountants  
Level 19 , 2 Market St  
Sydney

### **Internal Auditors**

Glenn Pannam  
DBP Consulting Pty Ltd

### **Solicitors**

Daniels Bengtsson Lawyers  
Level 4, 171 Clarence Street, Sydney.

### **Bankers**

CUSCAL Limited  
Centralised Banking scheme – National Australia Bank.



# **R.T.A Staff Credit Union Limited**

**Year ended 30 June 2006**

## **Abbreviations**

### **APRA**

#### **Australian Prudential Regulation Authority**

Regulatory body responsible for the prudential supervision of banks, life insurers, general insurers, superannuation funds, building societies ,credit unions and friendly societies. APRA is fully funded by the industries that it supervises.

### **ASIC**

#### **Australian Securities and Investment Commission**

Federal Government regulatory body that regulates financial services and national regulator of all Australian companies. Regulations include: advising , selling and disclosure of financial products and services, protection of markets and consumers from manipulation, deception and unfair practices, and promotion of honesty and fairness in securities and future markets and in company affairs.

### **CUFSS**

#### **Credit Union Financial Support Scheme**

An industry based liquidity support system with the objective of protecting the interests of credit union members as depositors and to promote financial sector stability , in relations to credit unions.

### **CUSCAL**

#### **CUSCAL Limited**

This organisation is registered under the Corporation Act, and are subject to the direct supervision by APRA. This organisation promote Credit Unions and provide assistance with banking , electronic funds transfer and other services.

Refer Note 27 for further information.

Note: Any further reference to the "company" is reference to R.T.A Staff credit Union Limited ( the Credit Union) and vice versa. R.T.A Staff Credit Union Limited (ABN 78 087 650 600) is a public company limited by shares, under the Corporations Act 2001.

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## KEY STATISTICS OF THE CREDIT UNION

	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06
<b>Members ( No.)</b>	4714	4652	4633	4727	4832
<b>Deposits \$</b>	29,893,019	32,362,863	31,925,879	30,893,970	33,455,548
<b>Average Member Deposits \$</b>	6,341	6,957	6,891	6,536	6,924
<b>Loans \$</b>	28,737,892	27,768,010	28,663,629	31,146,064	32,649,038
<b>Average Loan balances \$</b>	6,096	5,969	6,187	6,589	6,757
<b>Loans funded in the year \$M</b>	10.6	8.9	9.1	10.526	9.414
<b>Bad debts written off against profit \$</b>	-	-	-	-	-
<b>Capital Adequacy ratio %</b>	27.44%	28.18%	29.90%	31.00%	24.35%
<b>Total Reserves \$</b>	5,462,523	5,762,157	6,141,607	6,536,277	7,200,728
<b>Total Assets \$</b>	35,706,177	38,573,514	38,532,462	37,823,523	41,066,834
<b>Reserves to Assets %</b>	15.30%	14.94%	15.94%	17.28%	17.53%
<b>Return/Average Assets %</b>	0.85%	0.86%	0.95%	1.03%	0.94%
<b>Staff / Member ratio</b>	1:589	1:582	1:579	1:591	1:966
<b>Staff / Assets ratio</b>	1:\$4.46m	1:\$4.82m	1:\$4.82M	1:\$4.72M	1:\$8.21M*

## PRODUCTS

### Loan

FastRoad Home loan

1 Year Fixed Home loan

Other Housing loans or Investment loans

Red Hot Car Loan

Other Car loans

Personal Loans

Line of Credit and Overdrafts

### Deposit and Access

At Call Savings

Fixed Term Deposits

Bpay

Bank@Post

Visa Debit Card

Payroll Deposits and Direct Credits

Direct Debits

### Other Services

NetTeller – Internet banking

Telephone banking

SMS Banking

Financial Planning Services and Stockbroking

Travellers Cheques and Cash Passport

ATM and EFTPOS access

\*based on 5 FTE staff 30/6/06

## **CHAIRMAN'S REPORT**

I am pleased on behalf of the Board of Directors of the RTA Staff Credit Union, to present our 42<sup>nd</sup> Annual Report for the financial year ended 30 June 2006

### **The Year in Review**

During the 2005-2006 year, the focus remained squarely on improvements to services and technology, while meeting regulatory and compliance requirements. Some of this year's highlights included a number of initiatives to improve our service to you, through improved technology and expanding the loans and access facilities available. Also, with the adoption of International Accounting Standards and ongoing changes to regulations, a reporting focus remained ever present. The staff, management and directors of your Credit Union have continued to meet the challenges of the year with the key performance measures very positive.

This year saw the resignation from the board of Michael Sear, after a number of years as a director and Audit Committee Chairman and Bruce McNamara who also served on the Audit Committee. I would like to thank both Michael and Bruce for their commitment, contribution and service as directors of your Credit Union. This year also saw the appointment of Meredyth-Ann Williams a director, after serving as an alternative director. The directors were pleased to appoint Anthony Dann as a director and I look forward to his contribution over the coming years.

### **Highlights 2005-2006**

- Loan funding of over \$9.4 million compared to \$10.5million in the previous year, resulting in loan balances growth of 4.83%.
- Solid Membership growth of 105 members during the year (2005 +94)
- Members' Equity (reserves) increased by \$345,937. ( 2005 - \$375,423)
- No loans where written off against profit (2005 – Nil)
- Bad and Doubtful debts also remained low and well below industry standards.

Operating profit for the year before tax was \$523,226 (2004 - \$529,849). The after tax profit of \$374,761 (2004 - \$374,377) represents a return of 0.94% on average assets ( 2004 – 1.03%). This result again is well above the average for the industry. Given the number of new service and product initiatives achieved during the year , this result shows the commitment of staff in delivering the great service and products you deserve as a member , while maintaining solid financial performance standards.

Results of this standard could not be achieved without a professional attitude and tireless contribution by the staff and management of your Credit Union. For their effort this year, I thank them.

### **The Year Ahead**

In the year ahead, your Credit Union will look to build on the achievements of the last year using the improved products and technology to provide you with the personal service that is expected from your Credit Union. As this is your Credit Union, we will also be looking at more contact with you in your communities and supporting things that are important to you.

On behalf of the Board of Directors, I commend this report to you. I thank the Directors for their ongoing commitment, and thank you the members of the Credit Union, for your loyalty and patronage. We look forward to your ongoing support.

Noel J. Hancock  
Chairman

**DIRECTORS' REPORT**

Your Directors present their report on the Credit Union for the financial year ended 30 June 2006.

The Credit Union is a company registered under the Corporations Act 2001.

**INFORMATION ON DIRECTORS**

The names of the Directors in office at any time during or since the end of the year are:

<b>Name</b>	<b>Position</b>	<b>Qualifications</b>	<b>Experience</b>	<b>Responsibilities</b>
Noel J. T. Hancock	Chairman	BBus, CPA	10 Years	Chairman & Audit Committee Member
Bruce H. McNamara	Director	BEC, DipTCP, GCert PSM	4 Years	Audit Committee Member
Robert G. Morgan	Director	Cert L&E Srv, Cert TEPC	17 Years	
Vincent E. Taranto	Deputy Chairman	BSc, DipTCP	8 Years	Deputy Chairman
Michael F.J. Sear	Director	BFA, ASA	3 Years	Audit Committee Chairman
Warwick A. Fairweather	Director	Cert.AD	3 Years	
Max W. De Boos	Director	DipAE, MBA	5 Years	
Meredyth-Ann Williams	Alternate Director	DipTeach, B.A (Psych), Hons (Psych)	1 Year	
Anthony J. Dann	Director	BEC, MAcc, ASA	< 1 year	Audit Committee Chairman

The name of the Company Secretary in office at the end of the year are :-

<b>Name</b>	<b>Qualifications</b>	<b>Experience</b>
John Kavalieros	DipFS, AIM, AICUM	10 years

The details of the meetings attended by Directors of the Board are as follows:

<b>Director</b>	<b>Board</b>		<b>Audit Committee</b>	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Noel J.T. Hancock	12	12	5	5
Bruce H. McNamara	8	7	3	3
Robert G. Morgan	12	11		
Vincent E. Taranto	12	10		
Michael F.J. Sear	4	4	2	2
Warwick A. Fairweather	12	8		
Max W. De Boos	12	9	1	0
Meredyth-Ann Williams	12	9		
Anthony J. Dann	4	4	2	2

**DIRECTORS' BENEFITS**

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 26 of the financial report.

**INDEMNIFYING OFFICER OR AUDITOR**

Insurance premiums have been paid to insure each of the Directors and officers of the Credit Union, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Credit Union. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

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

**FINANCIAL PERFORMANCE DISCLOSURES**

**PRINCIPAL ACTIVITIES**

The principal activities of the Credit Union during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year.

**OPERATING RESULTS**

The net profit of the Credit Union for the year after providing for income tax and extraordinary items was \$374,761 (2005 - \$374,377).

**DIVIDENDS**

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the Credit Union.

**REVIEW OF OPERATIONS**

The results of the Credit Union's operations from its activities of providing financial services to its members did not change significantly from those of the previous year.

**SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

There were no significant changes in the state of the affairs of the Credit Union during the year.

**EVENTS OCCURRING AFTER BALANCE DATE**

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

**LIKELY DEVELOPMENTS AND RESULTS**

No matter, circumstance or likely development in the operations has arisen since the end of the financial year which has significantly affected or may significantly affect:

- (i) The operations of the Credit Union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Credit Union

in the financial years subsequent to this financial year.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



Noel J.T. Hancock  
Chairman

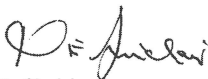
Signed and dated this *5<sup>th</sup>* day of *October*, 2006

**AUDITORS' INDEPENDENCE**

*The auditors have provided the following declaration of independence to the board as prescribed by the Corporations Act 2001.*

I, Neville Sinclair, a partner of BDO Kendalls declare that there have been;

- (i) no contraventions of the auditor independence requirements of the Corporations Act in relation to the audit, and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Signed Neville Sinclair  
Partner BDO Kendalls

Dated *27 September* 2006.

## RTA STAFF CREDIT UNION LIMITED

A.B.N. 78 087 650 600

2006 Annual Financial Report

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### INDEPENDENT AUDIT REPORT

To the members of RTA Staff Credit Union Limited

#### Scope

The financial report comprises the income statement, balance sheet, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for RTA Staff Credit Union Limited, for the year ended 30 June 2006.

The directors of the credit union are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the credit union's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

#### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. The declaration set out in the Directors Report would be in the same terms if it had been given to the relevant directors at the time that this audit report was made.

#### Audit Opinion

In our opinion, the financial report of RTA Staff Credit Union Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the credit union's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

  
**BDO KENDALLS**

Chartered Accountants

Partner

  
**Neville Sinclair**

Dated 6 October 2006

2 Market Street, Sydney NSW



## **DIRECTORS' DECLARATION**

The Directors of RTA Staff Credit Union Limited declare that:-

The financial statements and notes related thereto:-

- (a) Comply with Accounting Standards and the Corporations Act 2001; and
- (b) Give a true and fair view of the financial position of the Credit Union as at 30 June 2006 and performance for the year ended on that date.

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 Board of Directors.



Noel J.T. Hancock  
Chairman

Dated this *3rd* day of *October*, 2006.

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

INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 \$	2005 \$
<b>Revenue</b>			
Interest Revenue	2.a	2,941,472	2,771,121
Interest Expense	2.c	<u>1,093,522</u>	<u>965,375</u>
Net Interest Income		1,847,950	1,805,746
 Non Interest Revenue	 2.b	 <u>263,180</u>	 <u>207,844</u>
Total Operating Income		<u>2,111,130</u>	<u>2,013,590</u>
 <b>Expenses from ordinary activities</b>			
Bad and doubtful debt expense	2.d	38,470	35,341
Fees and commission		66,504	76,349
General administration			
- Employee Costs		610,029	568,650
- Depreciation and amortisation		53,783	50,217
- Information technology		315,380	289,364
- Office occupancy		80,259	79,605
- Other administration	2.e	<u>148,077</u>	<u>138,310</u>
Total administration		<u>1,207,528</u>	<u>1,126,146</u>
 Other operating expenses		 275,402	 245,905
Total expenses		1,587,904	1,483,741
 <b>OPERATING PROFIT before Income Tax</b>		 <u>523,226</u>	 <u>529,849</u>
 INCOME TAX EXPENSE	 3	 148,465	 155,472
 <b>OPERATING PROFIT after income tax</b>		 <u>374,761</u>	 <u>374,377</u>

**RTA STAFF CREDIT UNION LIMITED**

A.B.N. 78 087 650 600

2006 Annual Financial Report

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006****STATEMENT OF CHANGES IN MEMBER EQUITY  
FOR THE YEAR ENDED 30 JUNE 2006**

	Capital	Retained Profits	Reserve for Credit Losses	Other Reserves	Total
	\$	\$	\$	\$	\$
Total at 1 July 2004	7,210	5,938,954	505,426	27,778	6,479,368
Net Profit for the year	-	374,377	-	-	374,377
Transfers from Reserves		29,341	(29,341)		-
Transfers to Reserves	1,410	(1,410)		-	-
Movement in Available for Sale assets [Baycorp shares]	-	-	-	1,046	1,046
Total at 30 June 2005	8,620	6,341,262	476,085	28,824	6,854,791
Net Profit for the Period	-	374,761	-	-	374,761
Transfers from/(to) Reserves	1,280	(1,280)	-	-	-
Transfers from Reserves		15,018	(15,018)		-
Movement in Available for Sale assets [Baycorp shares]	-		-	(28,824)	(28,824)
Total as at 30 June 2006	9,900	6,729,761	461,067	0	7,200,728

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

**BALANCE SHEET  
AS AT 30 JUNE 2006**

	Note	2006 \$	2005 \$
<b>ASSETS</b>			
Cash	4	1,448,876	1,806,172
Receivables due from other financial institutions	5	6,500,000	4,700,000
Receivables	6	183,023	160,998
Loans and advances	7. & 8	32,567,802	31,078,167
Other investments	9.a	166,286	236,680
Plant and equipment	10	101,103	63,194
Taxation assets	11	99,744	96,826
<b>TOTAL ASSETS</b>		<u>41,066,834</u>	<u>38,142,037</u>
<b>LIABILITIES</b>			
Deposits and borrowings	12	33,455,548	30,893,970
Payables	13	324,379	306,928
Taxation liabilities	14	(20,201)	(5,204)
Provisions	15	106,380	91,552
<b>TOTAL LIABILITIES</b>		<u>33,866,106</u>	<u>31,287,246</u>
<b>NET ASSETS</b>		<u>7,200,728</u>	<u>6,854,791</u>
<b>MEMBERS EQUITY</b>			
Capital	16	9,900	8,620
Reserves	17	461,067	504,909
Retained profits	18	6,729,761	6,341,262
<b>TOTAL MEMBERS EQUITY</b>		<u>7,200,728</u>	<u>6,854,791</u>

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

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	2006 \$	2005 \$
<b>OPERATING ACTIVITIES</b>			
<b><u>Revenue Inflows</u></b>			
Interest Received		2,932,797	2,763,711
Fees and Commissions:		155,539	173,040
Dividends Received		21,546	15,813
Other Income		39,115	44,767
<b><u>Less: Revenue Outflows</u></b>			
Interest Paid		( 1,071,702)	( 968,239)
Suppliers and Employees		(1,509,516)	(1,379,806)
Income Taxes Paid		(166,340)	( 209,985)
<b>Net Cash From Revenue Activities</b>	30(b)	<u>401,439</u>	<u>439,301</u>
<b><u>Inflows from Other Operating Activities</u></b>			
Increase in Member Deposits (Net movement)		2,547,381	(1,095,277)
Net decrease in receivables from other FIs		-	3,800,000
		<u>2,547,381</u>	<u>2,704,723</u>
<b><u>Outflows from Other Operating Activities</u></b>			
Decrease in Member Deposits (Net movement)			
Increase in Member Loans		(1,502,974)	( 2,482,435)
Increase in Receivables from other FIs		(1,800,000)	-
		<u>(3,302,974)</u>	<u>( 2,482,435)</u>
<b>Net Cash from all Operating Activities</b>		<u>- 354,154</u>	<u>661,589</u>
<b>INVESTING ACTIVITIES</b>			
<b><u>Inflows</u></b>			
Proceeds of investment redemption		88,548	68,236
Proceeds on sale of property, plant and equipment		-	1,564
Net Cash Received on Transfer of Engagements		-	
<b><u>Less: Outflows</u></b>			
Purchases of fixed assets		(91,690)	( 26,828)
<b>Net Cash From Investing Activities</b>		<u>(3,142)</u>	<u>42,972</u>
<b>FINANCING ACTIVITIES</b>			
<b>Net Cash From Financing Activities</b>		<u>-</u>	<u>-</u>
Total Net Cash Increase/(Decrease)		( 357,296)	704,561
Cash at the beginning of the year		1,806,172	1,101,611
Cash at the end of the year	30(a)	<u>1,448,876</u>	<u>1,806,172</u>

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

**1. STATEMENT OF ACCOUNTING POLICIES**

This financial report is prepared for RTA Staff Credit Union Limited as a single entity, for the year ended the 30<sup>th</sup> June 2006. The report was authorised for issue on 3rd October 2006 in accordance with a resolution of the board of directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

**a. Basis of Measurement**

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non current assets. The accounting policies are consistent with the prior year unless otherwise stated. The effects of changes in accounting policies arising from the adoption of Australian equivalents to International Financial Reporting Standards are shown at Note 32.

**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 the 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 the Credit Union is informed that the member has deceased, or, where a loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by management. APRA has made it mandatory that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility, or 15 days for an overlimit overdraft facility.

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

**(iii) Loan Origination Fees and Discounts**

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan. The amounts brought to account are included as part of interest revenue.

**(iv) Transaction Costs**

Transaction Costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to the income over the expected life of the loan. The amounts brought to account are included as part of interest revenue

**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. Losses expected from future losses are not recognised no matter how likely the future event is likely to occur. The amount provided 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. The Critical assumptions in the calculation are as set out in Note 8.

The APRA Prudential Standards requires a minimum provision to be maintained, based on specific percentages on 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 Retained Earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- The level of security taken as collateral.
- The concentration of loans taken by employment type

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

**d. Bad Debts Written Off**

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for doubtful debts 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.

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

**e. 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:

- Leasehold Improvements – over the estimated life of each asset.
- Plant and Equipment - 3 to 7 years.
- Assets less than \$300 are not capitalised.

**f. 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.

**g. Equity Investments and Other Securities**

Investments in shares are classified as Available for Sale financial Instruments.

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. Borrowings**

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings 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 and borrowings using the effective interest method.



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

**j. Provision for 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, 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 estimates future cash outflows to be made for those entitlements.

Provision for long service leave is on a pro-rata basis from commencement 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 employees superannuation fund and are charged to expense as incurred.

**k. Leasehold on premises**

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**l. Income Tax**

The income tax expense shown in the income statement is based on the operating profit before income tax, adjusted for any non tax deductible, or non assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Credit Union will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

**m. Intangible Assets**

Under the AIFRS, items of computer software which are not integral to the computer hardware owned by the credit union are classified as intangible assets, not as part of plant and equipment.

Computer software held as intangible assets is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

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

**n. Goods and Services Tax**

As a Financial Institution the Credit Union is Input Taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to Reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

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

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Balance Sheet. Cashflows are included in the statement of cashflows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

**o. Impairment of Assets**

At each reporting date the credit union assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

**p. Risk Management Policies Objectives**

The credit union has undertaken the following strategies to minimise the risks arising from financial instruments:

**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. The Gap is measured quarterly to identify and large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the credit union is not to undertake derivatives to match the interest rate risks.

Details of the interest rate risk profile are set out in Note 20.

**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 policy is to maintain approximately 80% of the loans portfolio in well secured residential mortgages which carry an 80% Loan to Valuation ratio or less. Note 7(b) described the nature of the security held against the loans as at the balance date.

The credit union has a concentration in retail lending for members who comprise employees, contractors and their families in the Roads and Traffic Authority of NSW. 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 the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

**Credit risk – Liquid Investments**

The risks of losses from the liquid investments undertaken are reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity.

The credit union currently invests its liquid investments in Credit Union Services Corporation (Aust) Limited (CUSCAL), a company set up to support the member credit unions and which has a AAB rating.

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

**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 9.

The shares in Baycorp were divested during the year.

**Liquidity Risk**

The credit union has set out in Note 19 the maturity profile of the financial assets and financial liabilities, based on the contractual repayment terms.

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 16% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level, the management and board are to address the matter, by ensuring that the liquid funds are obtained from new deposits, or the borrowing facilities available. Note 24 describes the borrowing facilities as at the balance date.

**Significant Accounting Judgements**

The significant accounting judgements are related to the determination of the provision for impairment of loans and are set out in Note 8.

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

**2. INCOME STATEMENT**
**a. Analysis of interest revenue**
**2006**

<b>Category of interest bearing assets</b>	<b>Interest Revenue \$</b>	<b>Average Balance \$</b>	<b>Average Interest Rate %</b>
Deposits with other financial institutions	487,523	9,050,000	5.39%
Loans and advances	2,453,949	29,420,809	8.34%
<b>Total interest revenue</b>	<b>2,941,472</b>	<b>38,470,809</b>	<b>7.65%</b>

**2005**

<b>Category of interest bearing assets</b>	<b>Interest Revenue \$</b>	<b>Average Balance \$</b>	<b>Average Interest Rate %</b>
Deposits with other financial institutions	411,953	5,704,831	7.22%
Loans and advances	2,359,168	30,612,925	7.62%
<b>Total interest revenue</b>	<b>2,771,121</b>	<b>36,317,756</b>	<b>7.55%</b>

**Note**
**2006  
\$**
**2005  
\$**
**b. Non-interest revenue**
**Fee and commission revenue**

- Loan fee income	8,006	6,718
- Other fee income	81,608	94,913
- Insurance commissions	15,630	15,992
- Other commissions	50,296	29,641
	<u>155,540</u>	<u>147,264</u>

Bad debts recovered	6,176	12,373
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Dividend revenue	21,546	15,813
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**Other revenue**

- Proceeds on sale of investments	46,980	-
- Miscellaneous revenue	32,938	32,394

<b>Total non-interest revenue</b>	<b>263,180</b>	<b>207,844</b>
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006

c. Borrowing Expenses (Interest Expense)

Analysis of interest expense

Category of interest bearing liabilities	2006		
	Interest Expense \$	Average Balance \$	Average Interest Rate %
Member deposits	1,092,947	32,050,261	3.41%
Overdraft	575	6,403	8.98%
Total borrowing expenses	1,093,522	32,056,664	3.41%

Category of interest bearing liabilities	2005		
	Interest Expense \$	Average Balance \$	Average Interest Rate %
Member deposits	964,391	31,334,541	3.08%
Overdraft	984	12,896	7.63%
Total borrowing expenses	965,375	31,347,437	3.08%

	Note	2006 \$	2005 \$
d. Bad and doubtful debts expense			
Increase in provision		38,470	35,341
Bad debts written-off directly against profit		-	-
		38,470	35,341

e. Other prescribed expense disclosures

Auditor's remuneration (GST exclusive)		
- Audit fees	32,140	29,073
- Other services	5,200	4,700
	37,340	33,773
Bad and doubtful debts expense, net of recoveries and movement of provisions	32,294	22,968
Property lease	80,259	79,605
Proceeds on investments	18,156	-
Depreciation of:		
- Plant and equipment	53,178	50,217
- Leasehold improvements	605	-
	53,783	50,217
Net movement in provisions for employee entitlements	14,828	32,610
Net movement in provision for other liabilities	-	(6,428)
Supervision levy	2,040	4,248

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

	Note	2006 \$	2005 \$
<b>3. INCOME TAX EXPENSE</b>			
a. The prima facie tax payable on operating profit is reconciled to the income tax expense in the accounts as follows:			
Prima facie tax payable on operating profit			
before income tax at 30%		156,976	158,955
Add tax effect of expenses not deductible			
- Other non-deductible expenses		3,723	2,897
Less tax effect of:			
- Under provision of tax in prior year		-	396
- Other		(3,000)	
Subtotal		<u>157,699</u>	<u>162,249</u>
Less			
- Overprovision of tax in prior year		-	
- Franking Rebate		9,234	6,777
Income tax expense attributable to operating profit		<u>148,465</u>	<u>155,472</u>
b. The income tax expense comprises amounts set aside as: -			
Provision for income tax attributable to current year		151,348	158,898
Provision from prior year			396
Less:			
Decrease (Increase) in the deferred tax asset		2,884	3,822
Income tax expense attributable to operating profit		<u>148,465</u>	<u>155,472</u>
c. Franking Credits			
The amount of franking credits held by the Credit Union after adjusting for franking credits that will arise from the payment			
of income tax payable as at the end of the financial year is:			
-		<u>1,673,384</u>	<u>1,512,452</u>

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

	Note	2006 \$	2005 \$
<b>4. CASH</b>			
Cash on hand		37,237	46,097
Deposits at call		1,411,639	1,760,075
		<u>1,448,876</u>	<u>1,806,172</u>
<b>5. RECEIVABLES FROM OTHER FINANCIAL INSTITUTIONS</b>			
Deposits with CUSCAL - term		6,500,000	4,700,000
Deposits with other societies		-	-
		<u>6,500,000</u>	<u>4,700,000</u>
<b>6. ACCRUED RECEIVABLES</b>			
Interest receivable on deposits with other financial institutions		107,612	115,398
Prepayments		34,527	26,574
Sundry debtors		40,884	39,237
		<u>183,023</u>	<u>160,998</u>
<b>7. LOANS AND ADVANCES</b>			
<b>a. Amount due comprises:</b>			
Overdrafts and revolving credit facilities		555,402	413,052
Term loans		32,093,636	30,733,012
		<u>32,649,038</u>	<u>31,146,064</u>
Less:			
Unamortised loan origination fees		(24,823)	(21,073)
		<u>32,624,215</u>	<u>31,124,991</u>
Less:			
Provision for Impaired Loans (Note 8)		(56,413)	(46,824)
		<u>32,567,802</u>	<u>31,078,167</u>
The 2005 comparative balances are different to the reported amounts shown in the 2005 annual report. The changes relate to the AIFRS adjustments and are explained in Note 34 with respect to the:			
- effective interest rate adjustments			
- general provisions			
<b>b. Security dissection:</b>			
Secured by mortgage		25,897,202	24,785,900
Partly secured by goods mortgage		4,840,828	4,660,285
Wholly unsecured		1,911,008	1,699,879
		<u>32,649,038</u>	<u>31,146,064</u>



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

	Note	2006 \$	2005 \$
<b>c. Concentration of Loans</b>			
(i) Individual loans which exceed 10% of member funds in aggregate		-	664,382
(ii) Loans to members are concentrated solely in Australia, and in the following significant employment industry classification:			
Roads and Traffic Authority of NSW		17,247,888	17,136,729
(iii) Loans to Natural persons:			
Residential loans		17,901,765	17,106,593
Personal loans		14,701,608	13,804,414
Commercial loans		45,665	235,057
		<u>32,649,038</u>	<u>31,146,064</u>
<b>8. PROVISION ON IMPAIRED LOANS</b>			
a. <b>Total provision comprises:</b>			
Specific provision		56,413	46,824
		<u>56,413</u>	<u>46,824</u>
b. <b>Movement in the Specific Provision</b>			
Balance at the beginning of year		46,824	65,953
Add:			
Transfers from profit and loss account		38,470	6,000
Less:			
Bad debts written-off provision		28,881	25,129
Balance at end of year		<u>56,413</u>	<u>46,824</u>

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

	Note	2006 \$	2005 \$
<b>c. The specific loans provision consists of:</b>			
(i) provision required under the APRA Prudential Standards		35,046	21,561
(ii) Additional specific provision		21,367	25,263
		56,413	46,824

**d. Impaired Loan Classifications**

Accounting Standards have classified loans where repayments are in arrears in the following

terms:

- (i) Loans, where recovery of all principal and interest is doubtful, or where the interest recovery is less than the average cost of funds, are classified as "Non-Accrual" loans.
- (ii) Loans, where the interest recovery is less than the normal terms applicable, but higher than the average cost of funds, are classified as "Restructured Loans" (where provision is required the loan is classified as "Non-Accrual").
- (iii) The above categories are together referred to as impaired loans.
- (iv) Other loans which are in arrears more than 90 days but, due to mortgage security or other reasons recovery is not considered doubtful (and no provision necessary), are classified as "Past Due Loans".

	Note	2006 \$	2005 \$
<b>Impaired Loans and Other Disclosures</b>			
<b>Non-accrual loans – Balances</b>			
- with no provision		178,493	198,915
- with a provision		-	43,902
		178,493	242,817
Less: Specific provision		56,413	41,492
		122,080	201,325
Restructured loans		35,046	198,514
Past due loans		-	-

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

	Note	2006 \$	2005 \$
<b>Assets acquired via enforcement of security</b>			
- Real estate		-	-
- Other		-	-
		-	-
<b>Other Disclosures on Impaired Loans</b>			
Interest and other revenue earned on impaired loans		639	1,235
Interest and other revenue foregone on impaired loans		1,494	2,084

**Key assumptions in determining the provision for impairment**

In the course of the preparation of the annual report the credit union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the credit union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment

Period of impairment	% of balance
Up to 90 days	0
90 days to 181 days	40
181 days to 270 days	60
270 days to 265 days	80
Over 365 days	100

**RTA STAFF CREDIT UNION LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006****9. OTHER INVESTMENTS****a. Shares**

Baycorp Advantage Limited	9.b	-	28,824
CUSCAL		166,286	207,856
Computer bureau		-	10,000
Provision – shares in computer bureau		-	(10,000)
		<u>166,286</u>	<u>236,680</u>

**b. Baycorp Advantage Limited**

The total number of shares held at 30 June 2006	-	9,513
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**Disclosures on Shares****(a) Credit Union Services Corporation (Aust) Limited (CUSCAL)**

The shareholding in CUSCAL is measured at cost as its fair value could not be measured reliably. This company is not readily tradeable and has no reliable basis for valuation of the business. It was created to supply services to the member credit unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking services – refer to Note 29. The shares are not able to be traded and are not redeemable.

**(b) Baycorp Advantage Ltd**

The Credit Union was allocated shares through the demutualisation of the Credit Reference Association of Australia Limited. These shares were acquired at no cost and were divested during the year.

Note	2006 \$	2005 \$
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**10. PLANT AND EQUIPMENT**

Plant and equipment - at cost	428,351	406,034
Less: Provision for depreciation	<u>329,546</u>	<u>342,840</u>
	98,805	63,194
Capitalised leasehold improvements – at cost	278,981	276,079
Less: Provision for amortisation	<u>276,683</u>	<u>276,079</u>
	2,298	-
Total plant and equipment	<u>101,103</u>	<u>63,194</u>

**RTA STAFF CREDIT UNION LIMITED**

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2006 Annual Financial Report

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006****Movement in the asset balances during the year were:**

Opening balance	63,194	87,101
Add: Purchases in the year	88,789	26,828
Add: Purchases in the year - leasehold	2,298	
Less:		
Write-back of incorrect allocation	-	-
Disposal of assets at written down value	-	518
Depreciation charge	53,178	50,217
	53,178	50,735
Balance at the end of the year	101,103	63,194

**11. TAXATION ASSETS**

	Note	2006 \$	2005 \$
Deferred Tax Asset		99,047	96,169
GST Recoverable		697	657
		99,744	96,826

**Deferred Tax Asset comprises**

Accrued expenses not deductible	5,070	3,761
Fixed Assets	37,692	44,573
Provisions for Impairment on Loans	16,924	14,047
Provisions for Staff entitlements	31,914	27,466
Effective interest rate	7,447	6,322
	99,047	96,169

**12. DEPOSITS**

Member Deposits:		
- at call	15,529,704	13,779,777
- term	17,878,124	17,067,493
Total deposits	33,407,828	30,847,270
Withdrawable Shares	47,720	46,700
Total	33,455,548	30,893,970

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

**Concentration of Member Deposits**

Significant individual member deposits which in aggregate represent more than 10 % of the total liabilities:

\_\_\_\_\_ - \_\_\_\_\_ -

A significant proportion of member deposits at balance date were received from individuals employed in the Roads and Traffic Authority of New South Wales.

	Notes	2006 #	2005 #
<b>Members' Withdrawable Shares</b>			
Since all shares issued are withdrawable at the discretion of the member, or on closure of their account, shares are recognised as liabilities rather than equity. All shares carry the same voting entitlements.			
<b>Movement in Share Capital</b>			
Shares issued in the year		236	190
Shares redeemed in the year		128	141
<b>13. CREDITOR ACCRUALS &amp; SETTLEMENT ACCOUNTS</b>			
Creditors and accruals		59,206	51,025
Sundry creditors		122,772	135,322
Interest payable on Deposits		142,401	120,581
		<u>324,379</u>	<u>306,928</u>
<b>14. TAXATION LIABILITIES</b>			
Provision for income tax		(20,201)	(5,204)
Provisions for deferred income tax		-	-
Accrual for GST payable		-	-
Accrual for other tax liabilities		-	-
		<u>(20,201)</u>	<u>(5,204)</u>
<b>15. PROVISIONS</b>			
Provision for employee annual leave		49,023	41,971
Provision for employee long service leave		57,357	49,581
Other Provisions		-	-
		<u>106,380</u>	<u>91,552</u>
<b>Total number of employees at year end</b>		<u>5</u>	<u>8</u>

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

	Note	2006 \$	2005 \$
<b>16. CAPITAL ACCOUNT</b>			
Capital Account		<u>9,900</u>	<u>8,620</u>
Balance at the beginning of the year		8,620	7,210
Add: Transfer from retained profits on share redemptions	16.a	1,280	1,410
Balance at the end of year		<u>9,900</u>	<u>8,620</u>

**Share Redemption**

The account represents the amount of redeemable preference shares redeemed by the Credit Union since 1 July 1999. The Law requires that the redemption of the shares to be made out of profits. Since the value of the shares have been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

**17. RESERVES**

General Reserve			
Asset Revaluation Reserve		-	28,824
Reserve for Credit Losses		461,067	476,085
Capital Profits Reserve			-

**TOTAL RESERVES**

<u>461,067</u>	<u>504,909</u>
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**Reserve for Credit Losses**

This reserve records amount previously set aside as a General provision and is maintained to comply with the Prudential Standards set down by APRA

Balance at 30 June 2005	476,085	505,426
Add: balance transferred from General Provision for Impaired Loans as an adjustment to opening balance	(15,018)	(29,341)
Balance at 30 June 2006	<u>461,067</u>	<u>476,085</u>

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

**18. RETAINED PROFITS**

Retained profits at the beginning of the financial year	6,341,262	5,938,954
Add: Operating profit for the year	374,761	374,377
Add Transfer from Reserve for Credit Losses in year	15,018	29,341
Less: Transfer of reserves to capital account on redemption of Members' shares	(1,280)	(1,410)
Retained profits at the end of the financial year	6,729,761	6,341,262

The retained earnings opening balances are different to the reported amounts shown in the 2005 annual report. The changes relate to the AIFRS adjustments and are explained in Note 34

**19. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES**

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the above dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

	Within 1 month	Overdraft	1-3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total
2006	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
<b><u>ASSETS</u></b>								
Cash	1,449	-	-	-	-	-	-	1,449
Receivables from Other								
Financial Institutions	-	-	5,500	1,000	-	-	-	6,500
Receivables	-	-	-	-	-	-	-	-
Loans & Advances	-	325	870	2,176	9,462	19,816	-	32,649
Investments	-	-	-	-	-	-	-	-
<b>Total Financial Assets</b>	<b>1,449</b>	<b>325</b>	<b>6,370</b>	<b>3,176</b>	<b>9,462</b>	<b>19,816</b>	<b>-</b>	<b>40,598</b>
<b><u>LIABILITIES</u></b>								
Deposits	15,577	-	7,317	9,471	1,090	-	-	33,455
Payables to Other								
Financial Institutions	-	-	-	-	-	-	-	-
Tax Liabilities	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>15,577</b>	<b>-</b>	<b>7,317</b>	<b>9,471</b>	<b>1,090</b>	<b>-</b>	<b>-</b>	<b>33,455</b>



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

**19. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES CONT'**

	Within 1 month	Overdraft	1-3 months	3-12 months	1-5 years	After 5 years	No Maturity	Total
2005	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
<b><u>ASSETS</u></b>								
Cash	1,806	-	-	-	-	-	-	1,806
Receivables from Other Financial Institutions	-	-	4,700	-	-	-	-	4,700
Receivables	-	-	-	-	-	-	-	-
Loans & Advances	-	-	799	2,021	8,941	19,345	-	31,146
Investments	-	-	-	-	-	-	-	-
<b>Total Financial Assets</b>	<b>1,806</b>	<b>-</b>	<b>5,499</b>	<b>2,021</b>	<b>8,941</b>	<b>19,345</b>	<b>-</b>	<b>37,611</b>
<b><u>LIABILITIES</u></b>								
Deposits	13,826	-	6,463	9,386	1,219	-	-	30,894
Payables to Other Financial Institutions	-	-	-	-	-	-	-	-
Tax Liabilities	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>13,826</b>	<b>-</b>	<b>6,461</b>	<b>9,386</b>	<b>1,219</b>	<b>-</b>	<b>-</b>	<b>30,894</b>

For term loans the above dissection is based upon the contractual conditions of each loan being strictly complied with, and is subject to change in the event that current repayment conditions are varied.

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

**20. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES**

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

	Weighted Average Interest Rate %	Floating Rate \$,000	Within 1 month \$,000	1-3 months \$,000	3-12 months \$,000	1-5 years \$,000	Greater Than Five Years \$,000	Total \$,000
<b>2006</b>								
<b><u>ASSETS</u></b>								
Cash	3.60%	1,449	-	-	-	-	-	1,449
Receivables from Other								
Financial Institutions	6.35%	-	2,000	3,500	1,000	-	-	6,500
Loans & Advances	7.14%	-	27,021	5,628	-	-	-	32,649
Investments		-	-	-	-	-	-	-
<b>Total Financial Assets</b>		<b>1,449</b>	<b>29,021</b>	<b>9,128</b>	<b>1,000</b>	<b>-</b>	<b>-</b>	<b>40,598</b>
<b><u>LIABILITIES</u></b>								
Deposits	2.88%	-	15,579	2,122	5,193	9,471	1,090	33,455
Payables to Other								
Financial Institutions		-	-	-	-	-	-	-
Tax Liabilities		-	-	-	-	-	-	-
Provisions		-	-	-	-	-	-	-
<b>Total Liabilities</b>		<b>-</b>	<b>15,579</b>	<b>2,122</b>	<b>5,193</b>	<b>9,471</b>	<b>1,090</b>	<b>33,455</b>
<b>2005</b>								
	Weighted Average Interest Rate %	Floating Rate \$,000	Within 1 month \$,000	1-3 months \$,000	3-12 months \$,000	1-5 years \$,000	5 > years \$,000	Total \$,000
<b><u>ASSETS</u></b>								
Cash	3.60%	1,806	-	-	-	-	-	1,806
Receivables from Other								
Financial Institutions	5.64%	-	-	4,700	-	-	-	4,700
Loans & Advances	7.49%	-	-	24,745	6,401	-	-	31,146
Investments		-	-	-	-	-	-	-
<b>Total Financial Assets</b>		<b>1,806</b>	<b>-</b>	<b>29,445</b>	<b>6,401</b>	<b>-</b>	<b>-</b>	<b>37,652</b>
<b><u>LIABILITIES</u></b>								
Deposits	3.12%	-	13,826	2,187	4,276	9,385	1,219	30,893
Payables to Other								
Financial Institutions		-	-	-	-	-	-	-
Tax Liabilities		-	-	-	-	-	-	-
Provisions		-	-	-	-	-	-	-
<b>Total Liabilities</b>		<b>-</b>	<b>13,826</b>	<b>2,187</b>	<b>4,276</b>	<b>9,385</b>	<b>1,219</b>	<b>30,893</b>

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

21. NET FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Net fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and liabilities.

	Fair Value	2006 Book Value	Variance	Fair Value	2005 Book Value	Variance
2006	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
<b>ASSETS</b>						
Cash	1,449	1,449	-	1,806	1,806	-
Receivables from Other Financial Institutions	6,500	6,500	-	4,700	4700	-
Receivables	-	-	-	-	-	-
Loans & Advances	32,566	32,568	(2)	31,052	31,078	(26)
Prepayments	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Total Financial Assets	40,515	40,517	(2)	37,558	37,584	(26)
<b>LIABILITIES</b>						
Deposits	33,440	33,456	(16)	30,889	30,894	(5)
Payables to Other Financial Institutions	-	-	-	-	-	-
Payables	-	-	-	-	-	-
Tax Liabilities	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
Total Liabilities	33,440	33,456	(16)	30,889	30,894	(5)

Assets where the net fair value is lower than the book value have not been written down in the accounts of the Credit Union on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

The net fair value estimates were determined by the following methodologies and assumptions:

**Liquid Assets and Receivables from other Financial Institutions**

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 3 months approximate their net fair value as they are short term in nature or are receivable on demand.

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

**21. NET FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONT')**

**Loans, Advances**

The carrying value of loans and advances is net of general and specific provisions for doubtful debts.

For variable rate loans, excluding impaired loans, the amount shown in the Statement of Financial Position is considered to be a reasonable estimate of net fair value. The net fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

The net fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

**Deposits From Members**

The net fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, is the amount shown in the Statement of Financial Position as at 30 June 2006. Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the net fair value of other term deposits.

**Short Term Borrowings**

The carrying value of payables due to other financial institutions approximate their net fair value as they are short term in nature and reprice frequently.

**22. FINANCIAL COMMITMENTS**

**a. Future Capital Commitments**

The credit Union has entered into a contract to purchase (computer equipment & Software) for which the amount is to be paid over the following periods:

	2006 \$	2005 \$
	-	-
Within 1 year	2,527	-
1 to 2 years	5,054	-
2 to 5 years	737	-
Over 5 years	-	-
	<u>8,318</u>	<u>-</u>

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

**b. Future Lease and Rental Commitments**

Operating lease payments under existing lease arrangements for building accommodation, payable over the following periods:

Within 1 year	82,141	82,141
1 to 2 years	86,249	86,249
2 to 5 years	21,981	114,333
Over 5 years	-	-
	<u>190,371</u>	<u>282,723</u>

The operating leases are in respect of property and equipment used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The term of the leases are for between 2 to 5 years and options for renewal are usually obtained for a further 5 years.

There are no restrictions imposed on the Credit Union so as to limit the ability to undertake further leases, borrow funds or issue dividends (although these are subject to restrictions in the Constitution).

**c. Computer Bureau Charges**

Within 1 year	11,220	10,200
1 to 2 years	-	-
2 to 5 years	-	-
Over 5 years	-	-
	<u>11,220</u>	<u>10,200</u>

**23. FINANCIAL COMMITMENTS**

**a. Outstanding Loan Commitments**

The loans approved but not funded as at 30 June 2006.

<u>2,085,931</u>	<u>378,023</u>
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**b. Undrawn Loan Facilities**

Loan facilities available to members for overdrafts and line of credit loans are as follows:

Total value of facilities approved	1,224,075	1,161,275
Less: Amounts advanced	<u>555,402</u>	<u>413,052</u>
Net undrawn value	<u>668,673</u>	<u>748,223</u>

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

**24. STANDBY BORROWING FACILITIES**

The Credit Union has a borrowing facility with Credit Union Services Corporation (Australia) Limited (CUSCAL) of:

	<b>2006</b>		
	<b>Gross</b>	<b>Current Borrowing</b>	<b>Net Available</b>
	\$	\$	\$
Loan facility	500,000	-	500,000
Overdraft facility	700,000	-	700,000
Total standby borrowing facilities	<u>1,200,000</u>	<u>-</u>	<u>1,200,000</u>

	<b>2005</b>		
	<b>Gross</b>	<b>Current Borrowing</b>	<b>Net Available</b>
	\$	\$	\$
Loan facility	500,000	-	500,000
Overdraft facility	700,000	-	700,000
Total standby borrowing facilities	<u>1,200,000</u>	<u>-</u>	<u>1,200,000</u>

Withdrawal of the loan facility is subject to the availability of funds at CUSCAL.

CUSCAL holds an equitable mortgage charge over all of the assets of the Credit Union as security against loan and overdraft amounts drawn.

**25. CONTINGENT LIABILITIES**

**Liquidity Support Scheme**

The Credit Union is a member of the Credit Union Financial Support Scheme Limited (CUFSS), a company established to provide financial support to member Credit Unions in the event of a liquidity or capital problem. As a member, the Credit Union is committed to maintaining 3.2% of the total assets (2005 – 3.2%) as deposits with Credit Union Services Corporation (Australia) Limited (CUSCAL).

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3.2% of the Credit Union's total assets (3% under loans facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating Credit Union's irrevocable commitment under the ISC. At balance date there were no loans issued.

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

26. RELATED PARTY DISCLOSURES

Remuneration of Key Management Personnel

*Key management personnel (KMP)* are those persons having authority and responsibility for planning, directing and controlling the activities of the credit union, directly or indirectly, including any director (whether executive or otherwise) of that entity. *Control* is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

**KMP** have been taken to comprise the directors and the 2 members of the management team during the financial year, responsible for the day to day financial and operational management of the credit union.

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

	2006 Directors	2006 Other KMP	2005 Directors	2005 Other KMP
	\$	\$	\$	\$
(a) Short-term employee benefits;	-	201,537	-	171,456
(b) Post-employment benefits - Superannuation contributions	-	-	-	-
(c) Other long-term benefits – net increases in Long Service leave provision	-	7,760	-	5,059
(d) Termination benefits;	-	-	-	-
(e) Share-based payment.	-	-	-	-
<b>Total</b>	-	<b>209,297</b>	-	<b>176,515</b>

In the above table, remuneration shown as Short Term benefits means (where applicable) **wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of Fringe Benefits received**, but excludes out of pocket expense reimbursements.

All remuneration to Directors was approved by the members at the previous Annual General Meeting of the Credit Union.

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

	2006 \$	2005 \$
<b>c. Loans to Directors and other Key Management Persons</b>		
(i) The aggregate value of loans to Directors and other KMP as at Balance date amounted to	517,315	604,533
(ii) The total value of revolving credit facilities to Directors and other KMP, as at Balance date amounted to	20,000	20,000
Less amounts drawn down and included in (i)	-	8,005
Net balance available	20,000	11,995
(iii) During the year the aggregate value of loans disbursed to Directors and KMP amounted to:		
Revolving credit facilities	1,800	9,755
Personal loans	-	-
Term Loans	-	198,820
(iv) During the year the aggregate value of Revolving Credit Facility limits Granted or Increased to Directors and other KMP amounted to:	-	-

The credit union's policy for lending to directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit.

All loans disbursed to Directors and other Key Management Personnel were approved on the same terms and conditions which are applicable to members for each class of loan. There are no loans which are impaired in relation to the loan balances with directors and management.

There are no benefits or concessional terms and conditions applicable to the close family members of the Key Management Persons. There are no loans which are impaired in relation to the loan balances with close family relatives of directors and management.

**d. Other Transactions with Related Parties**

Other transactions between related parties include deposits from Directors and their Director related entities, which are received on the same terms and conditions as applicable to members. There are no benefits paid or payable to the close family members of KMP.

There are no service contracts to which KMP or their close family members are an interested party.

The credit union's policy for receiving deposits from other related parties and, in respect of other related party transactions, is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.



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

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Interest and other revenue earned on Loans and revolving credit facilities to Directors and other KMP	42,188	32,807
Total value Term and Savings Deposits from Directors and Other KMP – balance	165,296	324,464
Total Interest paid on deposits to Directors and Other KMP	4,208	8,686

**27. ECONOMIC DEPENDENCY**

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

**a. Credit Union Services Corporation (Australia) Limited (CUSCAL)**

CUSCAL is an Approved Deposit-taking Institution registered under the Corporations Act 2001 and the Banking Act 1959. This entity:

- (i) Provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa card and cheque transactions, as well as the production of Visa and Redicards for use by members;
- (ii) Provides and maintains the application software utilised by the Credit Union;
- (iii) Provides treasury and money market facilities to the Credit Union. The Credit Union has invested all of its liquid assets with the entity to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

**b. First Data Resources Australia Limited (FDRA)**

This entity operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM suppliers to the Credit Union's EDP Systems.

**c. Co-Processing Pty Limited**

This Company operates the computer bureau facility on behalf of the Credit Union in conjunction with other Credit Unions. The Credit Union has a management contract with the Company to supply computer support staff and services to meet the day-to-day needs of the Credit Union and compliance with the relevant Prudential Standards.

**28. SEGMENTAL REPORTING**

The Credit Union operates exclusively in the retail financial services industry within Australia.

**29. SUPERANNUATION LIABILITIES**

The Credit Union contributes to various complying superannuation funds for the purpose of Superannuation Guarantee payments and payment of other superannuation benefits on behalf of employees. Independent Corporate Trustees administer each plan.

The Credit Union has no interest in the superannuation plan (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

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

	2006 \$	2005 \$
<b>30. NOTES TO STATEMENT OF CASH FLOWS</b>		
<b>a. Reconciliation of Cash</b>		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand	37,237	46,097
Deposits at call	1,411,639	1,760,075
Total Cash	<u>1,448,876</u>	<u>1,806,172</u>
<b>b. Reconciliation of Cash from Operations to Accounting Profit</b>	<b>2006 \$</b>	<b>2005 \$</b>
The net cash increase/(decrease) from operating activities is reconciled to the operating profit after tax.		
Operating profit after income tax	374,761	374,377
Add:		
Increases in Amortised fees on Loans	3,750	(1,845)
Increase in Provision for Loans	9,589	29,341
Gain on disposal of fixed assets		-
Depreciation	53,783	50,217
Provisions for staff leave	14,828	32,610
Provision for income tax		-
Accrued Taxes		-
Other provisions		-
Accrued expenses	8,182	13,945
Decrease in GST receivable		-
Decrease in future income tax benefits		4,472
Increase in interest payable	21,820	20,211
Decrease in prepayments		4,968
Less:		
Decrease in Provision for Loans		(19,128)
Provision for staff leave		-
Provision for income tax	(14,997)	(50,736)
Other provisions	-	(7,875)
Accrued taxes		-
Increase in future income tax benefits	(2,878)	(8,248)
Increase in deferred expenditure		(143)
Increase in prepayments	(7,953)	-
Increase in GST receivable	(40)	-
Increase in interest receivable	(12,425)	-
Decrease in interest payable		(2,864)
Gain On sale of investment shares	(46,981)	
Net cash from operating activities	<u>401,439</u>	<u>439,301</u>

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

**31. CORPORATE INFORMATION**

The credit union is a company registered under the Corporations Act.

Registered office:

Level 2 KMS Building  
8-24 Kippax St  
SURREY HILLS NSW 2010

Principal place of business:

Level 2 KMS Building  
8-24 Kippax St  
SURREY HILLS NSW 2010

The nature of the operations and the principal activities of the credit union is to provide financial and banking services for its members.

**32. TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL ACCOUNTING STANDARDS**

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

(a) Changes to the 2005 Comparative balances have been made as follows:

- i.) Provision for Doubtful Loans – The portion of this provision identified as a General Provision is not able to be taken up as a provision under AASB 139 Measurement of Financial Instruments, and has been written back and transferred to the Reserve for Credit Losses.
- ii.) Investments – Under the new Standards all investments in equity instruments where a market value can be determined are required to be measured at fair value in the Balance Sheet, with all changes in value being recognised in the Equity.
- iii.) Taxation Assets and Liabilities – this standard requires the recognition of the deferred tax liabilities and tax assets to be related to the reported balance sheet assets and liabilities. The previous standards assessed the deferred tax liabilities and tax assets according to the impact on the taxable Income of the credit union. The impact is related to revaluations of the property and investments which do not impact on the Profit & Loss reported.
- iv.) Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan. The amounts brought to account are included as part of interest revenue
- v.) Revenue – the revisions to the definition of revenue under AASB 118 Revenue, require the net profit on sale of fixed assets to be reflected as revenue and a loss on sale to be reflected as expenses. Previously these gross proceeds on sale were reflected as revenue and the net book value of assets disposed reflected as expenses. The 2005 comparative numbers reflect the position under IFRS.

**RTA STAFF CREDIT UNION LIMITED**

A.B.N. 78 087 650 600

2006 Annual Financial Report

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2006****Changes to Opening Retained Earnings – as at 1 July 2004**

	Note	\$
Opening Retained Earnings 30 June 2004 under AGAAP		6,106,619
<b>AIFRS adjustments to opening values</b>		
Write Back of General Provision decrease		
Deferred Tax Asset adjustment on loan provision	A3	151,628
Net Effective Interest rate adjustment	A1	22,918
Deferred Tax Asset adjustment on Effective Interest rate adj.	A4	(6875)
Revised balance as at 30 June 2004 under IFRS		<u>5,938,948</u>

**Changes to Net profit for 30 June 2005**

		393,624
Write Back of General Provision decrease	A2	(29,341)
Deferred Tax Asset adjustment on loan provision	A3	8,801
Net Effective Interest rate adjustment	A1	1,845
Deferred Tax Asset adjustment on Effective Interest rate adj.	A4	(554)
Adjustment total		<u>(19,248)</u>
Net profit revised for AIFRS	A1	<u>374,377</u>

**General Reserve for Credit Losses**

	Note	\$
<b>Balance – 30 June 2004</b>		-
Transfer from general provision	A2	505,426
<b>Balance – 1 July 2004 revised</b>		<b>505,426</b>

The details of the changes are as follows:-

Note	Explanation
A1	The deferral of the Fees and Transaction costs under the effective interest rate method has resulted in a deferral of the income to subsequent years. Refer Note 1b (iii)
A2	General provision is reallocated to the Reserve for Credit Losses in accordance with AASB 139, and AASB 130. Refer Note 1c (i)
A3	The Deferred Tax Asset on the General Provision has been written back following the reduction in the provisions for doubtful debts
A4	The Deferred Tax Asset has been amended to recognise the Effective rate adjustments

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

**CORPORATE GOVERNANCE DISCLOSURES**

**Board**

The Credit Union Board has responsibility for the overall management and strategic direction of the Credit Union. All Board members are independent of management and are elected by members on a rotation of every 3 years.

Each Director must be eligible to act under the constitution as a member of the Credit Union, and under Corporations Act 2001 criteria. In future the Directors will need to also satisfy the Fit and Proper criteria set down by APRA.

The Board has established policies to govern conduct of Board meetings, Director conflicts of interest and training so as to maintain Director awareness of emerging issues and to satisfy all governance requirements.

**Board Remuneration**

The board receives no remuneration from the credit union.

**Board Committees**

An Audit Committee has been formed to assist the Board in relevant matters of financial prudence. The Directors form the majority of these committees with CEO, internal/external auditor and senior management participation.

**Audit Committee**

The Audit Committee is established to oversee the financial reporting and audit process. Its role includes:

- Monitoring audit reports received from internal and external auditors, and management's responses thereto;
- Liaising with internal and external auditors on the scope of their work, and experience in conducting an effective audit
- Ensuring the external auditors remain independent in the areas of work conducted
- Monitoring the matters of operational risk management and APRA reporting obligations
- Monitoring compliance with applicable laws

All management are remunerated by salary packages only. There are no bonus or equity benefits available to management.

**Policies**

The board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union.

Key risk management policies include:-

- Capital adequacy management
- Liquidity management
- Credit risk management
- Data risk management
- Operations risk management
- Outsourcing
- Interest rate risk management

**Compliance Officer**

The credit union has a compliance officer who is responsible for maintaining the awareness of staff for all changes in compliance legislation and responding to staff enquiries on compliance matters. The officer also monitors the FSR License obligations and responds to all member complaints and disputes should they arise.

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

**External Audit**

External audit is performed by BDO Kendalls, part of the BDO International group - a major international accounting body. The firm of Kendalls has been auditing Credit Unions for 30 years and audits over 36 credit unions in NSW. The firm utilises sophisticated computer-assisted audit software to supplement the compliance testing.

**Internal Audit**

An internal audit function has been established using the services of a suitably qualified consultant to deal with the areas of internal control compliance and regulatory compliance only.

These matters are also examined by the external auditors. The work performed by the external auditors is examined by the audit committee to ensure that it is consistent with the current external audit reporting role and does not impair their independence.

This role is also supplemented by other external compliance review performed by security audits on the data processing centres for adequacy of the back up, disaster recovery and internet security systems.

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

**Regulation**

The Credit Union is regulated by

- Australian Prudential Regulation Authority (APRA) for the prudential risk management of the Credit Union.
- ASIC for adherence to Corporations Act 2001, Accounting Standards disclosures in the financial report and Financial Services Reform (FSR) requirements. The FSR legislation requires the Credit Union to disclose details of products and services; maintain training for all staff who deal with members, and to provide an effective and independent complaints handling process.

Under the FSR licensing arrangements all staff who deal with the public are required to be trained and certified to a level of skill commensurate with the services provided.

Both ASIC and APRA conduct periodic inspections, and the external auditor reports to both annually on compliance with respective requirements. The external auditors also report to both ASIC on FSR compliance, and to APRA on prudential policy compliance.

**OH & S**

The nature of the finance industry is such that the risk of injury to staff and the public are less apparent than in other high risk industries. Nevertheless our two most valuable assets are our staff and our members, and steps need to be taken to maintain the security and safety when circumstances warrant.

OH & S policies have been established for the protection of both members and staff and are reviewed annually for relevance and effectiveness.

Staff are trained in robbery procedures and our premises are designed to deter such acts.

Office premises are examined regularly to ensure that the electrical safety and physical safety measures are appropriate to the needs to the public and staff. Independent security consultants report annually on any areas of improvement which may be considered. If a security incident was to occur, all staff have access to trauma counsellors where required. Secure cash handling policies are in place, and injury from lifting heavy weights and RSI are managed by proper techniques to minimise the risk of damage.



**RTA staff credit union**  
your road to financial success

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